Qunxing Paper Holdings Company Limited

群星紙業控股有限公司

(incorporated in the Cayman Islands with limited liability)

International Placing and Hong Kong Public Offer

Global Coordinator, Sole Bookrunner and Lead Manager

ICEA

A subsidiary of ICBC

Joint Sponsors

ICEA

A subsidiary of ICBC

ACCESS CAPITAL

IMPORTANT

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

Qunxing Paper Holdings Company Limited
群星紙業控股有限公司

(incorporated in the Cayman Islands with limited liability)

LISTING ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

BY WAY OF INTERNATIONAL PLACING AND HONG KONG PUBLIC OFFER

Number of Offer Shares	:	**300,000,000 Shares (subject to the Over-allotment Option)**
Number of International Placing Shares	:	**220,000,000 New Shares and 50,000,000 Sale Shares (subject to reallocation and the Over-allotment Option)**
Number of Hong Kong Public Offer Shares	:	**30,000,000 New Shares (subject to reallocation)**
Offer Price	:	**Not more than HK$5.35 per Offer Share (plus brokerage of 1%, a SFC transaction levy of 0.004% and a Stock Exchange trading fee of 0.005%, payable in full upon application in Hong Kong dollars and subject to refund) and expected to be not less than HK$4.10 per Offer Share**
Nominal value	:	**HK$0.10 each**
Stock code	:	**3868**

Global Coordinator, Sole Bookrunner and Lead Manager

ICEA
A subsidiary of ICBC

Joint Sponsors

ICEA
A subsidiary of ICBC

ACCESS CAPITAL

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

The Offer Price is expected to be determined by agreement among the Company (for itself and on behalf of the Selling Shareholder) and the Global Coordinator (acting on behalf of all the Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or around Thursday, 20 September 2007 and, in any event, not later than Thursday, 27 September 2007. The Offer Price will not be more than HK$5.35 per Offer Share and is currently expected to be not less than HK$4.10 per Offer Share. Applicants for the Hong Kong Public Offer Shares are required to pay, upon application and subject to refund, the indicative maximum Offer Price of HK$5.35 per Offer Share, together with brokerage of 1.0%, the transaction levy of 0.004% imposed by the SFC and the Stock Exchange trading fee of 0.005%.

The Global Coordinator (acting on behalf of all the Underwriters) may reduce the indicative Offer Price range stated in this prospectus and/or reduce the number of Hong Kong Public Offer Shares being offered pursuant to the Share Offer at any time prior to the morning of the day for the Application Lists open and close. In such a case, a notice of reduction of the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of day for the Application Lists open and close. If applications for the Hong Kong Public Offer Shares have been submitted prior to such day, then even if the indicative Offer Price range is so reduced, such applications cannot be withdrawn.

If, for whatever reason, the Company (for itself and on behalf of the Selling Shareholder) and the Global Coordinator (acting on behalf of all the Underwriters) are not able to agree on the final Offer Price on or before the Price Determination Date, the Share Offer (including the Hong Kong Public Offer) will not proceed and will lapse.

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 Public Offer Underwriters are entitled to terminate their obligations under the Hong Kong Public Offer Underwriting Agreement by notice in writing to be given by the Global Coordinator (acting on behalf of all the Hong Kong Public Offer Underwriters) upon the occurrence of any of the events set forth under "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 scheduled Listing Date (the "Termination Time"). Such events include, but without limitation to, any act of God, military action, riot, public disorder, civil commotion, fire, flood, tsunami, explosion, epidemic, terrorism, strike or lock-out. Accordingly, any certificate relating to the Hong Kong Public Offer Shares issued by our Company or deposited into CCASS prior to the Termination Time will only become valid certificate of title if the Hong Kong Public Offer has become unconditional in all aspects and that the Hong Kong Public Offer Underwriting Agreement has not been terminated in accordance with its terms on or before the Termination Time. No temporary documents of title will be issued. Investors who trade the Hong Kong Public Offer Shares on the basis of publicly available allocation results or other information prior to the Termination Time will do so entirely at their own risk.

17 September 2007

We will issue an announcement in Hong Kong to be published in the South China Morning Post (in English) and in the Hong Kong Economic Times (in Chinese) if there is any change in the following expected timetable of the Hong Kong Public Offer.

	2007 (Note 1)
Application Lists open *(Note 2)*	11:45 a.m. on Thursday, 20 September
Latest time for lodging **WHITE** and **YELLOW** Application Forms *(Note 2)*	12:00 noon on Thursday, 20 September
Latest time to give **Electronic Application Instructions** to HKSCC *(Notes 2 and 3)*	12:00 noon on Thursday, 20 September
Application Lists close *(Note 2)*	12:00 noon on Thursday, 20 September
Price Determination Date *(Note 4)*	Thursday, 20 September
Announcement of the final Offer Price, indication of the level of interest in the International Placing, the results of applications of the Hong Kong Public Offer and the basis of allocation of the Hong Kong Public Offer Shares to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before	Friday, 28 September
Despatch of refund cheques in respect of wholly successful (if applicable) and wholly or partially unsuccessful applications under the Hong Kong Public Offer on or before *(Notes 5 and 6)*	Friday, 28 September
Despatch of certificates of the Offer Shares or deposit of certificates of the Offer Shares into CCASS on or before *(Note 6)*	Friday, 28 September
Dealings in Shares on the Main Board to commence on	Tuesday, 2 October

Notes:

(1) All times refer to Hong Kong local time.

(2) 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 Thursday, 20 September 2007, the Application Lists will not open on that day. Particulars of the arrangements are set forth under the paragraph headed "Effect of bad weather on the opening of the Application Lists" in the section headed "How to apply for the Hong Kong Public Offer Shares" in this prospectus.

(3) Applicants who apply for the Hong Kong Public Offer Shares by giving **Electronic Application Instructions** should refer to the instructions set forth under "Applications by giving Electronic Application Instructions" in the section headed "How to apply for the Hong Kong Public Offer Shares" in this prospectus.

(4) The Price Determination Date is expected to be on or around Thursday, 20 September 2007 and, in any event, not later than Thursday, 27 September 2007. If, for whatever reason, our Company (for itself and on behalf of the Selling Shareholder) and the Global Coordinator (acting on behalf of all the Underwriters) are not able to agree on the final Offer Price, the Share Offer (including the Hong Kong Public Offer) will not proceed and will lapse.

(5) Part of the Hong Kong identity card number/passport number of an applicant or, if there are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by the respective applicant may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purpose. The banker of the respective applicant may require verification of his/her Hong Kong identity card number/passport number before encashment of the refund cheque. Inaccurate completion of Hong Kong identity card number/passport number may lead to delay in encashment of or may invalidate the refund cheque.

(6) If an applicant is using a **WHITE** Application Form to apply for 1,000,000 Hong Kong Public Offer Shares or more and has indicated on the **WHITE** Application Form to collect our share certificate and/or refund cheque (if any) in person, such share certificate and/or refund cheque may be collected in person from our Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong, between 9:00 a.m. and 1:00 p.m. on Friday, 28 September 2007 or on the date notified by our Company as the date of despatch of our share certificates and refund cheques.

Individual applicants who opt for collection in person must not authorise any other person to make their collection on their behalf. Corporate applicants who opt for collection in person must attend by their authorised representatives bearing letters of authorisation from the corporations stamped with the corporations' chops. Both individuals and authorised representatives, as the case may be, must produce at the time of collection evidence of identity acceptable to our Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong. If an applicant has opted for collection in person but does not collect our share certificate and/or refund cheque (if any) by 1:00 p.m. on Friday, 28 September 2007, our share certificate and/or refund cheque (if any) will be sent to the address as appeared on the relevant Application Form in the afternoon on the date of despatch by ordinary post at the applicant's own risk.

If an applicant has applied for less than 1,000,000 Hong Kong Public Offer Shares or has applied for 1,000,000 Hong Kong Public Offer Shares or more and has not indicated on the relevant Application Form that our share certificate and/or refund cheque (if any) will be collected in person, then our share certificate and/or refund cheque (if any) will be sent to the address as appeared on the relevant Application Form on the date of despatch by ordinary post at the applicant's own risk.

If an applicant is using a **YELLOW** Application Form or giving **Electronic Application Instructions**, the relevant arrangements are set forth under "Despatch/collection of share certificates and refund of application money" in the section headed "How to apply for the Hong Kong Public Offer Shares" in this prospectus.

Prospective investors of the Hong Kong Public Offer Shares should note that the Hong Kong Public Offer Underwriters are entitled to terminate their obligations under the Hong Kong Public Offer Underwriting Agreement by notice in writing to be given by the Global Coordinator (acting on behalf of all the Hong Kong Public Offer 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 scheduled Listing Date (the "Termination Time"). Such events include, but without limitation to, any act of God, military action, riot, public disorder, civil commotion, fire, flood, tsunami, explosion, epidemic, terrorism, strike or

lock-out. No temporary documents of title will be issued. Accordingly, any certificate relating to the Hong Kong Public Offer Shares issued by our Company or deposited into CCASS prior to the Termination Time will only become valid certificate of title if the Hong Kong Public Offer has become unconditional in all respects and the Hong Kong Public Offer Underwriting Agreement has not been terminated in accordance with its terms on or before the Termination Time. Investors who trade the Offer Shares on the basis of publicly available allocation results or other information prior to the Termination Time will do so entirely at their own risk.

CONTENTS

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

Neither the Company nor the Selling Shareholder has authorised any person to provide you with any information that is different from what is contained in this prospectus and the related Application Forms.

Any information or representation not made in this prospectus and the related Application Forms must not be relied upon by you as having been authorised by us, the Selling Shareholder, the Joint Sponsors, the Global Coordinator, the Lead Manager, any of the Underwriters, any of their respective directors, officers, employees, agents, representatives or affiliates, or any other person or party involved in the Share Offer.

CONTENTS

This summary aims to give you an overview of the information contained in this prospectus and should be read in conjunction with the full text of this prospectus. As it is only a summary, it does not contain all the information that may be important to you. 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 sections headed "Definitions" and "Glossary of technical terms" in this prospectus.

OVERVIEW

We are principally engaged in the manufacture and sale of a kind of specialty paper products, decorative base paper products, and printing paper product. According to China Paper Association, we are one of the few domestic paper manufacturers in the PRC who are capable of manufacturing high-class decorative base paper products, and was ranked by China Paper Association as the largest decorative base paper manufacturer in terms of the actual annual production capacity in the PRC in 2005 and 2006.

By leveraging our production capacity expansion and the technical know-how in the manufacture of high-class decorative base paper products, we achieved encouraging growth in our business during the Track Record Period. For each of the three years ended 31 December 2006, our Group's turnover was approximately RMB467.2 million, RMB696.4 million and RMB950.8 million, respectively, representing a CAGR of approximately 42.7%, and our Group's profit for the year was approximately RMB44.4 million, RMB68.3 million and RMB93.9 million, respectively, representing a CAGR of approximately 45.4%. Moreover, our turnover and profit after taxation for the four months ended 30 April 2007 were approximately RMB338.0 million and RMB67.6 million, respectively, representing a growth of approximately 30.0% and 162.0%, respectively, when compared to those for the four months ended 30 April 2006.

Due to strong personal disposable income growth and rising living standard in the PRC, it is expected that the demand for housing in terms of quality and floor space, and household wares, such as furniture, will continue to rise, which will in turn fuel the growth in the demand for decorative construction materials, including laminated board. According to China Paper Association, based on the development of the laminated board industry in the PRC and the high correlation between laminated board production and decorative base paper consumption, it is expected that there will be enormous growth potential at an annual growth rate in of 20% the demand for decorative base paper industry in the PRC for the next 10 years.

Our decorative base paper products, being intermediate products, are commonly used as the decorative layer to furnish the surface of laminated board, a decorative material which has wide applications in interior decoration of buildings, transportation vehicles, processed products such as fortified wooden floorboard, furniture and composite office and household wares. To the best knowledge and belief of our Directors, the majority of our customers for decorative base paper products are processing factories, most of which are private enterprises and are principally engaged in the processing and/or manufacturing of laminated boards, who will further process our decorative base paper products with various materials to form laminated boards. Our printing paper product is mainly used for photocopying and printing. Since we commenced the production of printing paper product using our production line no. 4 in July 2006, we have sold all such product to a paper processing and trading company, an Independent Third Party, in the PRC. This customer was also our largest customer for the year ended 31 December 2006 and the four months ended 30 April 2007.

With our highly automated production facilities at our production base located in Zouping County, Binzhou City, Shandong Province, the PRC, we are able to serve as a one-stop shop for a wide range of decorative base paper products. As at the Latest Practicable Date, we owned and operated six highly automated paper production lines (no. 1 to no. 6), with an aggregate designed annual production capacity of approximately 170,000 tonnes. Our designed annual production capacity increased from 60,000 tonnes at the beginning of 2004 to 170,000 tonnes at the end of 2006, representing a CAGR of approximately 41.5% from the beginning of 2004 to the end of 2006. An additional highly automated production line no. 7 with a designed annual production capacity of approximately 30,000 tonnes is currently under construction and is expected to commence commercial production in early 2008.

Our Directors believe that, with our highly automated production lines, effective quality control systems and a highly skilled and well-trained workforce, we are well-positioned in the specialty paper manufacturing industry to capture the anticipated growth in the market demand for decorative base paper products and printing paper products in the PRC.

COMPETITIVE ADVANTAGES

We believe the following competitive strengths have significantly contributed to our success and will continue to drive our growth:

- We are well-positioned in the specialty paper manufacturing industry in light of the national policies of the PRC

- We are able to capitalise on the growing demand for decorative base paper and printing paper products in the PRC

- We have a well-established reputation and a well-recognised brand name for our high-quality decorative base paper products manufactured with our technical know-how and patent

- We have comprehensive production facilities with large production capacity which allow us to take advantage of economy of scale

- We are able to compete effectively in terms of pricing with other players in the specialty paper manufacturing industry

- We have a diverse and stable customer base for our decorative base paper products

- We have strong research and development capabilities

- We have stringent quality control standards

- We have experienced management and technical staff

For further details of our competitive strengths, please see the paragraph headed “Competitive advantages” in the section headed “Business” in this prospectus.

BUSINESS STRATEGIES

We strive to become the leading manufacturer of high-quality decorative base paper products and printing paper product in the PRC. 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 add new production lines for manufacturing decorative base paper products and printing paper product

- To broaden our distribution channels in the PRC and overseas and strengthen our marketing efforts by targeting at manufacturers of construction materials

- To enhance our production efficiency and quality control systems

- To improve our research and development capability by forming strategic alliance with established academic institutions

- To enhance the brand awareness of our decorative base paper products marketed under the “” trademark

For further details of our business strategies, please see the paragraph headed “Business strategies” in the section headed “Business” in this prospectus.

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following table summarises our audited combined results for the Track Record Period, which are prepared on the assumption that our current corporate structure had been in existence throughout the Track Record Period and are extracted from the accountants' report, the text of which is set forth in Appendix I to this prospectus.

	Years ended 31 December			Four months ended 30 April	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Turnover	467,158	696,425	950,844	260,132	338,018
Cost of sales	(382,497)	(563,115)	(766,727)	(207,915)	(255,547)
Gross profit	84,661	133,310	184,117	52,217	82,471
Other revenue	370	662	726	179	163
Selling expenses	(5,084)	(7,008)	(9,597)	(2,723)	(2,357)
Administrative expenses	(6,287)	(9,377)	(11,929)	(3,447)	(5,330)
Profit from operations	73,660	117,587	163,317	46,226	74,947
Finance costs	(5,281)	(13,793)	(20,625)	(5,860)	(7,310)
Profit before taxation	68,379	103,794	142,692	40,366	67,637
Income tax	(24,023)	(35,460)	(48,755)	(14,542)	–
Profit for the year/period	44,356	68,334	93,937	25,824	67,637
Earnings per Share (RMB) – basic *(Note)*	0.06	0.09	0.13	0.03	0.09

Note: The calculation of basic earnings per Share during the Track Record Period is based on the audited combined net profit attributable to equity holders of the Company for the respective years/periods and on the assumption that 750,000,000 Shares were in issue throughout the Track Record Period. The number of Shares comprising 100,000,000 Shares in issue as at the date of this prospectus and 650,000,000 Shares to be issued pursuant to the Capitalisation Issue as described under the paragraph headed "Resolutions in writing of the sole Shareholder passed on 8 September 2007" in Appendix VI to this prospectus.

For additional information on the financial performance of our Group during the Track Record Period, please refer to the section headed "Financial information" in this prospectus and Appendix I to this prospectus.

PROFIT FORECAST FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2007

The following unaudited pro forma fully diluted forecast earnings per Share for the financial year ending 31 December 2007 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Share Offer as if it had taken place on 30 April 2007. This unaudited pro forma fully diluted forecast earnings per Share has been prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the financial results of our Group following the Share Offer.

Forecast combined net profit attributable to the equity holders of our Company for the financial year ending 31 December 2007 (1)	not less than RMB210.0 million (equivalent to approximately HK$216.3 million)
Unaudited pro forma forecast earnings per Share – fully diluted(2)	not less than RMB0.210 (equivalent to approximately HK$0.216)

Notes:

1. The forecast combined net profit attributable to equity holders of our Company for the financial year ending 31 December 2007 is extracted from the section headed "Financial information – Profit forecast for the financial year ending 31 December 2007" in this prospectus. The bases and assumptions on which the above profit forecast has been prepared are summarised in Appendix III to this prospectus.

   The forecast combined net profit attributable to equity holders of our Company for the financial year ending 31 December 2007 is based on the audited combined results of our Group for the four months ended 30 April 2007, the unaudited management accounts of our Group for the three months ended 31 July 2007, and a forecast of the combined results of our Group for the remaining five months ending 31 December 2007.

2. The calculation of the unaudited forecast earnings per Share on a pro forma fully diluted basis is based on the forecast combined net profit attributable to equity holders of our Company for the financial year ending 31 December 2007 assuming that our Company had been listed on the Main Board since 1 January 2007 and a total of 1,000,000,000 Shares (including the Shares in issue as at 30 April 2007, Shares under the Capitalisation Issue and the Share Offer) had been in issue during that financial year, but does not take into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme or which may be allotted and issued or repurchased by our Company pursuant to the general mandates for the allotment and issue or repurchase of the Shares referred to under the paragraph headed "Resolutions in writing of the sole Shareholder passed on 8 September 2007" in Appendix VI to this prospectus.

STATISTICS OF THE SHARE OFFER

	Based on the minimum indicative Offer Price of HK$4.10	**Based on the maximum indicative Offer Price of HK$5.35**
Market capitalisation(1)	HK$4,100.0 million	HK$5,350.0 million
Unaudited Pro forma adjusted net tangible assets per Share(2)	HK$1.32	HK$1.62
Forecast price/earnings multiple(3)	19.0 times	24.8 times

Notes:

1. The market capitalisation does not take into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandates for the allotment and issue or repurchase of our Shares referred to under the paragraph headed "Resolutions in writing of the sole Shareholder passed on 8 September 2007" in Appendix VI to this prospectus.

2. The unaudited pro forma adjusted net tangible assets per Share is arrived at after making the adjustments set forth in the section headed "Financial information" in this prospectus and on the basis of a total of 1,000,000,000 Shares in issue and expected to be issued immediately following completion of the Share Offer but does not take into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandates for the allotment and issue or repurchase of our Shares referred to under the paragraph headed "Resolutions in writing of the sole Shareholder passed on 8 September 2007" in Appendix VI to this prospectus. No account has been taken of the interests which may have been received on the estimated net proceeds from the Share Offer that had been received on 1 January 2007.

   Appendix II to this prospectus sets forth the calculation of the unaudited pro forma adjusted net tangible assets per Share.

3. The forecast price/earnings multiple on a pro forma basis is calculated based on the forecast earnings per Share on a pro forma basis of approximately HK$0.216 for the financial year ending 31 December 2007 at the maximum and minimum indicative Offer Price.

If the Over-allotment Option is exercised in full, the number of Shares in issue will increase to 1,045,000,000 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).

DIVIDEND POLICY

We did not declare or pay any dividend in each of the three years ended 31 December 2006 and the four months ended 30 April 2007. While we intend to declare and pay dividends in the future, the payment and the amount of any dividends will depend on the results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that we may consider relevant. Holders of the Shares will be entitled to receive such dividends pro-rata according to the amounts paid up or credited as paid up on the Shares. The declaration, payment, and amount of dividends will be subject to our Board's discretion.

Dividends may be paid only out of our distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any of our plans or at all. Our dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

Subject to the factors described above, we currently intend 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 after the Share Offer.

PROPOSED USE OF NET PROCEEDS FROM THE NEW ISSUE

The net proceeds from the New Issue, after deducting underwriting fees and estimated expenses payable by us in connection thereto, are estimated to be approximately HK$1,130.8 million, assuming that the Over-allotment Option is not exercised and assuming an Offer Price of HK$4.73 per Share, being the mid-point of the proposed Offer Price range of HK$4.10 to HK$5.35 per Share. We currently intend to use such net proceeds as follows:

- as to approximately RMB163.3 million (equivalent to approximately HK$168.2 million) for the settlement of the remaining balance of the construction costs of our new production line no. 7;

- as to approximately RMB360.0 million (equivalent to approximately HK$370.8 million) for the construction of our new production lines no. 8 and no. 9;

- as to approximately RMB360.0 million (equivalent to approximately HK$370.8 million) for the construction of our new production lines no. 10 and no. 11;

- as to approximately RMB40.0 million (equivalent to approximately HK$41.2 million) for re-engineering and modification of our existing production lines no. 1 and no. 3;

- as to approximately RMB40.0 million (equivalent to approximately HK$41.2 million) for strengthening our marketing activities;

- as to approximately RMB30.0 million (equivalent to approximately HK$30.9 million) for development of overseas market;

- as to approximately RMB5.0 million (equivalent to approximately HK$5.2 million) for research and development; and

- the remaining balance of approximately HK$102.5 million for our general working capital.

In the event that the Over-allotment Option is exercised in full and the Offer Price is finally determined at the highest end of the indicative Offer Price range between HK$4.10 to HK$5.35 per Offer Share, the net proceeds of the New Issue will increase by approximately HK$385.8 million to approximately HK$1,516.6 million. Our Directors intend to apply such additional net proceeds as to (i) RMB360.0 million (equivalent to approximately HK$370.8 million) for further expansion of the production capacity of the planned new production lines no. 10 and no. 11 from the total designed annual production capacity of 60,000 tonnes to 120,000 tonnes if and when appropriate; and (ii) the remaining balance of approximately HK$15.0 million for our general working capital.

In the event that the Over-allotment Option is not exercised and the Offer Price is finally determined at the highest end of the indicative Offer Price range between HK$4.10 to HK$5.35 per Offer Share, the net proceeds of the New Issue will increase by approximately HK$151.1 million to approximately HK$1,281.9 million. Our Directors intend to apply such additional net proceeds and a portion of the net proceeds for our general working capital for further expansion of the production capacity of the planned new production lines no. 10 and no. 11 from the total designed annual production capacity of 60,000 tonnes to 90,000 tonnes, which will cost approximately RMB180.0 million (equivalent to approximately HK$185.4 million), if and when appropriate.

In the event that the Over-allotment Option is not exercised and the Offer Price is finally determined at the lowest end of the indicative Offer Price range between HK$4.10 to HK$5.35 per Offer Share, the net proceeds of the New Issue will reduce by approximately HK$153.5 million to approximately HK$977.3 million. In such event, our Directors intend to reduce the intended use of proceeds for the above stated purposes on pro-rata basis and we will finance such shortfall by internal cash resources and/or additional bank borrowings, as and when appropriate.

To the extent that any part of the net proceeds from the New Issue are not immediately required for the above purposes, we may hold such funds in short-term interest-bearing deposits and/or money-market instruments with authorised financial institutions and/or licensed banks in Hong Kong and/or the PRC.

RISK FACTORS

Our Group's operations are subject to a number of risks, a detailed discussion of which is set out in the section headed "Risk factors" in this prospectus. These risks can be broadly categorised into:

- risks relating to our Group;
- risks relating to the industry;
- risks relating to the PRC;
- risks relating to the Share Offer; and
- other risks.

Set out below is a list of the risks referred to above:

Risks relating to our Group

- We rely on the PRC market
- We rely on our key management personnel

- We derive a significant portion of our total turnover from our top five customers and, in particular, rely on our single largest customer for our printing paper product

- We do not normally enter into any long-term sales agreement with most of our customers

- We rely on a small number of suppliers for our principal raw materials, the prices and the supply of which may fluctuate from time to time

- We may not be able to sustain our gross profit margin, operating profit margin and net profit margin

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

- We may not be able to sustain our rapid business growth that we have experienced during the Track Record Period

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

- We rely on constant supply of water, electricity and steam to support our production

- A material disruption to our operations may adversely affect our revenues and profits

- We had a net current liability position as at 31 December of 2004, 2005, 2006 and 30 April 2007

- We could become involved in intellectual property disputes

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

- Change in product mix may affect our production costs and production volume, and thus profit margin which may adversely affect our Group's financial performance

Risks relating to the industry

- Stringent environmental protection requirements could affect our business

- We operate in a competitive industry

- We may be adversely affected by slow down in the economy owing to unforeseen circumstances, such as an outbreak of infectious disease

Risks relating to the PRC

- Changes in political and economic policies in the PRC may affect our business
- Changes in the PRC legislation or the interpretation thereof may affect our business
- Our tax benefits in the PRC may not continue in the future
- Future movements in exchange rates of Renminbi may adversely affect our financial condition and results of operation
- Any increase in interest rates in the PRC may materially affect our results
- Currency conversion may limit our ability to remit dividends and affect our business

Risks relating to the Share Offer

- There has been no prior public market for the Shares
- The market price of our Shares may be volatile

Other risks

- Statistics and industry information have come from various government official publications which may not be reliable
- Forward-looking statements contained in this prospectus may not materialise
- Prospective investors should not place any reliance on any information contained in the press coverage regarding our Group and the Share Offer

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

"Access Capital"	Access Capital Limited, a corporation licensed under the SFO to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) of the regulated activities under the SFO, and appointed as one of the Joint Sponsors
"Addinsight"	Addinsight Limited, a company incorporated under the laws of the BVI on 2 May 2006 with limited liability and owned as to 87.5% by Mr. Zhu and as to 12.5% by Mrs. Zhu, respectively
"Application Form(s)"	**white** application form(s) and **yellow** 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
"Articles of Association" or "Articles"	the articles of association of our Company as amended from time to time
"associate"	has the meaning ascribed to it under the Listing Rules
"Be Broad"	Be Broad Limited, a company incorporated under the laws of the BVI on 18 May 2006 with limited liability and wholly-owned by Mr. Zhu Mo Qun
"Best Known"	Best Known Group Limited (慧富集團有限公司), a company incorporated under the laws of Hong Kong on 21 April 2006 with limited liability and a wholly-owned subsidiary of Double Nation
"Board"	the board of Directors
"Boom Instant" or "Selling Shareholder"	Boom Instant Limited, a company incorporated under the laws of the BVI on 3 May 2006 with limited liability and owned as to 80% by Addinsight and as to 20% by Be Broad
"Business Day"	has the meaning ascribed to it under the Listing Rules
"BVI"	the British Virgin Islands
"Capitalisation Issue"	the issue of new Shares to be made upon the capitalisation of certain sums standing to the credit of the share premium account of our Company referred to in the paragraph headed "Resolutions in writing of the sole Shareholder passed on 8 September 2007" in Appendix VI to this prospectus

"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Broker Participant"	a person admitted to participate in CCASS as a broker 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 Broker Participant or a CCASS Custodian Participant or a CCASS Investor Participant
"China Paper Association"	中國造紙協會, a social entity founded in Beijing, the PRC in 1992 and established under guidance of relevant departments of the State Council of the PRC 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
"Companies Law"	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended from time to time
"Company"	Qunxing Paper Holdings Company Limited（群星紙業控股有限公司）, a company incorporated in the Cayman Islands on 5 September 2006 with limited liability
"Connected Person(s)"	has the meaning ascribed to it under the Listing Rules
"Controlling Shareholders"	has the meaning ascribed to it under the Listing Rules and, in the context of this prospectus, means Mr. Zhu, Mrs. Zhu, Mr. Zhu Mo Qun, Addinsight, Be Broad and Boom Instant

"Cornerstone Investors"	several investors which have entered into placing agreements with the Company and the Global Coordinator to subscribe for an aggregate of 96,000,000 Offer Shares, details of which are described in the paragraph headed "The cornerstone placing" in the section headed "Structure and conditions of the Share Offer" in this prospectus
"Director(s)"	the director(s) of our Company
"Double Nation"	Double Nation Limited, a company incorporated under the laws of the BVI on 18 May 2006 with limited liability and a wholly-owned subsidiary of our Company
"Electronic Application Instruction(s)"	instructions given by a CCASS Participant electronically via CCASS to HKSCC, being one of the methods to apply for the Hong Kong Public Offer Shares
"Group", "our Company", "we" or "us"	our Company and its subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, such subsidiaries as if they were the subsidiaries of our Company at the time
"Guang Hua"	鄒平光華板材有限公司 (Zouping Guang Hua Veneer Company Limited*), a limited liability company established under the laws of the PRC on 16 May 2001 and whose entire equity interest is owned by Mr. Zhu, Mr. Zhu Mo Qun and Mrs. Zhu as to approximately 50%, 33% and 17%, respectively
"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
"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 at the final Offer Price on and subject to the terms and conditions stated in this prospectus and in the related Application Forms as further described in the section headed "Structure and conditions of the Share Offer" in this prospectus
"Hong Kong Public Offer Shares"	the 30,000,000 New Shares initially offered for subscription under the Hong Kong Public Offer, (subject to reallocation as described in the section headed "Structure and conditions of the Share Offer" in this prospectus)

"Hong Kong Public Offer Underwriters"	the underwriters of the Hong Kong Public Offer whose names are set forth in the section headed "Underwriting" in this prospectus
"Hong Kong Public Offer Underwriting Agreement"	the conditional underwriting agreement dated 14 September 2007 relating to the Hong Kong Public Offer and entered into between our Company, the Controlling Shareholders, the Global Coordinator, the Lead Manager, the Joint Sponsors and the Hong Kong Public Offer Underwriters, details of which are set forth in the section headed "Underwriting" in this prospectus
"ICBC (Asia)"	Industrial and Commercial Bank of China (Asia) Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Main Board
"ICBC Loan"	the loan facility in an aggregate amount of up to HK$213,522,000 granted by ICBC (Asia) to Boom Instant pursuant to the terms and conditions of the ICBC Loan Agreement
"ICBC Loan Agreement"	the term loan agreement dated 2 February 2007 entered into between Boom Instant as borrower and ICBC (Asia) as lender, whereby ICBC (Asia) granted the ICBC Loan to Boom Instant
"ICEA" and/or "Global Coordinator" and/or "Sole Bookrunner"	ICEA Capital Limited, a corporation licensed under transitional arrangement to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) of the regulated activities under the SFO, and appointed as the global coordinator and sole bookrunner of the Share Offer and one of the Joint Sponsors
"Independent Third Party(ies)"	a person(s) or entity(ies) which is/are independent of and not connected with any member of our Group, our Directors, chief executive and substantial shareholder of our Company and its subsidiaries and their respective associates
"International Placing"	the conditional placing of the International Placing Shares by the International Placing Underwriters, acting on behalf of our Company and the Selling Shareholder, at the final Offer Price, with professional, institutional and individual investors in certain jurisdictions as described in the section headed "Structure and conditions of the Share Offer" in this prospectus

"International Placing Shares"	the 220,000,000 New Shares being offered by our Company for subscription and the 50,000,000 Sale Shares being offered by the Selling Shareholder for purchase under the International Placing (subject to the reallocation as described in the section headed "Structure and conditions of the Share Offer" 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 Placing Underwriters"	several underwriters of the International Placing, led by the Lead Manager, who are expected to enter into the International Placing Underwriting Agreement
"International Placing Underwriting Agreement"	the conditional underwriting agreement expected to be entered into on or around the Price Determination Date between our Company, the Selling Shareholder, the Global Coordinator, the Lead Manager, the Joint Sponsors and the International Placing Underwriters relating to the International Placing, details of which are set forth in the section headed "Underwriting" in this prospectus
"Joint Sponsors"	ICEA and Access Capital
"Latest Practicable Date"	10 September 2007, being the latest practicable date prior to the publication of this prospectus for ascertaining certain information contained in this prospectus
"Lead Manager"	ICEA Securities Limited, a corporation licensed under transitional arrangement to conduct Type 1 (dealing in securities) of the regulated activities under the SFO, and appointed as the lead manager of the Share Offer
"Listing"	listing of our Shares on the Main Board
"Listing Date"	the date on which dealings in our Shares first commence on the Main Board, which is expected to be on or around Tuesday, 2 October 2007
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
"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

"Master Supply Agreement"	the master agreement for supply of decorative base paper products dated 3 September 2007 and entered into between Shandong Qunxing as supplier and Guang Hua as customer pursuant to which Shandong Qunxing has agreed to supply decorative base paper products to Guang Hua according to the terms stipulated in such agreement
"Mr. Zhu"	Mr. Zhu Yu Guo (朱玉國), our chairman, an executive Director and the father of Mr. Zhu Mo Qun and husband of Mrs. Zhu
"Mr. Zhu Mo Qun"	Mr. Zhu Mo Qun (朱墨群), an executive Director and the son of Mr. Zhu and Mrs. Zhu
"Mrs. Zhu"	Ms. Sun Rui Fang (孫瑞芳), a non-executive Director and the wife of Mr. Zhu and mother of Mr. Zhu Mo Qun
"New Issue"	the issue of New Shares under the Share Offer by our Company for subscription at the final Offer Price
"New Shares"	the 250,000,000 new Shares initially being offered at the final Offer Price by our Company under the Share Offer and, where relevant, any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option
"Offer Price"	the Hong Kong dollar price per Offer Share (excluding the Stock Exchange trading fee of 0.005%, the transaction levy of 0.004% imposed by the SFC and 1.0% of the related brokerage), which is expected to be not more than HK$5.35 and not less than HK$4.10 and the final price of which will be determined on or before the Price Determination Date
"Offer Shares"	the International Placing Shares and Hong Kong Public Offer Shares together, where relevant, with any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option
"Over-allotment Option"	the option to be granted by our Company to the International Placing Underwriters, exercisable by the Lead Manager (for itself and on behalf of the International Placing Underwriters), at any time from the Listing Date up to (and including) the date which is the 30th day after the last date for lodging the Application Forms, to require our Company to allot and issue up to 45,000,000 additional New Shares, representing 15% of the Shares initially available under the Share Offer, at the final Offer Price to cover over-allocations in the International Placing (if any) and/or the obligations of the Lead Manager to return securities borrowed under the Stock Borrowing Agreement

"PRC" or "China"	the People's Republic of China which, for the purpose of this prospectus, excludes Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"Price Determination Date"	the date on which the final Offer Price is to be determined by us (for ourselves and on behalf of the Selling Shareholder) and the Global Coordinator (acting on behalf of all the Underwriters), which is expected to be on Thursday, 20 September 2007 and in any event no later than Thursday, 27 September 2007
"Reorganisation"	the corporate reorganisation of our Group in preparation for the Listing, particulars of which are set forth under the paragraph headed "Corporate reorganisation" of Appendix VI to this prospectus
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"SAFE"	中國國家外匯管理局 (State Administration of Foreign Exchange of the PRC*)
"Sale Shares"	the 50,000,000 existing Shares being offered for sale by the Selling Shareholder at the final Offer Price under the International Placing
"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 from time to time
"SD Changxing"	山東長星集團有限公司 (Shandong Changxing Group Limited*), a limited liability company established in the PRC on 8 March 2001 and owned by Mr. Zhu, Mr. Zhu Mo Qun and Mrs. Zhu as to 55%, 30% and 15% of its registered capital, respectively
"Shandong Qunxing"	山東群星紙業有限公司 (Shandong Qunxing Paper Limited*), a wholly foreign-owned enterprise established under the laws of the PRC on 16 August 2006 and a wholly-owned subsidiary of the Company; and where the context so requires in respect of any time prior to its conversion into a wholly foreign-owned enterprise, 山東群星紙業有限公司 (Shandong Qunxing Paper Limited*) (formerly known as 鄒平縣群星紙業有限公司 (Zouping County Qunxing Paper Co., Limited*)), a limited liability company established under the laws of the PRC on 16 June 1999 and owned as to 51% by Mr. Zhu Mo Qun and as to 49% by Mr. Zhu, respectively

"Share(s)"	ordinary share(s) with a nominal value of HK$0.1 each in the capital of our Company
"Shareholder(s)"	holder(s) of our Shares
"Share Offer"	the International Placing and the Hong Kong Public Offer
"Share Option Scheme"	the share option scheme conditionally adopted by our Company on 8 September 2007, the principal terms of which are set forth under the paragraph headed "Share option scheme" in Appendix VI to this prospectus
"Stock Borrowing Agreement"	a stock borrowing agreement to be entered into between the Lead Manager and Boom Instant on or around the Price Determination Date
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Substantial Shareholder(s)"	has the meaning ascribed thereto by the Listing Rules
"Track Record Period"	the three financial years ended 31 December 2006 and the four months ended 30 April 2007
"Underwriters"	the International Placing Underwriters and the Hong Kong Public Offer Underwriters
"Underwriting Agreements"	the International Placing Underwriting Agreement and the Hong Kong Public Offer Underwriting Agreement
"United States" or "US"	the United States of America
"US$" or "US dollars"	United States dollars, the lawful currency of the United States
"WTO"	World Trade Organisation
"%"	per cent.

In this prospectus, if there is any inconsistency between the Chinese names of the PRC entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The provision of English translation of company names in Chinese or another language which are marked with "*" is for identification purposes only.

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$7.80 and RMB1.00 = HK$1.03.

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.

GLOSSARY OF TECHNICAL TERMS

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

"basis weight"	weight per unit area of a paper product. This can be expressed as, among others, the weight in grams per sq. m. (g/m^2) or pounds per 1,000 sq. ft.
"CAGR"	compound annual growth rate
"decorative base paper"	a kind of specialty paper which is used as a layer to be impregnated with various wooden or synthetic materials to form laminated boards
"fourdrinier wire"	a belt of woven wire used on the wet end of the fourdrinier machine, and on which the web of paper initially formed
"GDP"	gross domestic product
"ISO"	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
"laminated board"	a board product comprising a plurality of adjacent sheets of wooden or synthetic materials and decorative base paper, laid onto each other by an adhesive bonding material positioned in between to form a laminate
"lignin"	one of the three main constituents of wood, along with cellulose and hemi-cellulose. Lignin nets as the cementing agent in wood, binding the cellulose fibers together

"printing paper"	a kind of paper commonly used for photocopying and printing, being one of the two lines of products which we manufacture and sell
"specialty paper"	paper that is often suitable for special purposes, because it possesses unique characteristics and properties, and is not considered to be one of the standard papers by paper industry
"sq. m."	square meter
"titanium dioxide powder"	a white powder used as a pigment for its high coverage and durability
"tonne"	a metric tonne, equivalent to 1,000 kilograms
"veneer"	a thin leaf or layer of a more valuable or beautiful material for overlaying an inferior one, especially such a thin leaf of wood to be glued to a cheaper wood
"wood pulp"	fibrous material prepared from wood, cotton, grasses, etc., by chemical or mechanical processes for use in making paper or cellulose products

You should consider carefully all the information set forth in this prospectus and, in particular, should consider the following risks and special considerations in connection with an investment in us before making any investment decision in relation to the Offer Shares. Our business and operations could be materially and adversely affected by any of these risks.

This prospectus contains certain forward-looking statements regarding our Group's plans, objectives, expectations, and intentions which involve risks and uncertainties. The trading price of the Offer Shares could decline due to any of these risks and you may lose all or part of your investment. You should also refer to the other information contained in this prospectus, including the financial statements and the related notes.

RISKS RELATING TO OUR GROUP

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, our sales, profitability and prospects may be adversely affected.

We rely on our key management personnel

Our Group's success is, to a significant extent, attributable to the management skill and sales experience of Mr. Zhu, one of the founders and the chairman of our Company, and Mr. Zhu Mo Qun, the other founder, the vice-chairman and general manager of our Company. They have been part of our senior management team since our inception and have been playing a significant role in our day-to-day operations. Our Group's business may be adversely affected should any of our executive Directors or other members of our Group's senior management leave our Group and should we fail to find any suitable replacement.

In addition, we depend on the continued service of skilled managerial and technical personnel. Our business could be adversely affected if we lose the services of such personnel without suitable replacement. Further, as we expect our business to grow in future, we will need to recruit and train additional qualified personnel. If we encounter any difficulty in recruiting or retaining competent personnel, our business operations as well as our financial performance may be adversely affected.

We derive a significant portion of our total turnover from our top five customers and, in particular, rely on our single largest customer for our printing paper product

For the three years ended 31 December 2006 and the four months ended 30 April 2007, sales to our top five customers amounted to approximately RMB96.2 million, RMB142.8 million, RMB245.9 million and RMB130.9 million, respectively, representing approximately 20.6%, 20.5%, 25.9% and 38.7% of our turnover for the respective periods. In particular, since we commenced the production of printing paper product by our production line no. 4 from July 2006, we have sold all such product to a paper processing and trading company, an Independent Third Party, in the PRC. For the year ended 31 December 2006 and the four months ended 30 April 2007, sales to this customer amounted to approximately RMB116.7 million and RMB76.9 million, respectively representing approximately 12.3% and 22.7% of our turnover for the respective periods. In addition to its being the sole customer of our printing paper product, this customer was also our largest customer for the year ended 31 December 2006 and for the four months ended 30 April 2007. Shandong Qunxing entered into a product sales contract with this customer on 30 October 2006 for a term of five years commencing 1 November 2006, pursuant to which Shandong Qunxing has agreed to sell exclusively to this customer its printing paper product manufactured by our production line no. 4. Before we can expand our production capacity of the printing paper product on other existing production lines or construct any new production lines in future, as disclosed in the section headed “Future plans and use of proceeds” of this prospectus, our printing paper product will continue to be sold to this existing sole customer. Thus, we expect that we will continue to depend on a small number of customers for a large portion of our turnover, in particular this sole customer, for our printing paper product.

Our Group also faces the risk of certain concentration of credit attributable to trade receivables. For the three years ended 31 December 2006 and the four months ended 30 April 2007, trade receivables due from our largest trade debtor accounted for approximately 6.1%, 5.5%, 28.9% and 18.8%, respectively, and trade receivables due from our five largest trade debtors accounted for approximately 26.1%, 24.1%, 45.7% and 36.2%, respectively, of our total trade receivables of the relevant periods.

There is no assurance that any such major customers will continue to purchase products from us at the same level which they historically have done, or at all, or settle any trade receivables due to us at the time we request. Should any of our major customers materially reduce their purchases from us or terminate their business relationships with us or default in settling the trade receivables due to us at the time we requested, our business and financial performance may be adversely affected.

We do not normally enter into any long-term sales agreement with most of our customers

Except for our sole customer of our printing paper product, we do not normally enter into, and have not entered into, long term sales contracts with our customers. Instead, we enter into framework sales contracts with our major customers which state the indicative total sales amount for a term of one year. As a result, our customers do not have any contractual obligation to continue placing orders with us at all or at the same level which they historically have done. If any of our customers, particularly our major customers, materially reduce their orders from us or terminate their respective relationships with us at any time without reason or notice, our business and financial performance may be adversely affected.

We rely on a small number of suppliers for our principal raw materials, the prices and the supply of which may fluctuate from time to time

Our production activities of decorative base paper products and printing paper product rely on, among other things, sufficient and uninterrupted supply of wood pulp and titanium dioxide powder, being our principal raw materials. For each of the three years ended 31 December 2006 and the four months ended 30 April 2007, our purchase of wood pulp amounted to approximately RMB131.2 million, RMB191.8 million, RMB310.5 million and RMB107.8 million respectively, representing approximately 34.3%, 34.1%, 40.5% and 42.2% respectively, of our total cost of sales for the respective periods; and our purchase of titanium dioxide powder amounted to approximately RMB149.3 million, RMB209.5 million, RMB237.5 million and RMB54.4 million respectively, representing approximately 39.0%, 37.2%, 31.0% and 21.3% respectively, of our total cost of sales for the respective periods. We procure such principal raw materials from several major suppliers and have not entered into any long-term purchase contracts with any of our major suppliers of wood pulp and titanium dioxide powder for flexibility in purchasing wood pulp and titanium dioxide powder at competitive prices at various times. For the three years ended 31 December 2006 and the four months ended 30 April 2007, our five largest suppliers accounted for approximately 58.0%, 58.3%, 63.3% and 79.7% respectively, of our total purchases for the respective periods. During the same period, our largest supplier accounted for approximately 15.1%, 14.7%, 22.0% and 31.0% respectively, of our total purchases for the respective periods. There can be no assurance that these suppliers will continue to supply the principal raw materials, such as wood pulp and titanium dioxide powder, to us on existing or similar terms, or at all. Should the supply of such raw materials from our major suppliers be interrupted or the terms of supply change drastically, and we cannot obtain comparable suppliers in a timely manner or on comparable terms, our operations, financial conditions and profitability may be adversely affected.

Moreover, according to China Paper Association, due to scarcity of forest resources in the PRC, the proportion of domestically produced wood pulp can hardly be increased in the near future and the demand for wood pulp in the PRC will far exceed the supply of domestically produced wood pulp in the next five years, where the shortage will be rely on imported wood pulp. Imported wood pulp represented 34.6%, 38.5% and 40.8% of the total consumption of wood pulp in 2003, 2004 and 2005, respectively.

Our total purchase cost of wood pulp in the year ended 31 December 2006 amounted to approximately RMB310.5 million. Based on this amount, our Directors estimate that, assuming that all other factors remain constant, the effect of every 1% upward increment in our total purchase cost of wood pulp on the profit after taxation of our Group would have been a decrease of approximately RMB2.1 million for the year ended 31 December 2006. Similarly, our total purchase cost of titanium dioxide powder in the year ended 31 December 2006 amounted to RMB237.5 million. Based on this amount, our Directors estimate that, assuming that all other factors remain constant, the effect of every 1% upward increment in our total purchase cost of titanium dioxide powder on the profit after taxation of our Group would have been a decrease of approximately RMB1.6 million for the year ended 31 December 2006.

As the supply and the market prices of wood pulp and titanium dioxide powder may vary from time to time, in the event of any material interruption to the supply of wood pulp and titanium dioxide powder as well as any material price fluctuation of wood pulp, as a result of any further shortage of domestic supply of wood pulp, and titanium dioxide powder which we cannot pass on such increase in production cost to our customers, our gross profit margin will be adversely affected.

We may not be able to sustain our gross profit margin, operating profit margin and net profit margin

We reported gross profit margin of approximately 18.1%, 19.1%, 19.4% and 24.4%, respectively, for the three years ended 31 December 2006 and the four months ended 30 April 2007. Our operating profit margin for the three years ended 31 December 2006 and the four months ended 30 April 2007 was approximately 15.8%, 16.9%, 17.2% and 22.2%, respectively. There is no assurance that we will be able to maintain the improvement of our gross profit margin or operating profit margin as in the Track Record Period.

For the three years ended 31 December 2006 and the four months ended 30 April 2007, net profit attributable to our Shareholders was approximately RMB44.4 million, RMB68.3 million, RMB93.9 million and RMB67.6 million, respectively, representing net profit margin of approximately 9.5%, 9.8%, 9.9% and 20.0%, respectively. There is no assurance that we will continue to maintain the improvement of our net profit margin as in the Track Record Period.

We relied on bank 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 borrowings. As at 31 December 2004, 2005 and 2006 and 30 April 2007, our bank borrowings, which included both short-term and long-term borrowings, amounted to approximately RMB127.2 million, RMB250.2 million, RMB332.0 million and RMB287.0 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.

We may not be able to sustain our rapid business growth that we have experienced during the Track Record Period

We have been expanding our business rapidly and intend to continue to do so. Our turnover increased from approximately RMB467.2 million for the year ended 31 December 2004 to approximately RMB950.8 million for the year ended 31 December 2006, representing a CAGR of 42.7%. Moreover, our turnover increased from approximately RMB260.1 million for the four months ended 30 April 2006 to approximately RMB338.0 million for the four months ended 30 April 2007, representing a growth rate approximately 30.0%. We need to manage our growth effectively, which may entail devising and implementing business plans effectively, training and managing our growing workforce, managing our costs and implementing adequate control and reporting systems in a timely manner. There is no assurance that we will continue to maintain such rapid business growth in the future.

We may not be able to implement our future plans successfully

In addition to the construction of our new production line no. 7, with a designed annual production capacity of 30,000 tonnes, which is expected to commence commercial production in early 2008, we also plan to construct four more new production lines, namely, production lines no. 8, no. 9, no. 10 and no. 11 with an aggregate designed annual production capacity of 120,000 tonnes. Production lines no. 8 and no. 9 are expected to commence commercial production in early 2009 and production lines no. 10 and no. 11 are expected to commence commercial production in late 2009. Moreover, we also plan to re-engineer and modify our existing production facilities, in particular production lines no. 1 and no. 3 with a view to improving our production efficiency. The successful implementation of such plans will depend on a number of factors that are either within or beyond our control, including but not limited to our ability to manage our expansion, our ability to achieve operational efficiencies and any unforeseen difficulties which may arise in the construction of our new production lines or the re-engineering and modification of our existing production facilities. Furthermore, as disclosed in the section headed "Future plans and use of proceeds" in this prospectus, we plan to export our decorative base paper products overseas to tap the demand in selected international markets. As we have in the past focused on the PRC market, our sales and marketing personnel might not possess the relevant experience in developing overseas market. Thus, we could face considerable uncertainties in developing such overseas market. If the expansion plans are mismanaged, our ability to expand our business to overseas market would be impaired.

There is no assurance that our future plans can be successfully implemented. If we fail to implement the abovementioned plans, our overall expansion and marketing strategies, financial performance and business operations may be adversely affected.

We rely on constant supply of water, electricity and steam to support our production

Our production requires significant and constant supply of water, electricity and steam which are currently provided by local utilities company and bureau. Total cost incurred for the supply of water, electricity and steam for each of the three years ended 31 December 2006 and the four months ended 30 April 2007 amounted to approximately RMB35.5 million, RMB45.8 million, RMB69.3 million and RMB28.7 million, respectively. Our reliance on such supply will further increase as we expand our production capacity. Any disruption to such supply may adversely affect our production flow, prevent us from meeting customer orders and/or increase our costs of production. Should this happen, our business and financial performance may be adversely affected.

A material disruption to our operations may adversely affect our revenues and profits

Our operations are subject to uncertainties and contingencies beyond our control that may result in material disruptions to our operations and adversely affect our revenues and profits. These include industrial accidents, fires, floods, droughts, natural disasters and other catastrophes, equipment failures or other operational problems, strikes or other labor difficulties and disruptions to public infrastructure such as roads, ports or pipelines. Any of such events may result in a material disruption to our operations and, thus, may adversely affect our business and financial performance.

In particular, all our production lines are housed in the factory blocks at our production base in Binzhou City, Shandong Province, the PRC. If any of such events happens in any of our factory blocks at our production base, our production process may be materially disrupted, which may adversely affect our business and financial performance.

We had a net current liability position as at 31 December of 2004, 2005, 2006 and 30 April 2007

We had net current liabilities of approximately RMB176.9 million, RMB211.4 million, RMB426.9 million and RMB91.5 million as at 31 December of 2004, 2005, 2006 and 30 April 2007, respectively. Our net current liability position could be principally ascribed to the utilisation of short-term bank loans for financing our business, operations and capital expenditure, which amounted to approximately RMB127.2 million, RMB250.2 million, RMB332.0 million and RMB204.0 million as at 31 December 2004, 2005 and 2006 and 30 April 2007, respectively.

For further details of the indebtedness, liquidity, financial resources and capital structure of our Group, please refer to the section headed "Financial information" in this prospectus. There is no assurance that our Group will be able to have a net current asset position in the future.

We could become involved in intellectual property disputes

The production and/or sale of our products involves the use of various intellectual property rights. We seek to protect our intellectual property rights by relying on laws and regulations such as patent law and trademark law of the PRC.

It may be possible for third parties to use our intellectual property without authorisation. Since we operate in a legal regime that is still developing, the protection and enforcement of our intellectual property rights may not be as effective as in countries with more mature legal systems. The steps we have taken may be inadequate to prevent the misappropriation of our proprietary technology and design. Any unauthorised use or infringement of our Group's intellectual property rights may have an adverse impact on our business. From time to time, we may have to resort to litigation to enforce our intellectual property rights, which may involve significant costs.

On the other hand, there is no assurance that infringement claim against us from third parties will not occur. Should any infringement claim against us from third parties occur, we may incur significant legal expenditure to defend our rights and interests or be required to pay substantial damages and be forced to develop non-infringing technology or obtain licences for such technology. Our Group may not be able to develop non-infringing technology or obtain licences acceptable to our Group and, as a result, the business of our Group may be adversely affected.

There is no assurance that we will not be involved in intellectual property disputes in the future. For details of our intellectual property rights, such as date(s) of registration/application and/or duration of validity of the trademarks and patents, please refer to the paragraph headed "Intellectual property rights of the Group" in Appendix VI to this prospectus.

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.

We did not declare or pay any dividend in each of the three years ended 31 December 2006 and the four months ended 30 April 2007. The payment and the amount of any dividends will depend on various factors, including but not limited to, the cash flows and financial condition of our Company and statutory and regulatory restrictions on the payment of dividends by us and 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, there is no assurance that we will declare dividends at all in the future. 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 condition, legal and contractual restrictions and other factors as the Board may deem relevant.

Change in product mix may affect our production costs and production volume, and thus profit margin which may adversely affect our Group's financial performance

During the Track Record Period, we had changed our product mix in response to the market demand from time to time. Leveraging on our existing production facilities and technical know-how in the manufacture of decorative base paper products, we extended our business to the manufacture and sale of printing paper product, the gross profit margin of which is slightly lower than that of the decorative base paper products, in July 2006 to capture the growing demand for paper products driven by robust economic growth in the PRC. Moreover, we have also changed our product mix amongst different categories of decorative base paper products in accordance with our customers' feedback and our sales strategy. Since March 2007, we have temporarily suspended the production of our ordinary white decorative base paper products as we intend to focus more on the production of other types of decorative base paper products which have higher profit margins.

As we use different formula for the production of each category of our decorative base paper products as well as our printing paper product, the production costs as well as the average selling price for each category of our decorative base paper products and printing paper product are different. Moreover, as a result of the shutdown time required for making adjustments to the production lines for product and specification changes, our utilisation rate, production volume and unit production costs would be adversely affected.

As the profit margin of each type of our decorative base paper products and our printing paper product is different from each other, we cannot guarantee that we will not experience any increase in production costs, decline in utilisation rate or production volume or decline in overall gross profit margin in the event that we need to further change our product mix in response to market demand in the future. As our profit depends on, among other things, our production cost and sales volume and prices of our products, any decline in utilisation rate, increase in production cost and/or fluctuation in our overall gross profit margin may adversely affect our financial performance.

RISKS RELATING TO THE INDUSTRY

Stringent environmental protection requirements could affect our business

Under the current PRC national and local environmental protection laws and regulations, any enterprise which discharges wastewater, sewage and polluted air is required to seek approval from the relevant environmental protection authorities as part of the approving process for setting up such enterprise in the PRC. The relevant PRC laws and regulations also require any such enterprise to have wastewater, sewage and polluted air treatment facilities that meet the relevant environmental standards and to have the pollutants treated before being discharged. In addition, the current PRC national and local environmental protection laws and regulations impose fees for the discharge of pollutants and fines for the discharge of pollutants which are insufficiently treated. The relevant laws and regulations also empower relevant governmental authorities to close down any enterprise that causes serious pollution.

All of our production activities are in full compliance with the relevant environmental laws and regulations in the PRC. Shandong Qunxing has obtained 排放污染物許可證 (Pollutant Discharge Permit*) (the "**Permit**") issued by 鄒平縣環境保護局 (Zouping County Environmental Protection Bureau*) on 5 January 2007. As advised by our legal advisers as to PRC law, the Permit has a validity period of up to five years. The holding of the Permit, however, does not exempt our factory from any possible legal liabilities arising from breaches of the relevant environmental protection laws and regulations. In addition, our factory is required to observe that its discharge of pollutants must not exceed the level specified in the Permit, failure of which will result in the Permit being repealed and our factory being penalised according to the relevant environmental protection laws and regulations.

Further, there is no assurance that the current PRC national and local environmental protection laws and regulations will not be amended in the future and that 鄒平縣環境保護局 (Zouping County Environmental Protection Bureau*) or such other competent authorities will issue or renew the Permit to Shandong Qunxing upon the expiration of the Permit. It should be noted that the imposition of additional stringent environmental protection laws and regulations in the PRC may increase the operating costs of our Group, and hence adversely affect our Group's profitability and prospects. Furthermore, any failure in continually holding or renewing the Permit will also have an adverse impact on our Group's operations and prospects.

Our Group's compliance with the relevant polluting standards largely depends on its wastewater treatment facilities. In the event that the wastewater treatment facilities require major repair and maintenance due to, among other factors, malfunctioning which results in the wastewater treatment facilities being suspended for any prolonged period of time, the business and operations of our Group will be adversely affected.

We operate in a competitive industry

Our Directors consider that there are a large number of manufacturers in the paper manufacturing industry in the PRC, including the decorative base paper and the printing paper manufacturing industries, operating in different sizes and producing products similar to ours. With the PRC's accession into the WTO, it is expected that an increasing number of foreign companies in the same industries will enter into the PRC market. These companies may have more capital and resources for research and development, higher production capacity and better marketing capability when compared to us. Such competitors may succeed in developing new products that are of better quality or less costly than our products. These competitors may also have more extensive distribution networks than ours for their products.

Any increase in competition in the decorative base paper and printing paper industries may result in price reduction and the depletion of our market share, which may in turn have an adverse impact on our financial performance.

We may be adversely affected by slow down in the economy owing to unforeseen circumstances, such as an outbreak of infectious disease

Our business is affected by the size and number of orders we are able to secure from our customers. Unforeseen circumstances such as an outbreak of infectious disease may affect our marketing activities due to quarantines and a decline in global economies. The occurrence of an outbreak of infectious disease is beyond our control. Any such unforeseen circumstances in the areas where we operate, or even in areas where we do not operate, could cause disruptions to our operations and, consequently, we may not be able to deliver the products on time. This may adversely affect our operations and financial performance in a material aspect.

RISKS RELATING TO THE PRC

Changes in political and economic policies in the PRC may affect our business

All of our business, assets and operations are located in the PRC. As a result, our business, operations and financial condition are generally subject to the political, economic and social conditions or the relevant policies in the PRC.

The PRC has been undergoing a series of economic reforms since late 1970s. Such reforms have resulted in significant economic growth and social progress. Any adverse changes in political, economic or social conditions or the relevant policies in the PRC would have a material adverse effect on the economic growth of the PRC. Any future downturns in the PRC economy could lead to a decline in demand for our products which may adversely affect the results of our operations and financial condition.

Changes in the PRC legislation or the interpretation thereof may affect our business

Since 1979, numerous laws and regulations which govern economic matters in general have been promulgated in the PRC. As the PRC government is still in the process of developing a legal system to better accommodate the needs of investors and to facilitate foreign investments, the interpretation and enforcement of such laws and regulations are still at a developmental stage. The PRC legal system is based on written statutes and, therefore, decisions made by the courts are not binding precedents, although judges may use them as guidances. In addition, the interpretation of the PRC laws may be subject to changes in policies and political environment.

As the PRC legal system develops, foreign investors may be adversely affected by new laws and regulations, changes to existing laws and regulations, new interpretations of current laws and regulations and the pre-emption of local regulations by national laws. Considerable progress has been made in the enactment of laws and regulations concerning economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade, which have significantly enhanced the legal protection afforded to foreign investors. As some of these laws and regulations are still in the course of development, they may be subject to changes and modifications. Since the PRC economy is developing at a faster pace than in the PRC legal system, some degree of uncertainty may result and, until the development of the legal system is able to keep up with economic reforms in the PRC, such uncertainty is likely to remain. However, there can be no assurance that changes in the PRC laws and regulations or interpretation thereof will not have any adverse effect upon our business.

Our tax benefits in the PRC may not continue in the future

Before its conversion into a foreign investment enterprise in August 2006, Shandong Qunxing was liable to pay the income tax at the rate of 33% (comprising 30% national enterprise income tax and 3% local income tax according to the Income Tax Law of the PRC on Enterprises with Foreign Investment and Foreign Enterprises and its implementation rules) on our taxable income, the value-added tax at the rate of 17%, city maintenance and construction tax at the rate of 5% on its applicable value-added tax and certain educational surcharge at such rate as determined in accordance with the relevant regulations applicable to domestic enterprise in the PRC.

Since August 2006, Shandong Qunxing has become a foreign investment enterprise and according to the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises, Shandong Qunxing, being an enterprise with foreign investment which conducts manufacturing business operation and has an operating term of more than ten years, is entitled to full exemption from national enterprise income tax of 30% for a period of two years commencing from the first profitable year of operation, i.e. 2007, and a 50% relief on the applicable tax rate for the national income tax for the succeeding three years. Moreover, according to 關於擴大外商投資企業地方所得稅減免範圍有關問題的通知(Notice on Relevant Issues Relating to Expanding the Scope of Reduction and Exemption of Local Incomes Tax on Foreign-invested Enterprises*) promulgated by the State Tax Bureau of Shandong in June 2000 and 關於確認山東群星紙業有限公司享受定期減免稅資格的批覆 (Approval on Confirming the Qualification of Shandong Qunxing on Enjoyment of Tax Reduction and Exemption*) issued by the State Tax Bureau of Zouping County in April 2007, Shandong Qunxing is further entitled to a full exemption of the local income tax of 3% as long as it maintains its corporate existence.

Save as disclosed above, the value-added tax, city maintenance and construction tax and educational surcharges applicable to Shandong Qunxing before its conversion into a foreign enterprise remain unchanged.

There can be no assurance that the PRC tax authorities will not deny or elect to discontinue any or all of the preferential tax treatments or impose any changes in tax regulations with the effect of raising our effective tax rate in the future. Should the relevant PRC authorities decide to reduce or revoke any such tax preferential treatment, or should our relative tax burden increase howsoever, our financial condition and the results of our operations could be materially and adversely affected.

Additionally, the new PRC Enterprise Income Tax Law was promulgated by the National People's Congress on 16 March 2007 and will become effective on 1 January 2008. The new law imposes a single income tax rate of 25% on most domestic enterprises and foreign invested enterprises. It contemplates various transition periods for existing preferential tax policies. Since the new law only provides general principles and provisions, the PRC State Council is entitled to formulate and implement rules, but the timing for the issuance and promulgation of such rules is uncertain. According to this new PRC Enterprise Income Tax Law and in accordance with the rules and regulations to be issued by the PRC State Council, we may be subject to the uniform tax rate of 25% within five years from the implementation date of this law, the enforcement of which could adversely affect our financial condition.

Future movements in exchange rates of Renminbi may adversely affect our financial conditions and results of operation

All of our revenues are denominated in Renminbi whereas dividends (if any) are to be paid to the Shareholders in Hong Kong dollars. Any future exchange rate volatility relating to Renminbi may give rise to uncertainties in our financial conditions. There has been, in the past, fluctuation of Renminbi against foreign currencies. There can be no assurance that Renminbi will not be subject to substantial fluctuation. Any devaluation of Renminbi may have an adverse impact on the value of our net assets, earnings and declared dividends in foreign currency terms and any appreciation of Renminbi may subject us to increased competition from imported goods.

Any increase in interest rates in the PRC may materially affect our results

The People's Bank of China has recently raised the interest rate for loans denominated in Renminbi with a term of more than five years to approximately 7.6%. As at the Latest Practicable Date, we had aggregate banking facilities of approximately RMB307.0 million, of which approximately RMB247.0 million had been utilised and our gearing ratio was approximately 34.0%. We may in future incur new debt obligations to finance our operations and our borrowings bearing interest at floating rates will expose us to interest rate risk resulting from fluctuations in the relevant reference rates. Any further increase in interest expense may have a material adverse effect on our Group's business and financial condition.

Currency conversion may limit our ability to remit dividends and affect our business

Renminbi currently is not a freely convertible currency. Existing restrictions on the conversion of Renminbi into foreign currencies may affect our ability to convert Renminbi into foreign currencies (and thus restrict the subsequent repatriation of those funds), and any tightening of such restrictions may have an adverse effect on us.

Besides, while the proceeds to be raised from the New Issue will be denominated in HK dollars, our functional currency is Renminbi. There is no assurance that HK dollars can be converted into Renminbi all the times, and any restriction on such conversion may restrict our utilisation of, or even render us unable to utilise, the proceeds from the New Issue for implementation of our future plans and thus our business maybe adversely affected.

RISKS RELATING TO THE SHARE OFFER

There has been no prior public market for the Shares

Prior to the Share Offer, there was no public market for the Shares. The initial Offer Price range for the Offer Shares was the result of negotiations between our Company (for us and on behalf of the Selling Shareholder) and the Global Coordinator (acting on behalf of all the Underwriters). Prospective investors 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 fall below the Offer Price upon commencement of dealing in Shares on the Stock Exchange. 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 Share Offer or in the future.

The market price of our Shares may be volatile

The trading price of the Shares could be subject to significant volatility in response to, among other factors:

- investor perceptions of our Group and our future plans;
- variations in our Group's operating results;
- changes in pricing made by us or our competitors;
- technological innovations;
- changes to senior management of our Group;
- the depth and liquidity of the market for the Shares; and
- general economic and other factors.

Any material changes in the above factors could cause the market price of the Shares to change substantially.

OTHER RISKS

Statistics and industry information have come from various government official publications which may not be reliable

Certain facts, statistics and data presented under the section headed "Industry overview" and elsewhere in this prospectus relating to the PRC, its economy and/or its decorative base paper and printing paper industries have been derived, in part, from various government official publications, such as National Bureau of Statistics of China, neither our Group, our Directors, the Selling Shareholder, the Joint Sponsors nor any of the parties involved in the Share Offer have independently verified, or make any representation as to, the accuracy of such information and statistics. There is no assurance 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.

Forward-looking statements contained in this prospectus may not materialise

Included in this prospectus are various forward-looking statements which can be identified by the use of forward-looking terminology such as “may”, “will”, “expect”, “believe” and other similar words. We have made forward-looking statements with respect to, among other things, our Group’s future business strategies and the environment in which our Group will operate in the future. The actual performance of our Group may be materially different from the future performance expressed or implied by such forward-looking statements.

Subject to the requirements of the Listing Rules, we do not intend to publicly update or revise any forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. Because of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus may not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information.

Prospective investors should not place any reliance on any information contained in the press coverage regarding our Group and the Share Offer

Prior to the publication of this prospectus, there has been press coverage in Hong Kong Economic Journal on 25 August 2007 regarding our Group and the Share Offer containing certain financial information, financial projections and other information referring to our Group that is not set out in this prospectus. We wish to emphasise to prospective investors that neither our Company, our Directors, the Selling Shareholder, any of the Joint Sponsors, any of the parties involved in the Share Offer (collectively, the “**Relevant Parties**”) nor any of the Underwriters has authorised the disclosure of any such information in the press, and neither such press coverage, nor any repetition, elaboration or derivative work was prepared by, sourced from, or authorised by our Group, the Selling Shareholder, any of the Professional Parties or any of the Underwriters. Neither our Company, the Selling Shareholder, any of the Relevant Parties nor any of the Underwriters accept any responsibility for any such press coverage or the accuracy or completeness of any such information. Our Group makes no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is not contained in this prospectus or is inconsistent or conflicts with the information contained in this prospectus, we disclaim any responsibility and liability whatsoever in connection therewith or resulting therefrom. Accordingly, prospective investors should not rely on any such information in making decision as to whether to subscribe for the Offer Shares. Prospective investors should rely only on the information contained in this prospectus.

WAIVER FROM STRICT COMPLIANCE WITH RULE 8.12 OF THE LISTING RULES

An application has been submitted to the Stock Exchange for a waiver from strict compliance with Rule 8.12 of the Listing Rules which requires a new applicant applying for primary listing on the Main Board to have sufficient management presence in Hong Kong. This will normally mean that at least two executive directors must be ordinarily resident in Hong Kong.

Our business is principally carried out in the PRC. None of our business is located, conducted or managed in Hong Kong. Given that all our executive Directors are ordinarily resident in the PRC, we would need to appoint two additional executive Directors or relocate at least two executive Directors to Hong Kong in order to comply with the requirements under Rule 8.12 of the Listing Rules. In any of these events, it would result in a difficult situation to us and it would not be commercially feasible for us to implement such arrangement.

In this regard, the Stock Exchange has granted a waiver to our Company from strict compliance with the requirements under Rule 8.12 of the Listing Rules. In this respect, our Company has appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules who will act as the principal channel of communication with the Stock Exchange. The two authorised representatives appointed are Mr. Zhu and Mr. Au-Yeung Kwong Wah, with the latter being a resident in Hong Kong and our company secretary and the qualified accountant of our Company. Each of the authorised representatives of our Company has confirmed that he will be available to meet with the Stock Exchange in Hong Kong within a reasonable time upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and electronic means. Each of the two authorised representatives will be authorised to communicate on behalf of our Company with the Stock Exchange.

In order to further enhance the communication between the Stock Exchange, our authorised representatives and our Directors, we will implement the policies that:

- each executive Director will provide his/her office phone number, mobile phone number, residential phone number, fax number and e-mail address (if applicable) to the authorised representatives and his/her respective alternate. Each executive Director possesses valid travel documents to visit Hong Kong and will be able to meet with the relevant members of the Stock Exchange within a reasonable period of time if required;

- in the event that an executive Director expects to travel and be out of office, he/she will provide the phone number of the place of his/her accommodation to the authorised representatives and his/her respective alternate; and

- all our executive Directors will provide their office phone numbers, mobile phone numbers, residential phone numbers, fax numbers and e-mail addresses (if applicable) to the Stock Exchange.

In addition, we will appoint, before the Listing Date, ICEA 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 financial year ending 31 December 2008.

Furthermore, we shall also appoint other professional advisers (including legal advisers and accountants) after the Listing to assist us in dealing with any questions which may be raised by the Stock Exchange and to ensure that there will be efficient communication with the Stock Exchange.

We will maintain a principal place of business in Hong Kong at Room 723, Nan Fung Commercial Centre, 19 Lam Lok Street, Kowloon Bay, Hong Kong.

WAIVER FROM STRICT COMPLIANCE WITH CHAPTER 14A OF THE LISTING RULES

Our Group has entered into certain transactions, which would constitute non-exempt continuing connected transactions under the Listing Rules after the Listing. We have applied to the Stock Exchange for waiver from strict compliance with the relevant announcement requirements set out in Chapter 14A of the Listing Rules for such continuing connected transactions. Further details of such waiver are set out in the section headed "Connected transactions" in 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. Our Directors collectively and individually accept full responsibility for the accuracy of the information in this prospectus and confirm, having made all reasonable enquiries, that, to the best of their knowledge and belief 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 related Application Forms. So far as the Share Offer 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 Selling Shareholder, the Joint Sponsors, the Lead Manager, the Underwriters, any of their respective directors or any other parties involved in the Share Offer.

DETERMINATION OF THE FINAL OFFER PRICE

The Offer Price is expected to be determined by agreement among the Global Coordinator (on behalf of the Underwriters) and us (for ourselves and on behalf of the Selling Shareholder) on the Price Determination Date which is expected to be on or around Thursday, 20 September 2007 and in any event not later than Thursday, 27 September 2007. **If, for whatever reason, the Global Coordinator (on behalf of the Underwriters) and we (for ourselves and on behalf of the Selling Shareholder) are unable to agree on the final Offer Price, the Share Offer (including the Hong Kong Public Offer) will not proceed and will lapse.**

UNDERWRITING

This prospectus is published solely in connection with the Share Offer. The Share Offer comprises the International Placing and the Hong Kong Public Offer subject, in each case, to reallocation described in the section headed "Structure and conditions of the Share Offer" in this prospectus. The number of the Offer Shares is subject to the Over-allotment Option.

The Listing is jointly sponsored by the Joint Sponsors and the Share Offer is lead managed by the Lead Manager. Subject to the terms of the Hong Kong Public Offer Underwriting Agreement, the Hong Kong Public Offer Shares are fully underwritten by the Hong Kong Public Offer Underwriters. Pursuant to the International Placing Underwriting Agreement, the International Placing Shares are expected to be fully underwritten by the International Placing Underwriters. Particulars of the Underwriters and the underwriting arrangements are set forth in the section headed "Underwriting" in this prospectus.

RESTRICTIONS ON OFFER OF THE OFFER SHARES

Save as mentioned below, no action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus and the related Application Forms in any jurisdiction other than Hong Kong. The distribution of this prospectus and the related Application Forms and the offering or sale of the Offer Shares in certain jurisdictions is restricted by law. Accordingly, and without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation, nor is it calculated to invite or solicit offers in any jurisdiction or in any circumstances in which such 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 Offer Shares will be required to confirm, and is deemed by his acquisition of the Offer Shares to have confirmed, that he is aware of the restriction on offers of the Offer Shares described in this prospectus and the Application Forms and that he is not acquiring, and has not been offered any Offer Shares in circumstances that contravene any such restrictions.

The following information is provided for guidance only. 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 and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

United States

The Offer Shares have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") or under any securities regulatory authority of any state of the U.S. and may not be offered, sold, pledged or transferred within the U.S., or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act), except pursuant to an effective registration statement or in accordance with an applicable exemption from the registration requirements of the Securities Act and such other laws. The Offer Shares have not been approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission in the U.S. or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Share Offer or the accuracy or adequacy of this prospectus or the prospectus relating to the International Placing. Any representation to the contrary is a criminal offence in the U.S.

United Kingdom

This prospectus is not an approved prospectus for the purposes of the UK Prospectus Rules, as implemented under the EU Prospectus Directive (2003/71/EC), and has not been approved under section 21 of the Financial Services and Markets Act 2000 (as amended) (the "**FSMA**") by a person authorised under FSMA. The financial promotions contained in this prospectus are directed at, and this prospectus is only being distributed to, (1) persons who receive this prospectus outside of the United Kingdom, and (2) persons in the United Kingdom who fall within the exemptions under articles 19(5) (investment professionals) and 49 (high net worth companies, unincorporated associations, etc.) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons together being referred to as "**Relevant Persons**"). This prospectus must not be acted upon or relied upon by any person who is not a Relevant Person. This prospectus is confidential and is provided to recipients on a personal basis and must not be transferred or assigned to persons who are not Relevant Persons. The transmission of this prospectus to any person other than Relevant Persons in the United Kingdom is unauthorised and may contravene FSMA and other United Kingdom securities laws and regulations. Any investment or investment activity to which this prospectus relates is available only to Relevant Persons and will be engaged in only with Relevant Persons.

PRC

This prospectus may not be circulated or distributed in the PRC and other Offer Shares may not be offered or sold, directly or indirectly or offered or sold to any person for re-offering or resale, directly or indirectly, to any resident of the PRC except pursuant to applicable laws and regulations of the PRC.

Singapore

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Offer Shares may not be circulated or distributed, nor may the Offer Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"), (ii) to a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Offer Shares are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interests (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Offer Shares pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than 200,000 Singapore dollars (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;

(2) where no consideration is or will be given for the transfer; or

(3) where the transfer is by operation of law.

Cayman Islands

No offer of the Offer Shares may be made to the public in the Cayman Islands.

Each person acquiring Offer Shares in the Share Offer will be required to confirm, or be deemed by its acquisition of Offer Shares to have confirmed, that it is aware of the restrictions on offers and sales of the Offer Shares described in this prospectus.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in the Shares in issue and to be issued pursuant to the Capitalisation Issue and the Share Offer 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.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Further details of the structure and conditions of the Share Offer, including details of the Over-allotment Option, are set forth under the section headed "Structure and conditions of the Share Offer" 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 the Hong Kong Public Offer Shares" in this prospectus and in the related Application Forms.

STAMP DUTY

Dealings in our Shares registered in our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. Our Company's principal register of members will be maintained by our Company's principal share registrar in the Cayman Islands.

Our Shares registered on our Company's Hong Kong branch register of members constitute Hong Kong property.

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. We, the Selling Shareholder, the Global Coordinator, the Lead Manager, the Joint Sponsors, the Underwriters, any of their respective directors or other parties involved in the Share Offer 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.

DIRECTORS

Executive Directors

Name	Address	Nationality
Mr. ZHU Yu Guo (朱玉國)	Flat 102, 1st Floor, Block 2 No. 9 Changxing Road Chang Shan Town Zouping County Shandong Province The PRC	Chinese
Mr. ZHU Mo Qun (朱墨群)	Zhen Zhi Chang Shan Town Zouping County Shandong Province The PRC	Chinese
Mr. SUN Zhen Shui (孫振水)	Flat 201, 2nd Floor, Block 1 No. 9 Changxing Road Chang Shan Town Zouping County Shandong Province The PRC	Chinese

Non-executive Director

Name	Address	Nationality
Ms. SUN Rui Fang (孫瑞芳)	Flat 102, 1st Floor, Block 2 No. 9 Changxing Road Chang Shan Town Zouping County Shandong Province The PRC	Chinese

Independent non-executive Directors

Name	Address	Nationality
Mr. ZHAO Wei (趙偉)	No. 1402, Unit 8, Building 3 Yuetanbeixiao Street Xicheng District Beijing The PRC	Chinese
Mr. WANG Lu (王魯)	No. 30 Qingquan Road Laishan District Yantai City Shandong Province The PRC	Chinese
Mr. KWONG Kwan Tong (鄺焜堂)	Flat B, 28/F, Tower 2 Grandview Garden 18 Bridges Street Central Hong Kong	Chinese

PARTIES INVOLVED IN THE SHARE OFFER

Global Coordinator and Sole Bookrunner	ICEA Capital Limited 26th Floor, ICBC Tower 3 Garden Road Central Hong Kong
Lead Manager	ICEA Securities Limited 26th Floor, ICBC Tower 3 Garden Road Central Hong Kong
Joint Sponsors	ICEA Capital Limited 26th Floor, ICBC Tower 3 Garden Road Central Hong Kong
	Access Capital Limited Suite 606, 6th Floor Bank of America Tower 12 Harcourt Road Central Hong Kong
Hong Kong Public Offer Underwriters	ICEA Securities Limited 26th Floor, ICBC Tower 3 Garden Road Central Hong Kong
	Access Capital Limited Suite 606, 6th Floor Bank of America Tower 12 Harcourt Road Central Hong Kong
	UOB Asia (Hong Kong) Limited Suite 601, 6th Floor, Aon China Building 29 Queen’s Road Central Hong Kong
	Kim Eng Securities (Hong Kong) Ltd. Level 30, Three Pacific Place 1 Queen’s Road East Hong Kong

Mega Capital (Asia) Company Limited
Units 2213-2214, 22/F.
Cosco Tower
183 Queen's Road Central
Hong Kong

Taifook Securities Company Limited
25/F, New World Tower
16-18 Queen's Road Central
Hong Kong

First Shanghai Securities Limited
19/F., Wing On House
71 Des Voeux Road Central
Hong Kong

Legal advisers to the Company

As to Hong Kong law
Chiu & Partners
41st Floor
Jardine House
1 Connaught Place
Hong Kong

As to PRC law
Jingtian & Gongcheng
15th Floor, The Union Plaza
20 Chaoyangmenwai Dajie
Beijing
The PRC

As to Cayman Islands law
Conyers Dill & Pearman
Cricket Square
Hutchins Drive
P.O Box 2681
Grand Cayman KY1-1111
Cayman Islands

Legal advisers to the Joint Sponsors and the Underwriters

As to Hong Kong law
Kirkpatrick & Lockhart Preston Gates Ellis
35th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

Auditors and reporting accountants	KPMG *Certified Public Accountants* 8th Floor Prince's Building 10 Chater Road Central Hong Kong
Property valuer	LCH (Asia-Pacific) Surveyors Limited 17th Floor, Champion Building Nos. 287-291 Des Voeux Road Central Hong Kong
Receiving bankers of the Hong Kong Public Offer	Industrial and Commercial Bank of China (Asia) Limited 33/F, ICBC Tower 3 Garden Road Central Hong Kong The Bank of East Asia, Limited 10 Des Voeux Road Central Hong Kong Bank of Communications Co., Ltd. Hong Kong Branch 20 Pedder Street Central Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head office and principal place of business in the PRC	San Li He Chang Shan Town Zouping County Shandong Province The PRC
Principal place of business in Hong Kong	Room 723, Nan Fung Commercial Centre 19 Lam Lok Street Kowloon Bay Hong Kong
Company's website address	www.qxzy.com.cn (information on the website does not form part of this prospectus)
Company Secretary	Mr. AU-YEUNG Kwong Wah *CPA (Hong Kong), CPA (Australia)*
Qualified Accountant	Mr. AU-YEUNG Kwong Wah *CPA (Hong Kong), CPA (Australia)*
Audit committee	Mr. KWONG Kwan Tong *(Chairman)* Mr. ZHAO Wei Mr. WANG Lu
Remuneration committee	Mr. ZHU Yu Guo *(Chairman)* Mr. ZHAO Wei Mr. WANG Lu Mr. KWONG Kwan Tong
Nomination committee	Mr. ZHU Mo Qun *(Chairman)* Mr. ZHAO Wei Mr. WANG Lu Mr. KWONG Kwan Tong

Authorised representatives	Mr. ZHU Yu Guo Flat 102, 1st Floor, Block 2 No. 9 Changxing Road Chang Shan Town Zouping County Shandong Province The PRC
	Mr. AU-YEUNG Kwong Wah Flat A, 25/F Block 14 8 Sceneway Road Sceneway Garden Lam Tin Kowloon
Compliance advisor	ICEA Capital Limited 26th Floor, ICBC Tower 3 Garden Road Central Hong Kong
Principal bankers	Agricultural Bank of China, Zouping Sub-branch No. 132, Daixi Third Road Zouping County Shandong Province The PRC
	Agricultural Bank of China, Changshan Sub-branch No. 56, Yao Nan Road Changshan Town Zouping County Shandong Province The PRC
	Industrial and Commercial Bank of China, Zouping Sub-branch No. 183, Huangshan Third Road Zouping County Shandong Province The PRC
	China Construction Bank, Zouping Sub-branch No. 511, Huang Shan Third Road Zouping County Shandong Province The PRC

CORPORATE INFORMATION

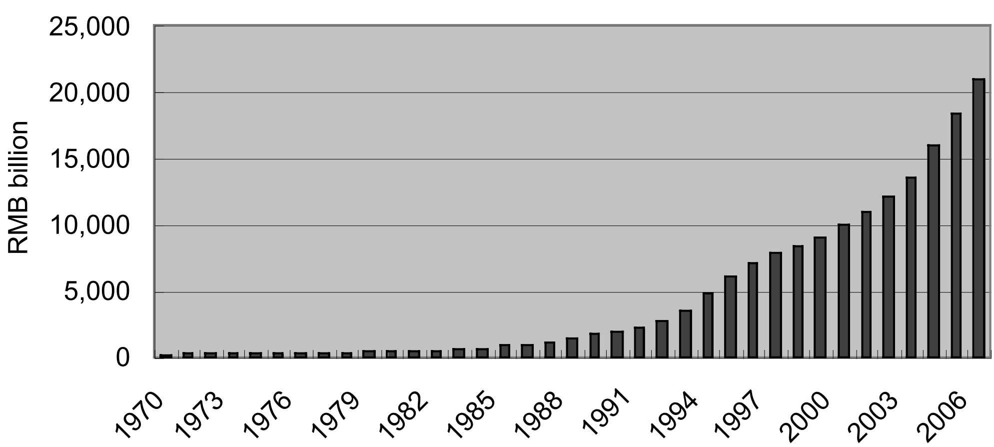
Principal share registrar and transfer office	Butterfield Fund Services (Cayman) Limited Butterfield House 68 Fort Street George Town Grand Cayman KY1-1107 Cayman Islands
Hong Kong branch share registrar and transfer office	Tricor Investor Services Limited 26/F, Tesbury Centre 28 Queen's Road East Hong Kong

This section contains information and statistics relating to the PRC economy and the industry in which we operate. We have derived such information and data partly from publicly available government official publications. The information in such government official sources may not be consistent with the information compiled elsewhere. None of us, the Selling Shareholder, the Joint Sponsors, the Underwriters or any other parties involved in the Share Offer has independently verified such information or made no representation as to the correctness or accuracy of such information and accordingly such information should not be unduly relied on.

The PRC economy

The PRC economy has grown significantly since the PRC government introduced economic reforms in the late 1970s. With the PRC's accession to the WTO in 2001, its economic reforms have accelerated. According to the National Bureau of Statistics of China, from 2001 to 2006, the PRC's GDP increased to approximately RMB20,941 billion in 2006 at a CAGR of approximately 13.8%. In 2006, the PRC's GDP increased by approximately 10.7% as compared to that in 2005.

The PRC nominal GDP

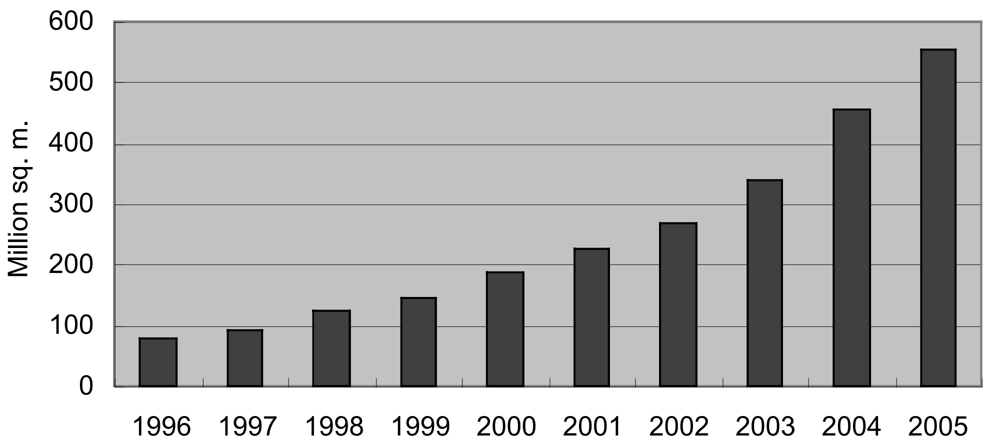


Source: National Bureau of Statistics of China

The laminated board market in the PRC

The rapid development of the property market in the PRC is expected to fuel the growth in the demand for laminated board and hence decorative base paper, an important raw material used in the making of laminated board. Due to strong personal disposable income growth and rising living standard, the demand for housing in terms of quality and floor space will continue to rise and grow at a faster pace than that of personal income. According to CEIC Data Company Limited ("CEIC"), a comprehensive data provider incorporated in Hong Kong and an Independent Third Party, total floor space sold in the PRC had grown at a CAGR of approximately 21.5% during the period from 1996 to 2005.

Total floor area sold in the PRC

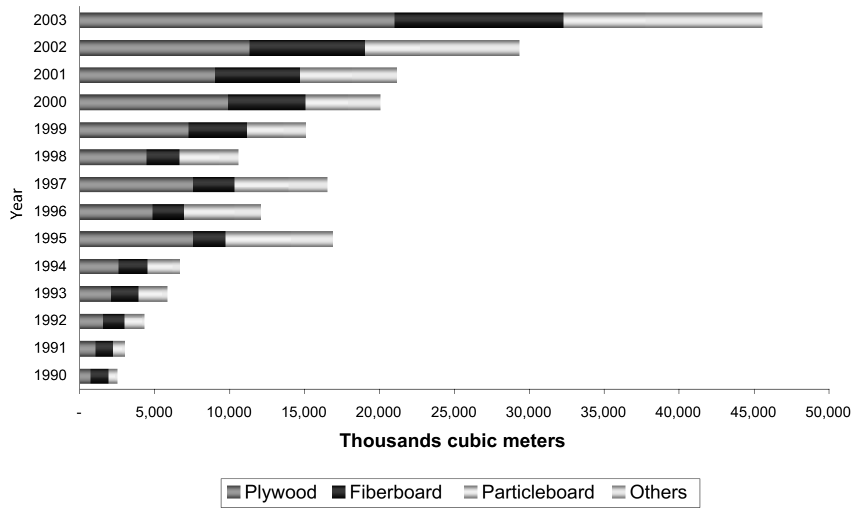


Source: CEIC

Based on the assumed GDP growth in the PRC at an annual growth rate of at least 7% for the next 20 years and coupled with the expected continuing urbanisation (projected population growth of city area from 520 million to 750-800 million), demand for housing is expected to grow even faster. As with other countries, the property market is expected to become one of the major growth drivers of the PRC's economic growth in the next 20 years. On this basis, demand for decorative construction materials and office and household furnitures will rise and in turn fuel the growth of laminated board industry. The laminated board industry consumes a significant amount of decorative base paper products as evidenced in other developed industries. According to 人造板工業"十一五"規劃分析報告 (The Outline for Development of the Laminated Board Industry under the Eleventh Five Year Plan*) issued by 國家林業局(The State Forestry Administration of the PRC*), the annual production capacity of laminated board is expected to reach 62 million cubic meters at the end of the five year period ending 2010.

National annual laminated board production was only 625,000 cubic meters in 1978 and 2.45 million cubic meters in 1990. Since the 1990s, the PRC's economy has started growing rapidly and the booming construction and property industries have propelled the demand for decorative construction materials and office and household furnitures and led to the development of the laminated board industry in the PRC. In 2003, the annual production capacity of laminated board reached 45.53 million cubic meters and, since then, the PRC has become the world's largest laminated board production country.

Production volume of laminated board in the PRC



Source: China Paper Association

The PRC's laminated board production and consumption have been showing an uptrend over the years as well. The volume of import of laminated board (excluding plywood) has exceeded that of export. The production of laminated board in the PRC is slightly lower than its consumption in terms of volume. The growth of laminated board consumption is largely attributable to the growth of population and increase in per capita consumption power in the PRC. Given the increase of personal spending power in the PRC, change of consumption concept and the conservation of natural forest, increasing demand for laminated board is expected to be driven by furniture and decoration industries. On the back of strong GDP growth, in view of the central government's plans for further development in, in particular, the western region of the PRC and the industrial centre of the north eastern part of China, demand for laminated board in the PRC is expected to increase further in future.

The PRC paper manufacturing industry

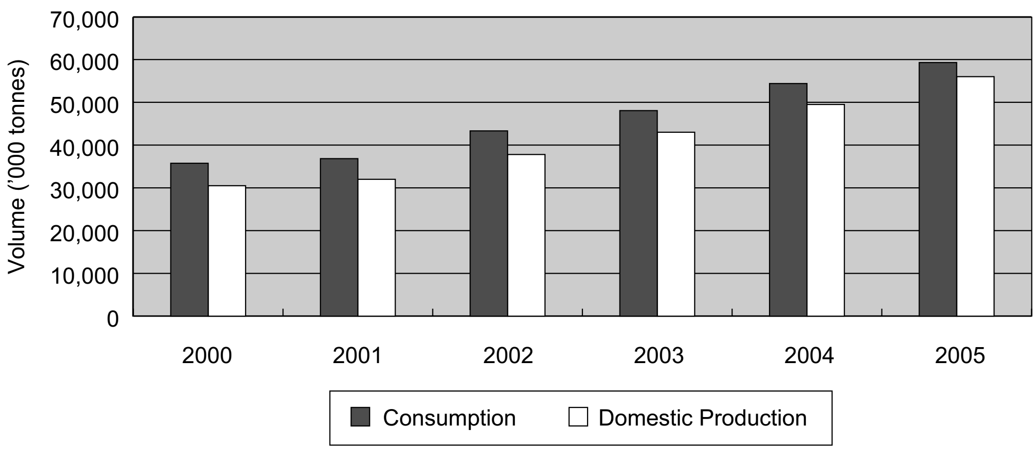
The PRC paper manufacturing industry, including the decorative base paper industry and printing paper industry, had grown significantly from 2000 to 2005 with a CAGR of approximately 12.9% in terms of production volume, according to China Paper Association. Currently, the PRC is the world's second largest production and consumption country of paper products in the world.

With the growing economy, the demand for paper products is expected to continue to increase in the PRC. However, the PRC's paper manufacturers are facing a number of issues, including shortage of domestically produced raw materials and stringent environmental protection measures imposed by the PRC government.

The growth in demand for paper products in the PRC has primarily been driven by the strong economic growth as reflected by the increase in consumer spending, investment, industrial output and export. According to China Paper Association, paper consumption volume in the PRC has grown at a CAGR of approximately 10.7% from 2000 to 2005. In light of this remarkable growth in consumption, the PRC's domestic production volume of paper products has grown even faster at a CAGR of approximately 12.9% from 2000 to 2005.

The following chart sets forth the PRC's historical consumption and production of paper products from 2000 to 2005 in terms of volume:

Consumption/production volume of paper products in the PRC

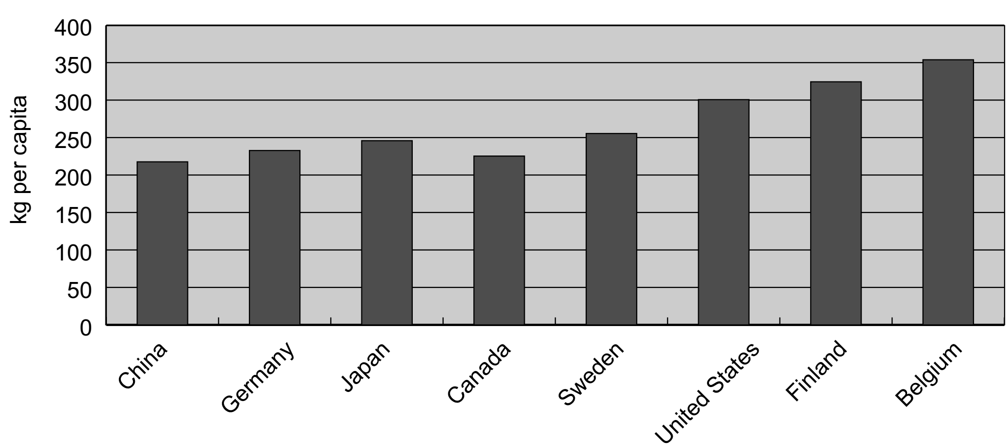


Source: China Paper Association

From 2000 to 2005, the consumption of paper products in the PRC has exceeded that of the domestic production in terms of volume, resulting in the volume of import of paper products exceeding that of export so as to meet the shortfall in the domestic supply of paper products in the PRC.

Although the consumption of paper products in the PRC has grown remarkably in recent years, the PRC's per capita paper product consumption remained substantially lower than those developed countries such as Belgium, the United States, Finland, and Sweden.

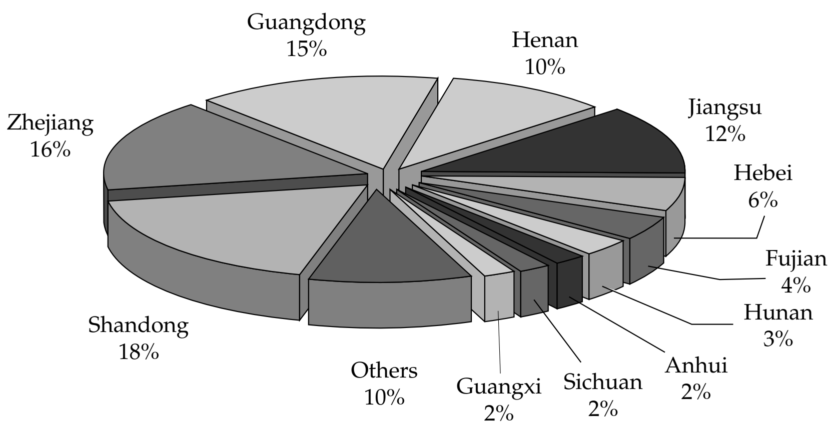
Per capita paper product consumption in 2005



Source: China Paper Association

Moreover, according to China Paper Association, major paper products manufacturers in the PRC are primarily located in the eastern and southern coastal provinces. In 2006, total paper products production volume in the eastern provinces represented approximately 75.1% of total paper products production volume in the PRC. In 2006, Shandong Province was ranked (i) the first in terms of production volume and sales revenue; and (ii) the third in terms of number of paper products manufacturers amongst other provinces in the PRC. The following graph sets forth a geographic breakdown of paper products production in the PRC in 2006:

Geographic breakdown of paper products production to the PRC in 2006

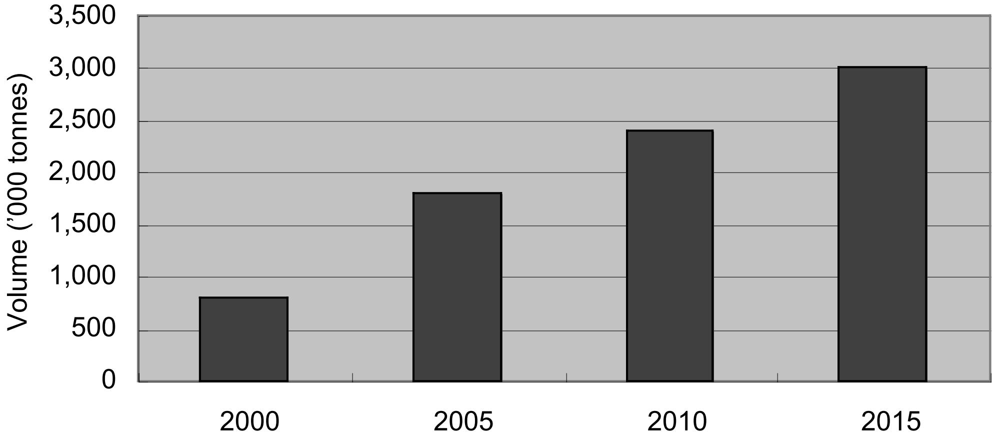


Source: China Paper Association

Specialty papers

According to China Paper Association, the PRC's annual domestic demand for specialty papers grew at a CAGR of approximately 17.6% from 2000 to 2005, which is higher than the CAGR of approximately 10.6% for demand of all paper products in the PRC during the same period. China Paper Association estimates the annual domestic demand for specialty papers will grow by approximately 33.3% to 2.4 million tonnes in 2010 and will further increase by approximately 25% to 3.0 million tonnes in 2015.

Demand for specialty papers



Source: China Paper Association

The demand for decorative base paper

Decorative base paper (a type of specialty papers) is used to furnish the surface of interior decorative materials, such as laminated board, which has wide application in interior decoration of buildings, transportation vehicles, processed products such as fortified wooden floorboard, furniture and composite office wares as well as interior decoration of hotels, home and workplace.

According to China Paper Association, based on the development of the laminated board industry and high correlation between laminated board production and decorative base paper consumption, it is expected that there is enormous growth potential for decorative base paper industry in the PRC. It is expected that there will be a stable growth in domestic consumption, and a continuous expansion in production capacity and production volume of the decorative base paper products in the PRC in future.

In general, decorative base paper, being an intermediate product, is commonly used for further processing into other decorative materials and they must meet the high standards required by other manufacturers of decorative materials, in particular, with respect to appearance. In order to achieve optimal printability, the decorative base paper products must possess good formation, smoothness and dimensional stability. As such, the production of decorative base paper requires very specific technological know-how.

According to the principal product classification adopted by China Paper Association, high-class decorative base paper products comprise those with higher water absorption level, flame-resistance and printability and used as surface layer of decorative materials, whereas regular decorative base paper products include those with much lower water absorption level, flame-resistance and printability and usually being used as central or base layer of decorative materials. However, according to China Paper Association, as there is no generally accepted product classification methodology in the specialty paper industry in the PRC, the above classification between high-class and regular decorative base paper products is for comparative illustration purpose only. According to China Paper Association, our decorative base paper products, including both premium and ordinary decorative base paper products which are categorised in accordance with their own technical attributes, are generally classified as high-class decorative base paper products in the industry based on the general classification adopted by China Paper Association since all of our products are capable of being used as the surface decorative layer when processed into laminated boards.

According to a survey conducted by China Paper Association in 2005, the annual demand for decorative base paper products from the PRC's decoration industry amounted to approximately 1.7 million tonnes, of which high-class decorative base paper products (both coloured and white) accounted for approximately 900,000 tonnes and regular decorative base paper products (both coloured and white) accounted for approximately 800,000 tonnes. Currently, only a few domestic paper manufacturers in the PRC are capable of manufacturing high-class decorative base paper due to the sophisticated expertise required for its production. Annual production of high-class decorative base paper products by domestic manufacturers in 2005 was only 300,000 tonnes and the rest of the demand for such products of up to 600,000 tonnes was satisfied by imports from overseas.

The decorative base paper sector, in particular, high-class decorative base paper products, in the PRC is still in its infant development stage and the existing domestic supply is below the market demand, which entails huge potential and promising prospect for competitive market players in this sector. Based on the above forecast of the development of laminated board industry and demand for decorative base paper products, it is expected to see a 20% annual growth rate in the demand for decorative base paper products in the PRC for the next 10 years.

Our Directors believe that product price does not hinge solely on production growth but is also subject to other factors, such as demand, production costs and products imported from overseas. In recent years, the price of regular decorative base paper products has remained stable at RMB7,500-8,000 per tonne, according to China Paper Association. Insufficient supply of high-class decorative base paper products in the PRC market drove the price range of high-class decorative base paper products up to RMB15,000–18,000 per tonne in 2006 from RMB11,000–16,500 per tonne in 2005. As a result of rapid growth of economy and higher living standard in the PRC, it is expected that the demand and production of the high-class decorative base paper products will continue to grow for the next 5 to 10 years.

Impact of recent credit tightening measures in the PRC

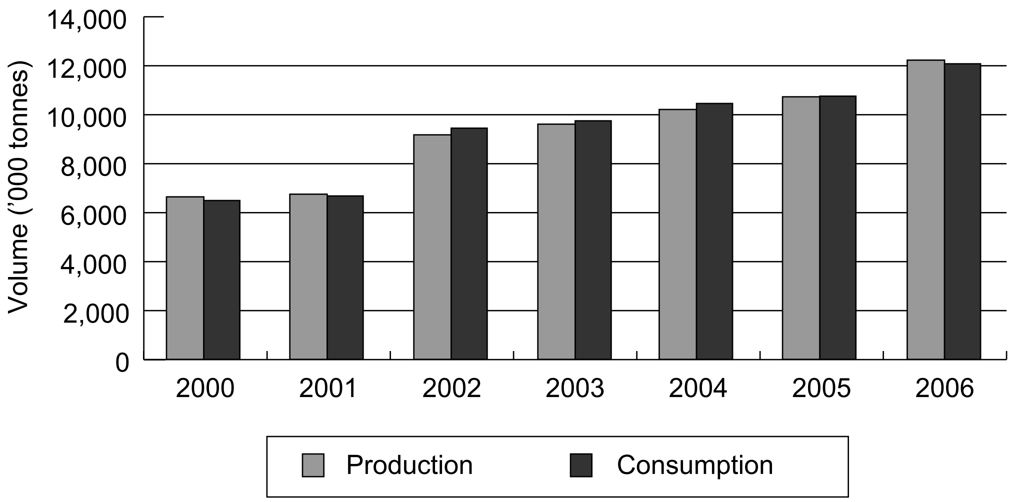
Our Directors are aware that the PRC government has recently adopted various credit tightening measures with a view to cooling down the domestic property market. In view of the wide ultimate application of decorative base paper products (details of which can be referred to in the paragraph headed “Products” in the section headed “Business” in this prospectus), our Directors believe that the growth of the domestic property market only serves as one of the growth factors for our decorative base paper products and the growth of which will be driven by the growth of overall economy in the PRC. In addition, in view of the shortage in the domestic supply of decorative base paper products in the PRC, our Directors consider that the recent credit tightening measures in the PRC to cool down the domestic property market will not have any significant impact on our operation.

Printing and writing paper

According to China Paper Association, production volume and consumption volume of printing and writing paper in the PRC were approximately 12.2 million tonnes and 12.1 million tonnes, respectively, representing approximately 18.8% and 18.3% of total paper products production and consumption volume in the PRC, respectively. Production volume of printing and writing paper in 2006 has increased by approximately 14.0% from 2005, which was lower than the growth rate of approximately 16.1% of the production volume of the overall paper products market; whereas, consumption volume of printing and writing paper in 2006 has increased by approximately 12.2% from 2005, which was higher than the growth rate of approximately 11.3% of the consumption volume of the overall paper products market.

Compared with that in 2000, production and consumption volume of printing and writing paper in the PRC in 2006 has increased by approximately 85.0% and 86.0%, respectively, represented a CAGR of approximately 10.8% and 10.9%, respectively, from 2000 to 2006.

Production/consumption volume of printing and writing paper in the PRC



Source: China Paper Association

Moreover, paper products which recorded the highest export growth in 2006 include newspaper, printing and writing paper, coated paper, corrugated paper board and white paper board. Export of printing and writing paper in 2006 has been increased by approximately 58.8% from 2005, representing approximately 15.8% of total export of paper products in 2006.

Raw materials

The principal raw materials used for producing decorative base paper products are wood pulp and titanium dioxide powder. Due to slow development in domestic wood pulp production in the PRC, demand for imported wood pulp will far exceed the supply of domestically produced wood pulp in the next five years. It is expected that by 2010, domestic paper and paper board production volume will reach 76 million tonnes, while wood pulp required for their production will reach approximately 68.4 million tonnes, in which original wood pulp will account for approximately 17.8 million tonnes, representing approximately 26% of the raw material mix (comprising 17% for import), and non-wood pulp will account for approximately 12.3 million tonnes, representing approximately 18% of the raw material mix.

Due to scarcity of forest resources in the PRC, the proportion of domestic wood pulp can hardly increase in the near future. The increase of wood pulp in the raw material mix would still rely largely on import.

According to China Paper Association, imported wood pulp represented approximately 34.6%, 38.5% and 40.8% of the total consumption of wood pulp in 2003, 2004 and 2005, respectively. To the best knowledge and belief of our Directors, the average price of imported wood pulp increased by approximately 17.3% from approximately RMB5,200 per tonne in 2004 to approximately RMB6,100 per tonne in 2006.

Unlike wood pulp, decorative base paper manufacturers can source titanium dioxide powder in the domestic market to meet their production requirements. The supply of titanium dioxide powder has been stable in the last ten years and the average price of titanium dioxide in the PRC market were in the region between approximately RMB11,800 per tonne and approximately RMB12,900 per tonne during the three years ended 31 December 2006.

Competition

The overall paper manufacturing industry in the PRC, including the decorative base paper and printing and writing paper manufacturing industries, is characterised by a large number of manufacturers scattered around various territories of the PRC focusing on respective local markets. However, entry barriers would prove high for newcomers due to various factors, such as, intensive capital investment, stringent environmental protection regulations and constraints in raw material supplies (in particular, with respect to wood pulp).

According to the statistics collated by China Paper Association, our Group was ranked the largest manufacturer of decorative base paper products in the PRC in terms of actual annual production capacity in both 2005 and 2006. The following tables show the top five largest manufacturers of decorative base paper products in the PRC in terms of actual annual production capacity in both 2005 and 2006:

Year 2006

Ranking	**Manufacturer** *(note)*	**Actual annual production capacity** *(tonnes)*
1	Shandong Qunxing	128,000
2	A company	90,000
3	B company	53,000
4	C company	50,000
5	D company	41,000

Year 2005

Ranking	**Manufacturer** *(note)*	**Actual annual production capacity** *(tonnes)*
1	Shandong Qunxing	62,000
2	A company	56,000
3	B company	37,000
4	E company	32,000
5	D company	27,800

Note: To avoid any unnecessary legal dispute from the companies so named in the report and statistics provided by China Paper Association, their rankings are disclosed on an anonymous basis.

Regulatory framework in the paper manufacturing industry in the PRC

We have been advised by our legal advisers as to PRC law that there is no law or regulation in the PRC specifically regulates the production and sale of paper products in the PRC except those set forth below:

Government policies and regulations affecting the paper manufacturing industry in China

Historically, the paper manufacturing industry in China was characterised by a large number of small-scale, highly pollutive, low technology producers with minimal capacity for producing high-grade paper. To address concerns over environmental protection, the State Council issued 關於環境保護若干問題的決定(A Decision Regarding Several Issues Relating to Environmental Protection*) in August 1996 announcing clear and stringent rules and requirements to reduce industrial pollution. The paper manufacturing industry in China underwent consolidation in the past decade as a result of such decision requiring the shutdown of small scale paper mills with an annual production of less than 5,000 tonnes by 30 September 1996. In the few years following the issuance of such decision, a few thousand mills were estimated to have been ordered to close. In addition, other small scale paper mills closed because they were unable to compete with large scale paper manufacturers who were able to achieve economies of scale from mass production and procurement of raw materials at low cost, because they were unable to meet the applicable environmental standards and still remain competitive, or because they become less competitive for other reasons such as ability to produce high quality products. Furthermore, the expansion of urban areas made it more profitable for the paper mills to abandon their paper production operations and use their land for development of commercial or residential properties. The consolidation of the paper manufacturing industry in China as well as the increasing demand for high quality paper products attracted many foreign paper manufacturers to enter the paper manufacturing market in the PRC to operate large scale, technologically advanced and modern production facilities. Notwithstanding this consolidation, the paper manufacturing industry in China currently remains relatively fragmented.

For the past few years, the China's paper manufacturing industry has relied heavily on imports to meet its growing domestic and export demand. The PRC government has implemented a series of policies to deal with the short supply and promote capacity expansions in China's pulp and paper industry. As part of China's tenth Five-Year Plan during the implementation period from 2001 to 2005, the PRC government aims to increase domestic production of paper and paperboard by 40 million tonnes and pulp by 2.2 million tonnes according to the guidelines set by the China National Light Industry Council, an organisation approved by the State Council and responsible for the development and promotion of paper and pulp industry in China. A summary of the PRC government policies affecting China's paper manufacturing industry is set out below.

The PRC government promulgates 外商指導產業目錄(the Catalogue of Industry Guidelines*) for foreign investment industries from time to time to regulate foreign investment in certain industries in the PRC. In the past years, there have been several changes in the policies and regulations on foreign investment in paper manufacturing industry in the PRC.

On 20 June 1995, the former State Planning Commission, the former State Economic and Trade Commission and the former Ministry of Foreign Trade and Economic Cooperation jointly promulgated the Catalogue of Industry Guidelines, under which foreign investment in manufacture of commercial-grade paper pulp was encouraged, foreign investment in manufacture of rice paper was prohibited and foreign investment in other paper manufacturing projects was permitted.

On 31 December 1997, the former State Planning Commission, the former State Economic and Trade Commission and the former Ministry of Foreign Trade and Economic Cooperation jointly promulgated the Catalogue of Industry Guidelines, which took effect and superseded the previous Catalogue for the Guidance of Foreign Investment Industries on 1 January 1998. Pursuant to the Catalogue of Industry Guidelines, foreign investment in manufacture of paper pulp with an annual production capacity of over 170,000 tonnes of wood pulp and a related raw material base tonnes was encouraged, foreign investment in manufacture of paper and paper plate was restricted, foreign investment in manufacture of rice paper was prohibited and foreign investment in the other paper manufacturing projects was permitted.

On 11 March 2002, the former State Planning Commission, the former State Economic and Trade Commission and the former Ministry of Foreign Trade and Economic Cooperation jointly promulgated a revised Catalogue of Industry Guidelines, which took effect and superseded the previous Catalogue of Industry Guidelines on 31 December 1997. Under the new Catalogue of Industry Guidelines, foreign investment in (1) 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 production capacity of 100,000 tonnes or more, and raw materials forest bases (limited to joint ventures and co-operative ventures), or (2) production of high-grade papers and paperboards (excluding newsprint) was encouraged, foreign investment in manufacture of rice paper was prohibited and foreign investment in other paper manufacturing projects was permitted.

On 30 November 2004, the Ministry of Commerce and the National Development and Reform Commission of the PRC jointly promulgated the Catalogue of Industry Guidelines, which took effect and superseded the previous Catalogue of Industry Guidelines on 11 March 2002. As at the Latest Practicable Date, the Catalogue of Industry Guidelines was still in effect. Pursuant to the Catalogue of Industry Guidelines, foreign investment in (1) 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 (2) manufacture of high-grade papers and paperboards (only in the form of equity joint ventures and co-operative ventures) is encouraged, foreign investment in manufacture of rice paper is prohibited and foreign investment in other paper manufacturing projects is permitted.

Our Group is aware that the paper manufacturing industry has been constantly affected by the relevant national policies, including those mentioned above. At a time when the national policies so directly shape the national economy and indirectly the industrial development, our management from time to time pays heed to the latest development of or change in the national policies through various channels, such as China Paper Association since it was established as a national trade association and serves as a communication channel between the government and paper industry in the PRC to enhance the quality and economic performance of the paper industry of the PRC.

Influenced by the prevailing policy of the PRC in encouraging high-grade papers, it has, since our inception, been our strategies to focus on the improvement of our research and development capability and production technicality in manufacturing quality decorative base paper products.

In addition, we witnessed the tightening of national and local environmental protection laws and regulations and measures in the PRC in recent years. In view of the stringent environmental protection regulations in the PRC applicable to paper manufacturing industry, details of which are set out below, we take cautious approach in planning our production expansion to ensure that our capacity in treating wastewater is adequate for compliance with such regulations. From time to time, we endeavour to keep abreast of the development of and change in the national policies to not only shape our business strategies but also ensure that our operations are being carried out in compliance with such policies.

Environmental protection regulations applicable to paper manufacturing industry

In PRC, there are strict environmental protection regulations applicable to paper manufacturing industry. Each of the various paper manufacturing phases, including without limitation the construction of paper manufacturing projects, completion of the construction, daily operation and manufacture of paper, is governed by the respective environmental protection regulations.

(a) Environmental impact appraisal

On 29 November 1998, the State Council promulgated 建設項目環境保護管理條例(Ordinance of Environmental Management for the Construction Project*). On 28 October 2002 the Standing Committee approved 中華人民共和國環境影響評價法(Law of the People's Republic of China on Appraising of

Environment Impacts*) which became effective on 1 September 2003. According to the aforesaid laws, the PRC government has set up a system to appraise the environmental impact from construction projects, and classify and administer the environmental impact appraisals in accordance with the degree of the environmental impact. If the construction project may result in a material impact on the environment, an environmental impact report of appraising thoroughly the environmental impact which may happen is required; if the construction project may result in a slight impact on the environment, an environmental impact record of analysing or appraising the specific environmental impact which may happen is required; and if the construction project may result in very little impact on the environment, an environmental impact appraisal is not required but filing an environmental impact form is needed. Units responsible for the construction projects must submit the aforesaid environmental impact appraisal documents to the relevant administrative departments of environmental protection for examination and approval. If the units fail to submit the aforesaid environmental impact appraisal documents according to 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 construction projects shall not approve such projects and the construction units shall not commence the construction.

According to 建設項目環境保護分類管理名錄(Classified Directory for Environmental Management of Construction Projects*) and 建設項目環境影響評價文件分級審批規定(Provisions on the Classificatory Examination and Approval of EIA Documents of Construction Projects*) as promulgated by 中華人民共和國國家環境保護總局(The State Environmental Protection Administration ("**SEPA**") of the PRC*) on 13 October 2002 and 1 November 2002 respectively (both of which came into effect on 1 January 2003), an environmental impact report is required for all paper manufacturing projects (including manufacture of recycled paper). As for the paper manufacturing projects with annual production capacity of 100,000 tonnes or more, an environmental impact appraisal is required to be prepared and approved by SEPA.

In order to further regulate examination and approval of environmental impact appraisals of construction projects at various levels, the SEPA has promulgated 關於加強建設項目環境影響評價分級審批的通知(Notice of Strengthening Examination and Approval of Environmental Impact Appraisals of Construction Projects at Various Levels*) on 2 December 2004, according to 國務院關於投資體制改革的決定 (State Council's Decision to Reform Investment System*). Pursuant to the aforesaid notice, the environmental impact appraisals of the paper pulp projects with annual production capacity of 100,000 tonnes or more shall be approved by SEPA.

In compliance with applicable laws and regulations, we have prepared environmental impact statements and designed environmental protection facilities as an integral part of all of our Group's construction and expansion projects, and submitted such plans at the project proposal, feasibility study, design and commissioning stages to the relevant environmental protection authorities.

(b) Inspection and acceptance of environmental protection facilities

According to 污染源監測管理辦法(Measures on Pollution Sources Monitoring*) promulgated by on 2 November 1999, the enterprises carrying on construction projects with pollution sources must apply to the relevant environmental protection authorities which are responsible for approving such construction projects for inspection and acceptance of the completed construction projects or the completed environmental protection facilities. The aforesaid application shall be made before the construction projects or the environmental protection facilities are put into operation. The results of supervision done by the supervision institutions of environmental protection will form the basis of the aforesaid inspection and acceptance. Since paper manufacturing projects are regarded as construction projects with pollution sources, the aforesaid inspection and acceptance of environmental protection facilities is required on completion of paper manufacturing projects.

(c) 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, enterprises discharging any pollutants in their daily operation and manufacture shall observe the national discharge standards which are regulated by SEPA. In accordance with the aforesaid law, SEPA 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 enterprises discharge pollutants in their daily operations, they are required to observe the pollutants discharge standards as regulated by SEPA from time to time. On 20 March 1988, SEPA promulgated 水污染物排放許可證管理暫行辦法(Interim Measures on the Administration of Water Pollutants Discharge Permit*), which regulates that any units discharging pollutants into water directly or indirectly shall apply to the local environmental protection authorities for 排放許可證(Discharge Permit*) or 臨時排放許可證(Provisional Discharge Permit*), based on such units' report and registration of discharge according to laws. 排放許可證(Discharge Permit*) is issued to units which discharge pollutants within the regulated discharge amount, and 臨時排放許可證(Provisional Discharge Permit*) is issued to units which discharge pollutants in excess of the regulated discharge amount but will decrease the discharge amount in a certain time limit. Since paper manufacturing enterprises discharge pollutants to the water in the course of production, they are required to apply for 排放許可證(Discharge Permit*) or 臨時排放許可證(the Provisional Discharge Permit*) as required by the aforesaid regulation.

Under 污染源監測管理辦法(Measures on Pollution Sources Monitoring*), 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 enterprises discharge sewage in the course of production, they are subject to the aforesaid supervision of pollution sources.

Regulations in relation to water-drawing during the course of paper manufacturing

According to 中華人民共和國水法(Water Law of the PRC*) which was promulgated by the Standing Committee on 29 August 2002 and took effect on 1 October 2002, any units and persons drawing water from rivers, lakes or underground shall apply to the water administrative departments or the drainage management departments for 取水許可證(Water-drawing Permit*) ("**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 State Council is responsible for stipulating the detailed rules regarding the implementation of the water-drawing permit system and the collection of water resource management fees. Since paper manufacturing 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 law.

As stated in the Regulation on the Administration of 取水許可和水資源費增收管理條例(Licence for Water-Drawing and the Levy of Water Resources Fees*) which was promulgated by the State Council on 21 February 2006 and took effect on 15 April 2006, the main procedures of applying for the Water-drawing Permit are: (i) when construction units need to apply or re-apply for the Water-drawing Permit for their construction projects of new construction, re-construction or expansion, they shall submit a preliminary application for the Water-drawing Permit to the water administrative departments at county level or above before obtaining approval on the construction projects, in order to obtain a preliminary approval on such application; and (ii) after the construction units have obtained an approval on their construction projects, they shall make a formal application for the Water-drawing Permit to the water administrative departments at county level or above.

OVERVIEW

We are principally engaged in the manufacture and sale of a kind of specialty paper products, decorative base paper products, and printing paper product. According to China Paper Association, we are one of the few domestic paper manufacturers in the PRC who are capable of manufacturing high-class decorative base paper products, and was ranked by China Paper Association as the largest decorative base paper manufacturer in terms of the actual annual production capacity in the PRC in 2005 and 2006.

By leveraging our production capacity expansion and the technical know-how in the manufacture of high-class decorative base paper products, we achieved encouraging growth in our business during the Track Record Period. For each of the three years ended 31 December 2006, our Group's turnover was approximately RMB467.2 million, RMB696.4 million and RMB950.8 million, respectively, representing a CAGR of approximately 42.7%, and our Group's profit after taxation for the year was approximately RMB44.4 million, RMB68.3 million and RMB93.9 million, respectively, representing a CAGR of approximately 45.4%. Moreover, our turnover and profit after taxation for the four months ended 30 April 2007 were approximately RMB338.0 million and RMB67.6 million, respectively, representing a growth of approximately 30.0% and 162.0%, respectively, when compared to those for the four months ended 30 April 2006.

Due to strong personal disposable income growth and rising living standard in the PRC, it is expected that the demand for housing in terms of quality and floor space, and household wares, such as furniture, will continue to rise, which will in turn fuel the growth in the demand for decorative construction materials, including laminated board. According to China Paper Association, based on the development of the laminated board industry in the PRC and the high correlation between laminated board production and decorative base paper consumption, it is expected that there will be enormous growth potential at an annual growth rate of 20% in the demand for decorative base paper industry in the PRC for the next 10 years.

Our decorative base paper products, being intermediate products, are commonly used as the decorative layer to furnish the surface of laminated board, a decorative material which has wide applications in interior decoration of buildings, transportation vehicles, processed products such as fortified wooden floorboard, furniture and composite office and household wares. To the best knowledge and belief of our Directors, the majority of our customers for decorative base paper products are processing factories, most of which are private enterprises and are principally engaged in the processing and/or manufacturing of laminated boards, who will further process our decorative base paper products with various materials to form laminated boards. Our printing paper product is mainly used for photocopying and printing. Since we commenced the production of printing paper product using our production line no. 4 in July 2006, we have sold all such product to a paper processing and trading company, an Independent Third Party, in the PRC. This customer was also our largest customer for the year ended 31 December 2006 and the four months ended 30 April 2007.

With our highly automated production facilities at our production base located in Zouping County, Binzhou City, Shandong Province, the PRC, we are able to serve as a one-stop shop for a wide range of decorative base paper products. As at the Latest Practicable Date, we owned and operated six highly automated paper production lines (no. 1 to no. 6), with an aggregate designed annual production capacity of approximately 170,000 tonnes. Our designed annual production capacity increased at a CAGR of approximately 41.5% from the beginning of 2004 to the end of 2006. An additional highly automated production line no. 7 with a designed annual production capacity of approximately 30,000 tonnes is currently under construction and is expected to commence commercial production in early 2008.

Our Directors believe that, with our highly automated production lines, effective quality control systems and a highly skilled and a well-trained workforce, we are well-positioned in the specialty paper manufacturing industry to capture the anticipated growth in the market demand for decorative base paper products and printing paper products in the PRC.

HISTORY AND DEVELOPMENT

Our corporate history

Shandong Qunxing

The origin of our Group dated back to June 1999 when Mr. Zhu and his son, Mr. Zhu Mo Qun established Shandong Qunxing, which was then a limited liability company under the laws of the PRC with an initial registered capital of RMB1,000,000. At that time, Shandong Qunxing was owned as to 49% by Mr. Zhu and as to 51% by Mr. Zhu Mo Qun.

In July 2002, with a view to enlarging the scale of operation of Shandong Qunxing to capture the vast business opportunity in the decorative base paper industry in the PRC, Mr. Zhu and Mr. Zhu Mo Qun, the then holders of the equity interests in Shandong Qunxing, passed a resolution to increase the registered capital of Shandong Qunxing to RMB30,000,000 in proportion to the percentage of their respective equity interests in Shandong Qunxing. Following the increase in the registered capital, which was fully paid up in cash, Shandong Qunxing remained owned as to 49% by Mr. Zhu and as to 51% by Mr. Zhu Mo Qun.

As part of the Reorganisation, both Mr. Zhu Mo Qun and Mr. Zhu on 17 July 2006 entered into an agreement with Best Known to transfer their equity interests in the registered capital of Shandong Qunxing to Best Known at an aggregate consideration of HK$193,521,070.70, of which as to HK$98,695,746.06 was payable to Mr. Zhu Mo Qun for his 51% equity interest in the registered capital of Shandong Qunxing and as to HK$94,825,324.64 was payable to Mr. Zhu for his 49% equity interest in the registered capital of Shandong Qunxing. The aggregate consideration for such transfer was determined with reference to the appraised net asset value of Shandong Qunxing as at 31 December 2005 amounting to RMB199,326,702.83 pursuant to an asset valuation conducted by 鄒平鑒鑫有限責任會計師事務所 (Zouping Jian Xin Limited Liability Accountants Firm*) and on the basis of the translation of such value into HK$ at the rate of HK$1 = RMB1.03.

On 28 July 2006, 山東省對外貿易經濟合作廳 (Foreign Trade and Economic Cooperation Office of Shandong Province*) approved (1) the transfer of equity interest and the conversion of Shandong Qunxing into a wholly foreign owned enterprise and (2) the increase in the registered capital of Shandong Qunxing from RMB30,000,000 to RMB190,000,000 by way of capitalisation of accumulated capital surplus and common reserve of Shandong Qunxing. The transfer of the equity interests in Shandong Qunxing to Best Known was effected forthwith following the receipt of the aforementioned approval issued by 山東省對外貿易經濟合作廳 (Foreign Trade and Economic Cooperation Office of Shandong Province*).

Furthermore, according to the above approval in respect of the payment of the consideration for acquisition, 山東省對外貿易經濟合作廳 (Foreign Trade and Economic Cooperation Office of Shandong Province*) approved that at least 60% of the consideration for the acquisition should be settled by Best Known within six months from the date of the issue of the business license of Shandong Qunxing, i.e. 16 February 2007, and the remaining balance of the consideration should be fully settled within one year from such date, i.e. 16 August 2007. Notwithstanding that the transfer was effected in July 2006, Mr. Zhu and Mr. Zhu Mo Qun had agreed with Best Known on its deferred payment arrangements within the aforesaid approved time frame so that Boom Instant could have sufficient time to arrange for the necessary bank facility, on the best available terms, in settlement of the consideration for the acquisition as, in the view of Mr. Zhu and Mr. Zhu Mo Qun, the transfer was merely an internal reorganisation among the Zhu's family interests. Eventually, for this purpose, Boom Instant, one of the Controlling Shareholders, entered into the ICBC Loan Agreement with ICBC (Asia) in February 2007 whereby Boom Instant was granted the ICBC Loan in an aggregate amount of up to HK$213,522,000 (comprising two tranches: (a) a loan facility of HK$193,522,000 to be used exclusively by Boom Instant as shareholder's loan to our Company, which was eventually on-lent to Best Known to settle the consideration for the acquisition of Shandong Qunxing; and (b) a loan facility of HK$20,000,000 to be used exclusively by Boom Instant to finance the payment of the interest for the ICBC Loan and the related expenses). Please refer to the section headed "Corporate reorganisation" in Appendix VI to this prospectus for the detailed description of the Reorganisation and the paragraph headed "Financing arrangement in respect of the Reorganisation" in this section for the details of the financing arrangement under the ICBC Loan.

As a result of the above transfer, Shandong Qunxing has become a wholly-owned subsidiary of our Company which, immediately after completion of the Reorganisation but before the Share Offer and the Capitalisation Issue, is wholly-owned by Boom Instant, which in turn is ultimately owned as to 80% by Mr. Zhu and Mrs. Zhu (through their investment vehicle, Addinsight, which is owned as to 87.5% by Mr. Zhu and 12.5% by Mrs. Zhu) and 20% by Mr. Zhu Mo Qun (through his investment vehicle, Be Broad) after the acquisition of the entire issued share capital of Double Nation by our Company as referred to in the paragraph headed "Corporate reorganisation" in Appendix VI to this prospectus. The change in shareholding is a family arrangement among Mr. Zhu, Mrs. Zhu and Mr. Zhu Mo Qun in recognition of (i) Mr. Zhu's role as the founding shareholder and his past contribution to our Group as he guided Mr. Zhu Mo Qun in the formulation of development strategies and investment planning; and (ii) Mrs. Zhu's supportive role to both Mr. Zhu and Mr. Zhu Mo Qun in the family and her participation in the general administrative work of Shandong Qunxing. Mr. Zhu is responsible for overseeing and planning the business strategies of our Group. Mr. Zhu was the supervisor of Shandong Qunxing from June 1999 to July 2006 and since August 2006, he has become the legal representative and a director of Shandong Qunxing. Mr. Zhu remains an important member our senior management. Notwithstanding the changes in the effective shareholding percentage between Mr. Zhu (together with Mrs. Zhu) and Mr. Zhu Mo Qun in Shandong Qunxing from its establishment to completion of the Reorganisation, the ultimate beneficial ownership of our Group (including Shandong Qunxing) has been entirely vested in Mr. Zhu's family before the Listing.

In respect of the fact that the Zhu's family (comprising Mr. Zhu, Mr. Zhu Mo Qun and Mrs. Zhu, all being Directors) will be considered as a group of Controlling Shareholders of our Group, the Zhu's family confirms that:

(1) as family members who have operated Shandong Qunxing since its establishment in 1999, mutual trust has been established among them in the daily operation and management of our Group;

(2) although Mr. Zhu is the head of the family and one of the founders of our Group, Mr. Zhu Mo Qun has been entrusted with particular duties in the management of our Group. There have been frequent formal and informal discussions among the Zhu's family members in relation to both daily and major management and corporate development decisions of our Group; and

(3) most of the major management decisions, for example, investments on businesses, expansion of production capacity and formation of development plans of our Group, were discussed and determined by the Zhu's family members upon consensus and/ or compromise having been reached among them. In respect of other management decisions, they were discussed and determined between Mr. Zhu and Mr. Zhu Mo Qun upon consensus and/or compromise between them together with our senior management. The Zhu's family advised that although Mrs. Zhu had not involved in all major management decisions, she was informed of the situations and the status of those managerial matters which she did not actively participate in the discussion. As confirmed by Mrs. Zhu, she has not taken a different view on any of those major management decisions as agreed between Mr. Zhu and Mr. Zhu Mo Qun.

At present, all of Mr. Zhu, Mr. Zhu Mo Qun and Mrs. Zhu are directors of Boom Instant. The Zhu's family advised that their voting rights in the general meetings of our Company would be exercised directly by Boom Instant, the immediate holding company of our Company after Listing. As the resolutions put to the general meetings of our Company would be important decisions, in line with the previous practice, Mr. Zhu, Mr. Zhu Mo Qun and Mrs. Zhu, as directors of Boom Instant, would discuss the proposed resolutions in the board meetings of Boom Instant. Before Boom Instant will exercise its voting right in the general meetings of our Company, all of the Zhu's family members (all being directors of Boom Instant) will discuss and at the board level of Boom Instant resolve on how the voting rights should be exercised by Boom Instant in the general meetings of our Company.

As advised by our legal advisers as to PRC law, all necessary administrative and legal procedures and requirements in relation to the increase in registered capital (and the contribution thereof by the then equity holders), changes in equity interests in and legal status of Shandong Qunxing aforesaid have been complied with and such increase and changes are legal and valid. The restructuring procedures in respect of Shandong Qunxing completed in the PRC were in compliance with the relevant PRC laws and regulations. The respective authority approving the increase in registered capital, changes in equity interest and legal status of Shandong Qunxing as aforesaid is the proper and competent authority for granting such approvals.

On 8 August 2006, six PRC governmental and regulatory agencies, including the Ministry of Commerce and the China Securities Regulatory Commission ("**CSRC**"), promulgated a new regulation, namely, 關於外國投資者併購境內企業的規定 (the Regulations on the Acquisitions of Domestic Enterprises by Foreign Investors*) (the "**Acquisition Regulations**"), which became effective on 8 September 2006. The Acquisition Regulations require that an offshore special purpose vehicle formed for listing purposes and controlled, directly or indirectly, by PRC companies or individuals, such as our Company, shall obtain approval from the CSRC prior to the listing and trading of the securities of such offshore special purpose vehicle on an overseas stock exchange.

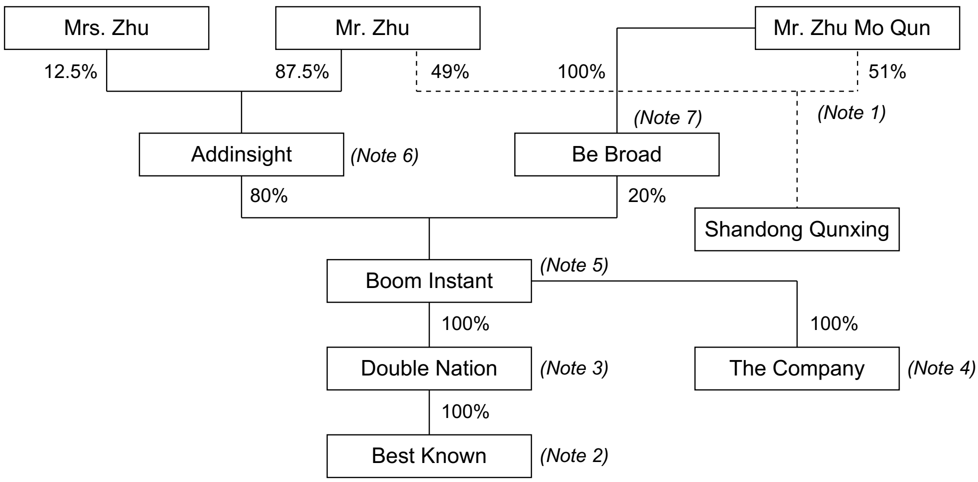
Based on their understanding of current PRC laws, regulations and rules and their consultation with the CSRC, our legal advisers as to the PRC law have advised that the Acquisition Regulations do not apply to the acquisition of the PRC subsidiary made by our Group and that the Listing does not require approval of the CSRC as our Company had obtained all necessary approvals from the relevant competent PRC regulatory authorities for the Reorganisation before 8 September 2006, the effective date of the Acquisition Regulations.

Pursuant to 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 Return Investment via Overseas Special Purpose Companies*) promulgated by SAFE on 21 October 2005 and effective as of 1 November 2005, Mr. Zhu, Mrs. Zhu and Mr. Zhu Mo Qun are required 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 confirmed that Mr. Zhu, Mrs. Zhu and Mr. Zhu Mo Qun had completed the required registration and no other approval or consent in relation to their direct or indirect interests in our Company is required to be obtained. The Reorganisation complies with applicable PRC laws and regulations, and all necessary approvals from the PRC regulatory authorities, including the necessary foreign exchange registration, required to implement the Reorganisation have been obtained.

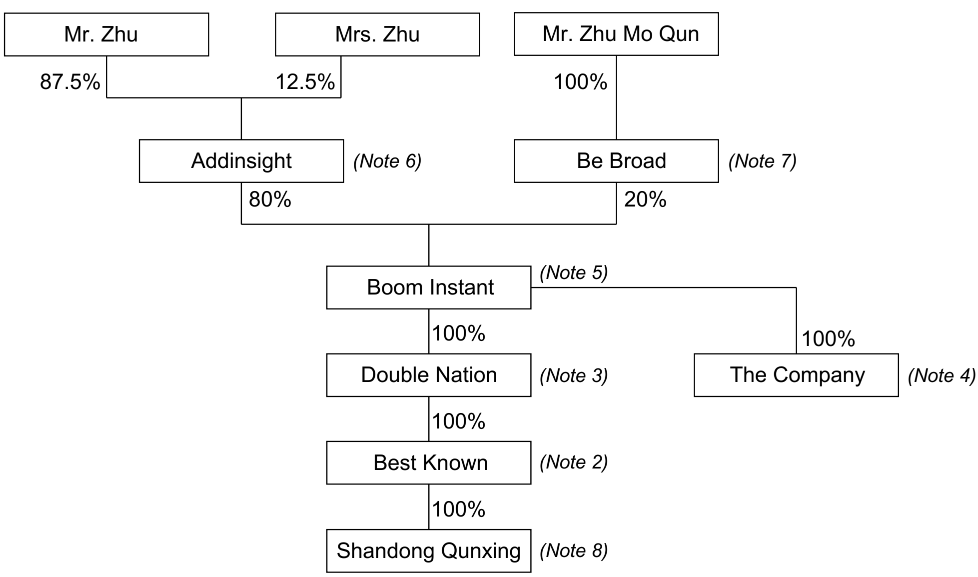
Best Known and Double Nation

In connection with the Reorganisation, Best Known (which was incorporated on 21 April 2006 in Hong Kong), Double Nation (which was incorporated on 18 May 2006 in BVI) and our Company (which was incorporated on 5 September 2006 in the Cayman Islands) were established by the Controlling Shareholders. The following diagrams show the shareholding structures of our Group before and after the acquisition of Shandong Qunxing but before completion of the Reorganisation:

(A) Before the acquisition of Shandong Qunxing by Best Known



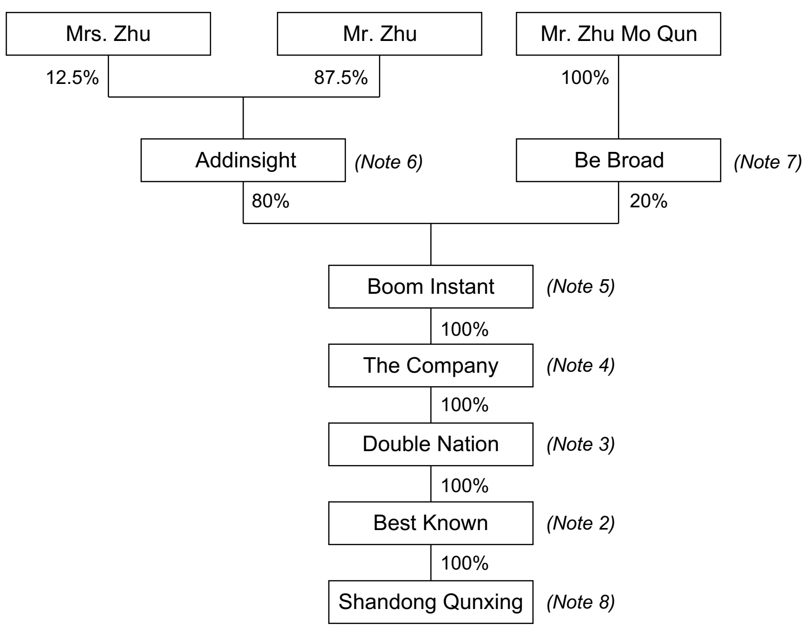
(B) After the acquisition of Shandong Qunxing by Best Known



Company and share swap

Our Company was incorporated in the Cayman Islands on 5 September 2006 as an exempted company with limited liability with Boom Instant as its then sole shareholder. As the final step of the Reorganisation, our Company acquired from Boom Instant the entire issued share capital of Double Nation pursuant to a share purchase agreement dated 29 January 2007 in consideration of and in exchange for (i) the allotment and issue, credited as fully paid, of 9,000,000 new Shares to Boom Instant, and (ii) the crediting as fully paid at par the 1,000,000 nil-paid Shares then held by Boom Instant, thereby becoming the ultimate holding company of our Group.

Following the above acquisition, each of Double Nation, Best Known and Shandong Qunxing has become a subsidiary of our Company. The diagram below shows the shareholding structure of our Group immediately after completion of the Reorganisation but before the Share Offer:



Notes:

1. From June 1999 to July 2006, the registered capital of Shandong Qunxing was owned as to 49% by Mr. Zhu and as to 51% by Mr. Zhu Mo Qun.

2. Since 17 July 2006, 100 shares of Best Known, being its entire issued shares, have been held by Double Nation.

3. On 17 July 2006, 100 shares of Double Nation, being its entire issued shares, were allotted to Boom Instant. As part of the Reorganisation, on 29 January 2007, 100 shares of Double Nation, being its entire issued shares, were transferred from Boom Instant to our Company.

4. On 5 September 2006, the date of incorporation of our Company, 1,000,000 nil-paid Shares were allotted to Boom Instant. On 29 January 2007, our Company acquired the 100 shares of Double Nation, being its entire issued shares, from Boom Instant, in consideration and in exchange for which, our Company (i) allotted and issued, credited as fully paid, 9,000,000 Shares to Boom Instant, (ii) credited as fully paid at par the 1,000,000 nil-paid Shares then held by Boom Instant. On 16 April 2007, 90,000,000 Shares were allotted to Boom Instant as consideration for the capitalisation of the shareholder loan owed by our Company to Boom Instant (which in turn had been advanced to Boom Instant under the ICBC Loan).

5. Since 17 July 2006, 80 shares of Boom Instant, being 80% of its issued shares, have been held by Addinsight and 20 shares thereof, being 20% of its issued shares, have been held by Be Broad.

6. Since 17 July 2006, 87.5 shares of Addinsight, being 87.5% of its issued shares, have been held by Mr. Zhu and 12.5 shares thereof, being 12.5% of its issued shares, have been held by Mrs. Zhu.

7. Since 17 July 2006, 100 shares of Be Broad, being its entire issued shares, have been held by Mr. Zhu Mo Qun.

8. As part of the Reorganisation, on 17 July 2006, both Mr. Zhu Mo Qun and Mr. Zhu entered into an agreement with Best Known to transfer their equity interests in the registered capital of Shandong Qunxing to Best Known at an aggregate consideration of HK$193,521,070.70. The change in the effective shareholding of Mr. Zhu, Mrs. Zhu and Mr. Zhu Mo Qun in Shandong Qunxing was not resulted from any capital contribution or acquisition made by Mr. Zhu and Mrs. Zhu. Such change was solely due to the family arrangement disclosed in the paragraph headed "Shandong Qunxing" in this section. As a result of such transfer, Shandong Qunxing has become ultimately owned as to 80% by Mr. Zhu and Mrs. Zhu together (through their investment vehicle, Addinsight) and as to 20% by Mr. Zhu Mo Qun (through his investment vehicle, Be Broad) after the acquisition of the entire issued share capital of Double Nation by our Company.

Details of the Reorganisation are set out in the paragraph headed "Corporate reorganisation" in Appendix VI to this prospectus.

Financing arrangement in respect of the Reorganisation

For the purpose of financing the acquisition of the entire equity interest in the registered capital of Shandong Qunxing by Best Known as part of the Reorganisation, Boom Instant entered into the ICBC Loan Agreement with ICBC (Asia) on 2 February 2007 whereby Boom Instant was granted the ICBC Loan in an aggregate amount of up to HK$213,522,000.

The material terms of the ICBC Loan Agreement include the following:

(1) The loan facility of up to HK$193,522,000 ("**Tranche A Facility**") would be used exclusively by Boom Instant as shareholder's loan to our Company, which would, through subsidiaries of our Company, be on-lent to Best Known to settle the consideration for the acquisition of the entire equity interest in Shandong Qunxing from Mr. Zhu and Mr. Zhu Mo Qun.

(2) The loan facility of up to HK$20,000,000 would be used exclusively by Boom Instant to finance the payment of the interest for the ICBC Loan and other expenses in relation to the borrowing of the ICBC Loan.

(3) The interest rate applicable to the ICBC Loan is fixed with reference to Hong Kong Interbank Offer Rate and payable monthly.

(4) Boom Instant is required to repay the entire ICBC Loan on the maturity date which is the date falling 12 months from the drawdown date of the Tranche A Facility (which drawdown date was 7 February 2007).

(5) If, among other situations:

(i) Boom Instant will have received any proceeds arising out of the Listing; or

(ii) Boom Instant will have received any cash dividends or distributions from any member of our Group,

Boom Instant is required to repay (in the case of the occurrence of the circumstance under (i) above) the entire ICBC Loan in full and (in the case of the occurrence of the circumstance under (ii) above) the ICBC Loan or any part thereof by an amount not less than the full amount of such dividends or distributions.

(6) If the Listing is not effected, implemented and completed within 12 months of the drawdown date of the Tranche A Facility (which drawdown date was 7 February 2007), ICBC (Asia) is entitled to request (and each of Boom Instant and Best Known is required to ensure and procure) Mr. Zhu and Mr. Zhu Mo Qun to repurchase the equity interest in Shandong Qunxing in exchange for a consideration of not less than HK$213,522,000.

The securities given in respect of the ICBC Loan includes the following:

(a) A share charge dated 2 February 2007 and made by Addinsight in favour of ICBC (Asia) for the charge over all the Addinsight's rights, title and interest in and to 80% of the issued shares in the share capital of Boom Instant registered in the name of Addinsight in favour of ICBC (Asia).

(b) A share charge dated 2 February 2007 and made by Be Broad in favour of ICBC (Asia) for the charge over all the Be Broad's rights, title and interest in and to 20% of the issued shares in the share capital of Boom Instant registered in the name of Be Broad in favour of ICBC (Asia).

(c) An assignment of dividends dated 2 February 2007 and made by Boom Instant in favour of ICBC (Asia) for the assignment of dividends payable to Boom Instant from time to time and the charge over the related dividends account with respect to the shares in the share capital of our Company registered in the name of Boom Instant in favour of ICBC (Asia).

(d) A charge dated 2 February 2007 and made by Boom Instant in favour of ICBC (Asia) for the charge over all the Boom Instant's assets in favour of ICBC (Asia).

(e) A share charge dated 2 February 2007 and made by Boom Instant in favour of ICBC (Asia) for the charge over all the Boom Instant's rights, title and interest in and to all the issued shares in the share capital of our Company registered in the name of Boom Instant in favour of ICBC (Asia).

(f) An assignment of dividends dated 2 February 2007 and made by our Company in favour of ICBC (Asia) for the assignment of dividends payable to our Company from time to time and the charge over the related dividends account with respect to the shares in the share capital of Double Nation registered in the name of our Company in favour of ICBC (Asia).

(g) A charge dated 2 February 2007 and made by our Company in favour of ICBC (Asia) for the charge over all our Company's assets in favour of ICBC (Asia).

(h) A share charge dated 2 February 2007 and made by our Company in favour of ICBC (Asia) for the charge over all our Company's rights, title and interest in and to all the issued shares in the capital of Double Nation registered in the name of our Company in favour of ICBC (Asia).

(i) An assignment of dividends dated 2 February 2007 and made by Double Nation in favour of ICBC (Asia) for the assignment of dividends payable to Double Nation from time to time and the charge over the related dividends account with respect to the shares in the share capital of Best Known registered in the name of Double Nation in favour of ICBC (Asia).

(j) A charge dated 2 February 2007 and made by Double Nation in favour of ICBC (Asia) for the charge over all Double Nation's assets in favour of ICBC (Asia).

(k) A share charge dated 2 February 2007 and made by Double Nation in favour of ICBC (Asia) for the charge over all Double Nation's rights, title and interest in and to all the issued shares in the share capital of Best Known registered in the name of Double Nation in favour of ICBC (Asia).

(l) An assignment of dividends dated 2 February 2007 and made by Best Known in favour of ICBC (Asia) for the assignment of dividends payable to Best Known from time to time and the charge over the related dividends account with respect to the equity interest in the registered capital of Shandong Qunxing registered in the name of Best Known in favour of ICBC (Asia).

(m) A charge dated 2 February 2007 and made by Best Known in favour of ICBC (Asia) for the charge over all Best Known's assets in favour of ICBC (Asia).

(n) A share charge agreement dated 7 February 2007 and made between Best Known as chargor, ICBC (Asia) as chargee and Shandong Qunxing for the charge over all Best Known's rights, title, and interest in and to the registered capital of and equity interest in Shandong Qunxing with respect to the paid up capital of RMB30,000,000 registered in the name of Best Known in favour of ICBC (Asia).

(o) A share charge agreement dated 12 February 2007 and made between Best Known as chargor, ICBC (Asia) as chargee and Shandong Qunxing for the charge over all Best Known's rights, title, and interest in and to the registered capital of and equity interest in Shandong Qunxing with respect to the paid up capital of RMB190,000,000 registered in the name of Best Known in favour of ICBC (Asia).

(p) A charge over deposit and charged account dated 2 February 2007 and made between Mr. Zhu as chargor and Industrial and Commercial Bank of China Limited, Zouping sub-branch ("**ICBC Zouping**") as chargee for the charge over Mr. Zhu's deposit in his account opened and maintained with ICBC Zouping with deposit in the sum of not less than an amount equivalent to HK$94,825,324.64 being part of the loan facility under Tranche A Facility.

(q) A charge over deposit and charged account dated 2 February 2007 and made between Mr. Zhu Mo Qun as chargor and ICBC Zouping as chargee for the charge over Mr. Zhu Mo Qun's deposit in his account opened and maintained with ICBC Zouping with deposit in the sum of not less than an amount equivalent to HK$98,695,746.06 being part of the loan facility under Tranche A Facility.

Boom Instant has undertaken to repay the outstanding amounts of the ICBC Loan of approximately HK$213.5 million by the net sale proceeds from the Sale Shares to be received by it. In the event that the final Offer Price is finally determined at the lower end of the indicative Offer Price range between HK$4.10 per Offer Share and HK$5.35 per Offer Share, which results in the net sale proceeds from the Sale Shares to be received by Boom Instant falling short of the aggregate amount of the outstanding balance of the ICBC Loan, Boom Instant will, and the other Controlling Shareholders will procure Boom Instant to, repay upon or before the Listing Date the remaining portion of the ICBC Loan in full by utilising their own financial resources or such other financial resources as they shall arrange from third parties other than our Group, as they may consider appropriate.

In addition, the Controlling Shareholders have obtained approval in principle from ICBC (Asia) for the release of the security and guarantees provided by our Company, Double Nation, Best Known and Shandong Qunxing in respect of the ICBC Loan on or before the Listing Date.

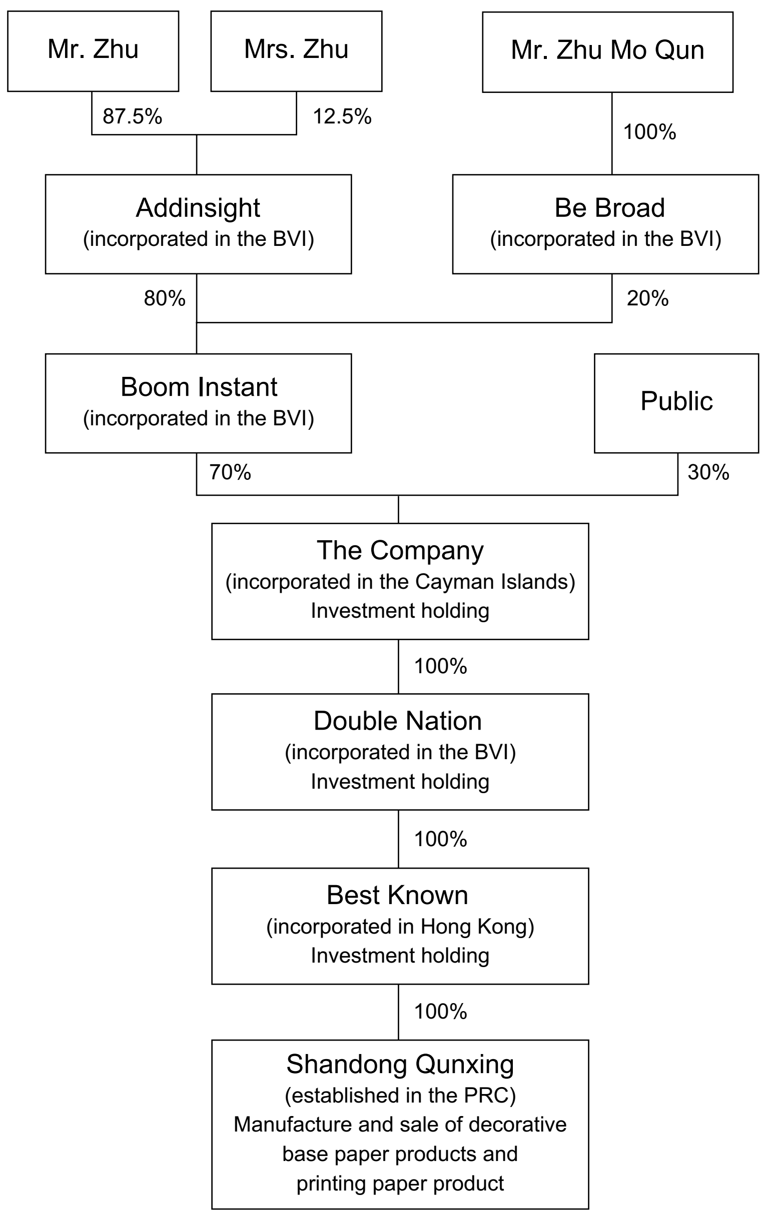
Milestones of our production capacity expansion and business development

The following is a summary of the milestones of our production capacity expansion and business development:

October 1999	Production line no. 1 with a designed annual production capacity of approximately 10,000 tonnes of specialty paper products, designated for the production of decorative base paper products commenced commercial production
August 2002	Production line no. 2 with a designed annual production capacity of approximately 20,000 tonnes of specialty paper products, designated for the production of decorative base paper products commenced commercial production
May 2003	Production line no. 3 with a designed annual production capacity of approximately 30,000 tonnes of specialty paper products, designated for the production of decorative base paper products commenced commercial production
August 2004	Production line no. 4 with a designed annual production capacity of approximately 50,000 tonnes of specialty paper products, designated for the production of decorative base paper products commenced commercial production
April 2006	Production lines no. 5 and no. 6, each with a designed annual production capacity of approximately 30,000 tonnes specialty paper products, designated for the production of decorative base paper products commenced commercial production
July 2006	Production line no. 4, which was originally used for the production of decorative base paper products, was redesignated to produce printing paper product with a designed annual production capacity of approximately 50,000 tonnes
May 2007	The construction of paper production line no. 7 with a designed annual production capacity of approximately 30,000 tonnes of specialty paper products commenced

CORPORATE STRUCTURE

The following diagram illustrates the corporate structure of our Group (together with the principal business activities and the place of incorporation of each member of our Group) immediately following completion of the Share Offer and Capitalisation Issue (without taking into account any Shares that may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option and any options that may be granted under the Share Option Scheme):



COMPETITIVE ADVANTAGES

Our Directors believe that we have the following competitive advantages which provide us with ample opportunities to grow our business in the specialty paper manufacturing industry:

We are well-positioned in the specialty paper manufacturing industry in light of the national policies of the PRC

We manufacture our decorative base paper products and printing paper product primarily from wood pulp. The use of wood pulp as the primary raw material for manufacturing paper products has been encouraged under various national policies promulgated by the PRC government as wood pulp can be used as an alternative to reduce the use of wood and timber in the PRC. According to《中共中央關於制定國民經濟和社會發展第十一個五年規劃的建議》(The Suggestion of the Central Committee of the CPC on Drafting the Eleventh Five Year Plan for National Economy and Social Development*), conservation of natural resources shall become a fundamental national policy of the PRC. In particular, it is emphasised by the PRC government in both《國務院關於做好建設節約型社會近期重點工作的通知》(國發[2005]21號) (Circular of the State Council on Carrying into effect the Key Tasks in the Near Future on Building a Resource-efficient and Environmentally Friendly Society (no. 21[2005]) of the State Council*) and《關於加快推進木材節約和代用工作的意見》國辦發[2005] 58號 (Opinion on Speeding up the Implementation on the Timber Conservation and the Utilisation of Timber Substitutes (no. 58 [2005] of the General Office of the State Council*)) that the use of wood and timber should be reduced and that lignin-free materials, such as laminated board, should be used as alternatives to replace timber and wood.

Our Directors believe that these national policies would advocate the use of laminated board as a substitute for timber and wood and the potential growth in demand for laminated board would fuel the demand for decorative base paper products. As such, our Directors believe that we are well-positioned in the specialty paper manufacturing industry in the PRC to capture the growing demand for decorative base paper products in the PRC.

We are able to capitalise on the growing demand for decorative base paper and printing paper products in the PRC

The PRC economy has grown significantly since the PRC government introduced economic reforms in the late 1970s. From 2001 to 2006, the PRC's GDP increased at a CAGR of approximately 13.8% and reached approximately RMB20,941 billion in 2006. Due to strong personal disposable income growth and rising standard of living, demand for housing will rise and will lead to the development of the property market in the PRC. Such development will fuel the growth of the furniture industry and construction material industry, which will in turn lead to the increase in the demand for laminated board, a material widely used as decorative materials in, including but not limited to, the furniture industry (for home or office interior) and construction materials. As our decorative base paper products are a major raw material for the manufacture of laminated board, we, taking into account the abovementioned growth driver of the laminated board industry, expect that the demand for decorative base paper products in the PRC will continue to grow in next few years.

In order to tap the increasing market demand for decorative base paper and printing paper products, the construction of a new production line no. 7 with a designed annual production capacity of approximately 30,000 tonnes is in progress and is expected to commence commercial production in early 2008. In addition, we plan to set up four additional production lines, namely, production lines no. 8, no. 9, no. 10 and no. 11, with an aggregate designed annual production capacity of approximately 120,000 tonnes. Our Directors believe that the new production lines, in addition to our existing six production lines, will enable us to capture the growing market demand for such products, which in turn will generate higher revenue for our Group.

We have a well-established reputation and a well-recognised brand name for our high-quality decorative base paper products manufactured with our technical know-how and patent

Since the establishment of Shandong Qunxing in 1999, we have focused on research and development efforts with a view to improving our existing decorative base paper products to enhance their value as well as development of improved or new products in order to meet our customers' requirements. As at the Latest Practicable Date, we had applied for two patents with respect to inventions we developed through our research and development efforts, one of which relates to a drying equipment installed in our paper making machines and the other relates to a method used by us to add titanium dioxide powder during the production of white decorative base paper products. In addition to the inventions subject to the patent applications, we possess processing and preparation know-hows which have been developed and accumulated since we commenced our operation, such as the formulae we have developed and prescribed for mixing aqueous pulp and other raw materials, especially titanium dioxide powder, for different types of products based on the specifications of the products ordered by our customers. In 2006, capitalising on our developed technical know-how of producing high-class decorative base paper products, we expanded our product range and commenced our business of manufacturing printing paper product with our production line no. 4.

We have also adopted stringent quality control system to ensure high product quality and made continuous efforts to further improve the quality of our products. Our commitment to quality control can be manifested by the accreditation of ISO:9001 in June 2004, which was renewed in June 2007 for a validity period from 21 June 2007 to 20 June 2010. We have applied the principles of ISO: 9001 throughout our quality control system.

In addition, our Directors believe that “”, being the trademark we use to market our decorative base paper products, is well-recognised by the market as decorative base paper products of high quality. We believe that our established reputation and brand name give us competitive edges over our competitors to tap the growing demand for decorative base paper products.

We have comprehensive production facilities with large production capacity which allow us to take advantage of economy of scale

Our production facilities, located in Zouping County, Binzhou City, Shandong Province, the PRC with an aggregate gross floor area of approximately 36,446 sq.m., consist of six production lines with an aggregate designed annual production capacity of approximately 170,000 tonnes as at the Latest Practicable Date. We were ranked by China Paper Association as the largest decorative base paper manufacturer in terms of the actual annual production capacity in the PRC in 2005 and 2006. We have achieved a significant growth in our business and our annual production capacity increased at a CAGR of approximately 41.5% from the beginning of 2004 to the end of 2006. With such production facilities, we are able to produce a much larger volume of specialty paper products than most of our competitors in the PRC and to sell them at a competitive price by taking advantage of the economy of scale. We believe that our comprehensive production facilities have strengthened our position as one of the leading manufacturers of specialty paper products in the PRC in terms of production capacity and our business will continue to grow as we seek to further expand and improve our production facilities. Our scale of production also provides us with flexibility to accommodate changes in market demand and enables us to capture a larger pool and greater mix of customers.

We are able to compete effectively in terms of pricing with other players in the specialty paper manufacturing industry

Since we are able to produce a much larger volume of specialty paper products and sell them at a competitive price by taking advantage of economy of scale of our production facilities, we believe that we are able to sell our products with better quality in the PRC market at a competitive price when compared to other PRC domestic industry players who manufacture similar products. Vis-a-vis foreign industry players who import specialty paper into the PRC market, we believe that we also have price competitiveness over them since the specialty paper products which they import into the PRC are normally sold at a higher price than those of similar quality sold by domestic industry players in the PRC.

We have a diverse and stable customer base for our decorative base paper products

Our decorative base paper business is not dependent on any single customer and we have built a large, diversified and stable base of customers for our decorative base paper business. For each of the three years ended 31 December 2006 and the four months ended 30 April 2007, our five largest customers of our decorative base paper business accounted for approximately 20.6%, 20.5%, 18.7%

and 24.8% of our turnover from decorative base paper products, respectively, and our single largest customer of our decorative base paper products accounted for approximately 5.2%, 4.6%, 4.3% and 5.9% of our turnover from decorative base paper products, respectively.

Even though we do not normally enter into long term sales agreement with most of our customers, the majority of our customers remained stable during the Track Record Period. As at 30 April 2007, we had over 125 customers which are scattered around 13 provinces, autonomous regions and municipalities in the PRC. Our Directors believe that this is primarily due to the quality and consistency of our products, our ability to meet customer needs and our recognised service. We will continue to focus on maintaining long-term relationships with our existing customers and identifying and developing new business relationships with potential customers.

We have strong research and development capabilities

Our Directors believe that continuous technical advancement in terms of processing technology and product development plays a key role for our future success. As at the Latest Practicable Date, we had applied for two patents with respect to inventions we developed through our research and development efforts, one of which relates to a drying equipment installed in our paper making machines and the other relates to a method used by us to add titanium dioxide powder during the production of white decorative base paper products. In addition to the inventions subject to patent applications, we possess processing and preparation know-how developed and accumulated since we commenced our operation, such as the formulae we have developed and prescribed for mixing aqueous pulp and other raw materials, especially titanium dioxide powder, for different types of products based on the specifications of the products ordered by our customers.

Unlike other research-intensive companies, which invest heavily in capital intensive research and development facilities and equipment in developing products and technology, our research and development activities focus on the improvement of efficiency of our production equipment and process, the development of new products and enhancement of the quality of our existing products by primarily leveraging on the experience of our in-house technicians that accumulated through their day-to-day production and product testing work.

Our principal research and development activities mainly involve enhancement of our existing product formula and production process by our in-house technicians, which are mainly based on the feedbacks and comments from our customers on the quality of our products. Through the laboratory testing process, our research and development department is capable of developing new product formula, enhancing our existing product formula and improving our production process, thus, such research and development activities do not require substantial capital investment in any machines or tools. Therefore, the costs incurred in our research and development activities were relatively small as compared to the sales during the Track Record Period. For the three years ended 31 December 2006 and the four months ended

30 April 2007, we spent approximately RMB0.5 million, RMB0.9 million, RMB1.2 million and RMB0.4 million, respectively, in our research and development activities.

In addition to the abovementioned internal research and development capabilities, we also cooperate with 山東省造紙工業研究設計院 (Research and Design Institute of Paper Manufacturing Industry of Shandong Province*) in order to utilise external expertise and research and development capabilities. In May 2007, Shandong Qunxing entered into a technology agreement with 山東省造紙工業研究設計院 (Research and Design Institute of Paper Manufacturing Industry of Shandong Province*) pursuant to which 山東省造紙工業研究設計院 (Research and Design Institute of Paper Manufacturing Industry of Shandong Province*) and Shandong Qunxing agreed to collaborate with each other to develop new products. Cost incurred in such cooperation is only RMB50,000 per annum which our Directors consider to be relatively low in light of our substantial reliance on our in-house research and development resources. Given the above, our Directors believe that the magnitude of our research and development expenses is not a meaningful indicator in demonstrating our strong research and development capabilities.

Our Directors believe that the above arrangements will help to bolster our product manufacturing capabilities, improve our production efficiency, lower our overall manufacturing costs and enhance our product quality.

We have stringent quality control standards

We adhere to stringent quality control standards and have been accredited with ISO9001:2000 certificate in respect of our quality management system. We impose stringent inspection and testing procedures on raw materials and finished products and implement comprehensive quality control procedures at certain stages of our production process in order to ensure that, above all, our products have satisfied our customers' specifications and requirements.

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 high-class decorative base paper products and printing paper product.

We have experienced management and technical staff

We have an experienced management team which is headed by Mr. Zhu, one of the founders of our Group and our Chairman, who has over 10 years of experience in the paper manufacturing industry in the PRC and has profound knowledge in the paper production machinery since 1987 before he founded Shandong Qunxing. Since 1987, Mr. Zhu had accumulated extensive knowledge in mechanical production when he established his business in the production of machinery parts of production machine in heavy industry, which may be used in paper making machines, before he founded Shandong Qunxing. Through communication and cooperation with domestic paper manufacturers in the PRC as well as studies in the features of different types of paper products in carrying out his machine parts manufacturing business, Mr. Zhu has managed to establish a network and accumulated extensive knowledge in the paper manufacturing industry.

Our management team and key operating personnel possess extensive management skills, operation experience and industry knowledge. Our management and technical staff, who have vast experience in the paper manufacturing industry, have given us an invaluable level of know-how in product development, product quality assurance and operation of production facilities. In order to maintain stability of our management team, we offer competitive remuneration packages and rewards (including the grant of options pursuant to the Share Option Scheme) to the key members of the management team. In addition, a stable working environment will be conducive to the stability of our management team. We believe that the collective strengths and experience of our senior management will continue to serve as a platform upon which our business will grow.

BUSINESS STRATEGIES

We strive to become the leading manufacturer of high-class decorative base paper products and printing paper product in the PRC. 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 add new production lines for manufacturing decorative base paper products and printing paper product

We seek to expand our market position in the PRC by continuing to expand our production capacity and market share. We plan to add a total of five new paper production lines before end of 2009, four of which will be used for the manufacture of decorative base paper products and the remaining one will be used for the manufacture of printing paper product. In so doing, we expect our designed annual production capacity to increase from approximately 170,000 tonnes as at the Latest Practicable Date to approximately 320,000 tonnes by end of 2009. We believe that we are well-positioned in the market in the PRC to capture future growth opportunities as we have already made substantial capital investment to secure valuable resources. Our production line no. 7 with a designed annual production capacity of approximately 30,000 tonnes is currently under construction and is expected to commence commercial production in early 2008. In addition, we plan to construct our production lines no. 8 and no. 9 in mid 2008 and no. 10 and no. 11 in late 2008 or early 2009, with their aggregate designed annual production capacity amounting to 120,000 tonnes.

To broaden our distribution channels in the PRC and overseas and strengthen our marketing efforts by targeting at manufacturers of construction materials

We actively seek opportunities to broaden our channels of distribution in the PRC. Currently, we operate our sales and marketing activities in our office in Shandong Province, whereas our sales and marketing staff travel across the six designated sales regions in the PRC to provide coordination between our customers and us. In order to facilitate communication with and respond to enquiries from our customers more promptly, we intend to increase the number of our sales and marketing staff from about 30 as at the Latest Practicable Date to 50 by the end of 2008 to carry out our sales and marketing activities in these six sales regions in the PRC. In addition, we plan to start exporting our products overseas to tap selected international markets, in particular Hong Kong, Russia, Thailand and Vietnam. We will devise plans to develop overseas market for our products, through the appointment of sole distributors in different regions or by establishing our own sales offices to the extent if it is practicable. In view of the significance of Hong Kong as the gateway for Chinese enterprises to expand their business to international market, and Russia, Thailand and Vietnam being emerging markets with strong economic growth, our Directors believe that the expansion to these markets will benefit our performance in future.

In addition, we intend to strengthen our marketing efforts by targeting at manufacturers of construction materials. Currently, we primarily market through our sales and marketing staff who travel across the six designated sales regions, our internet website and outdoor billboards as well as by participating in exhibitions. We plan to adopt more proactive marketing strategies, such as placing advertisements of our products on professional magazines targeting at the specialty paper industry and construction material industry, so that we can procure more manufacturers of construction materials to be our customers.

To enhance our production efficiency and quality control systems

We strive to optimise, improve and upgrade our production technical know-how and equipment to minimise impediments so as to increase the utilisation rate of our production facilities and to enhance production efficiency and product quality. We plan to install additional production lines to allow us to further minimise equipment shutdowns required for product changes and to reduce machine start-up time to optimise capacity and quality within the shortest possible time.

We continue to seek improvement in our quality control systems by adopting higher frequency and sample penetration rate in the inspection of our raw materials, semi-finished products and finished products. In addition, we will consider advice and feedback from industrial consultants and, where appropriate, adopt new measures to modify and improve our quality control systems.

To improve our research and development capability by forming strategic alliance with established academic institutions

With our precedential technology agreement entered into between Shandong Qunxing and 山東省造紙工業研究設計院 (Research and Design Institute of Paper Manufacturing Industry of Shandong*), we strive to expand our research and development capability by forming strategic alliance with established research institutions in future. As at the Latest Practicable Date, we had been discussing with several established academic institutions in relation to possible strategic alliance. We plan to form more effective strategic alliance for research and development purposes in the future to ensure that every aspect of our business operation, in particular product development, production efficiency and quality control, will be covered and, as a result, can be improved.

To enhance the brand awareness of our decorative base paper products marketed under the “” trademark

All our decorative base paper products are marketed under the “” trademark. We recognise the importance of developing public awareness of our brand and corporate image of our products under the “” trademark, and to cultivate loyalty of our customers. Currently, we market ourselves by participating in exhibitions and through outdoor billboards and our website at http://www.qxzy.com.cn for our customers in the PRC. To enhance the brand awareness, we strive to increase our advertising and promotion activities of our products under the “” trademark. We strive to maintain a reputation of “” branded products as high-class decorative base paper by maintaining and further improving the quality of our decorative base paper products. We also strive to strengthen our brand by continuing to develop new products with different specifications to meet the changing requirements and demands of our customers.

As our recently launched product, we target our printing paper product at sizeable clients. We have entered into a product sales agreement with a well-established paper processing and trading company in the PRC, which is an Independent Third Party, for a fixed term of five years commencing from 1 November 2006. However, we are not content with the supply of our printing paper product to a single large customer and will seek to expand our customer base for this new line of product.

PRODUCTS

We produce two types of paper products: (i) decorative base paper products and (ii) printing paper product. Both lines of products are manufactured by our principal subsidiary, Shandong Qunxing.

The following table shows the breakdown of our turnover and gross profit by product lines during the Track Record Period:

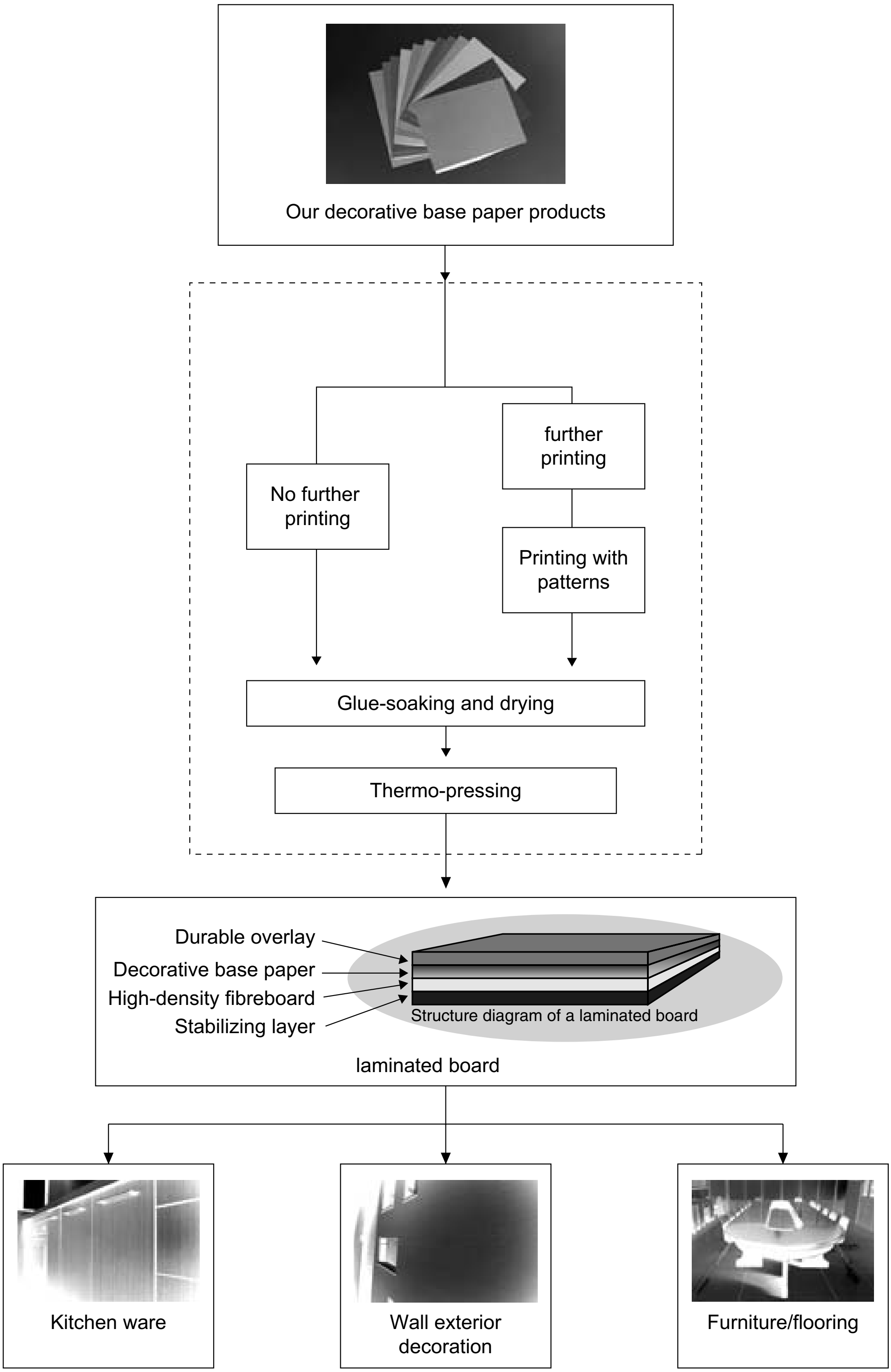
	Year ended 31 December						Four months ended 30 April	
	2004		2005		2006		2007	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Turnover								
Decorative base paper	467,158	100	696,425	100	834,160	87.7	261,161	77.3
Printing paper	–	–	–	–	116,684	12.3	76,857	22.7
Total turnover	467,158	100	696,425	100	950,844	100	338,018	100
Gross profit								
Decorative base paper	84,661	100	133,310	100	168,608	91.6	68,608	83.2
Printing paper	–	–	–	–	15,509	8.4	13,863	16.8
Total gross profit	84,661	100	133,310	100	184,117	100	82,471	100

Decorative base paper

Our decorative base paper products, being intermediate products, are commonly used as the decorative layer to furnish the surface of laminated board, a decorative material which has wide applications in interior decoration of buildings, transportation vehicles, processed products such as fortified wooden floorboard, furniture and composite office and household wares. To the best knowledge and belief of our Directors, the majority of our customers for decorative base paper products are processing factories, most of which are private enterprises and are principally engaged in the processing and/ or manufacturing of laminated boards, who will further process our decorative base paper products with various materials to form laminated board. Decorative base paper has several distinctive features: (i) strong coverage capability; (ii) a smooth and shiny surface; and (iii) good printing compatibility.

Such laminated board, as impregnated with decorative base paper, is more preferred than wood or plastic materials because it is comparatively more durable, more corrosion resistant, more malleable, more environmentally friendly, more fire resistant, non-toxic, odourless, and deteriorates at a slower rate. In addition to acting as an alternative to reduce the use of timber and wood, laminated board, impregnated with appropriately processed decorative base paper, can be directly applied as a construction material without requiring further painting and coating itself, which therefore reduces the use of other accessory resources in the construction materials industry.

Our decorative base paper products are primarily made from wood pulp and, because of their capability of being printed with different colours and patterns, are marketed by us to be used as the surface layer of laminated board. The simplified diagram below illustrates where our decorative base paper products are commonly applied, instantly and ultimately:



Note: Processing works in the dotted frame are to be undertaken by our customers.

Based on the technical attributes of our decorative base paper products, including adhesiveness, water absorption level, sustainability to pressure and colour variation, we classify our decorative base paper products broadly into four categories: (i) premium coloured decorative base paper; (ii) premium white decorative base paper; (iii) ordinary coloured decorative base paper; and (iv) ordinary white decorative base paper.

The table below sets out the different characteristics of each of these four categories of our decorative base paper products:

Category	**Adhesiveness** *(note 1)*	**Water absorption level** *(note 2)*	**Sustainability to pressure**	**Colour variation**
Premium coloured decorative base paper	High	Low	High	Different paints are used and the colour requirements of the customers are met by colour matching
Premium white decorative base paper	High	Low	High	Whitening agent is added to improve the visual whiteness
Ordinary coloured decorative base paper	Low	High	Low	Different paints are used and the colour requirements of the customers are met by colour matching
Ordinary white decorative base paper	Low	High	Low	Whitening agent is added to improve the visual whiteness

Notes:

1. Decorative base paper itself is not adhesive. After the plastic-soaking process involved in the production of laminated board, the lignin in the composition of decorative base paper, with its high-absorption feature, enables the decorative base paper to fully absorb the glue and stick well with other laminated board materials.

2. Water absorption ability directly affects the decorative base paper's printing quality. The ink comes into contact with the paper on the printing roller and the contact time is extremely short, requiring the decorative base paper to have higher absorption ability to achieve clear and vivid printing quality for patterns.

The four major categories of our decorative base paper products are all high-class decorative base paper products, which are mainly used as the decorative surface layer of laminated board such as fireproof board, particle board, solid board, curved board and density board. Such products are fireproof, heat resistant, corrosion resistant, abrasion resistant, environmentally friendly and durable. Thermo-resistance is essential for decorative base paper to be used as the surface material of laminated board, since it has to endure the high temperature during the thermal compression process and no fading of colour is allowed for the decorative base paper. They are used in a wide variety of industrial applications such as the furniture, transport vehicles, office, electrical appliances, and construction materials.

We have developed and marketed more than 80 types of decorative base paper products with different specifications which we believe could be easily customised for various industrial and customers' needs, and from which our customers can choose to suit their own requirements.

Printing paper

In light of the robust economic growth in the PRC, our Directors believe that the demand for printing paper product will increase in the future. With a view to capturing such market opportunity and to diversifying our product range and revenue stream, we decided to extend our business to the manufacture and sale of printing paper product by leveraging on our existing production facilities and technical know-how in the manufacture of decorative base paper products. Same as our decorative base paper products, our printing paper product is made primarily from wood pulp. Our printing paper product is marketed by us to be used for photocopying and/or office printing.

It is our intention to market this newly launched product to reputable and sizeable clients, such as our sole customer of printing paper product during the Track Record Period, which is a well-established paper processing and trading company in the PRC and an Independent Third Party. With the industry connection of Mr. Zhu and market reputation of Shandong Qunxing in the paper manufacturing industry established over the years, this customer became aware of Shandong Qunxing's capacity and capability to manufacture specialty paper products. Accordingly, this customer approached Shandong Qunxing for collaboration in early 2006. As our Directors believe that this customer is a reputable company and the proposed collaboration would facilitate our plan to diversify our product range, we commenced trial supply of printing paper product to this customer from July 2006 for around four months. Subsequently, we formalised the collaboration by entering into a product sales contract with this customer on 31 October 2006 for a fixed term of five years commencing 1 November 2006. With a view to satisfying the demand of this customer for large volume supply and minimising stoppage time of the production line for product change, we have designated our production line no. 4, with maximum designed annual production capacity of 50,000 tonnes, for the production of our printing paper product. As the core production technology and equipment for the manufacture of both decorative base paper products and printing paper product are essentially the same, we are able to produce our printing paper product by making certain slight adjustments to the production line no. 4, which was originally used for the manufacture of decorative base paper products.

Pursuant to the abovementioned product sales contract, we have agreed to sell exclusively to this customer our printing paper product manufactured by our production line no. 4. Upon the signing of the product sales contract, the printing paper product was provisionally priced in the range between RMB7,000 to RMB7,100 per tonne (inclusive of value-added tax). Pursuant to the terms of the product sales contract, Shandong Qunxing and this customer may by mutual consent adjust the price according to the prevailing market conditions. There is no express term specifying the volume of production (on the part of Shandong Qunxing) or the amount of purchase (on the part of this customer), nor is there any rebate arrangement, under the product sales contract. This customer is required under the product sales contract to settle all outstanding invoices of the immediately preceding month on or before the end of each month. Neither party may terminate the product sales contract unless the other party, among other things, (i) is in breach of the product sales contract, (ii) becomes insolvent, goes into liquidation, enters into receivership, or enters into a settlement arrangement with its creditors, or (iii) ceases its business operation. As at the Latest Practicable Date, we had not marketed our printing paper product under any of our own brand name. To the best knowledge and belief of our Directors, this customer sells the printing paper product it purchased from us under its own brandname in the retail market.

Before we can expand our production of our printing paper product on any other existing production line or any new production lines to be constructed in future, as disclosed in the section headed "Future plans and use of proceeds" in this prospectus, our printing paper product will continue to be sold to this sole customer. This customer was our single largest customer for the year ended 31 December 2006 and the four months ended 30 April 2007 which accounted for approximately 12.3% and 22.7% of our total turnover for the respective periods. By leveraging on our existing technical know-how and experience in the manufacture of printing paper product on production line no. 4, and in an attempt to improve the gross profit margin of our printing paper product, it is our plan to market the printing paper product under our own brand name upon the completion of construction our new production lines no. 8 and 9 which is expected to be in 2009, and gradually seek to expand our customer base for this new line of product through the member network of China Paper Association and our connections in the paper industry established over the years.

PRODUCTION

Production base

Our production base is located in Zouping County, Binzhou City, Shandong Province, the PRC and in proximity to the Jiqing highway, Shandong Province, the PRC with convenient transportation.

We believe that the integration of the production and ancillary facilities in one production base and the proximate area thereof saves our production costs, increases our flexibility and control over our business and enables us to reliably and efficiently serve our customers.

Production facilities

As at the Latest Practicable Date, our six paper production lines are housed in the workshops erected on two adjacent parcels of land which Shandong Qunxing holds the land use rights for a term of approximately 46 years till 25 November 2053. The total site area of the land is approximately 60,000 sq.m., comprising 43 buildings and structures erected thereon, which are designated for use as workshops, auxiliary water filtration tanks, office, dormitory and storage with a gross floor area of approximately 36,446 sq.m.. Our production base currently has the aggregate designed annual production capacity of approximately 170,000 tonnes of paper products, comprising approximately 120,000 tonnes of decorative base paper products and approximately 50,000 tonnes of printing paper product.

Since the commencement of our operation, we have successfully increased our designed annual production capacity from approximately 10,000 tonnes in 1999 to approximately 170,000 tonnes at the Latest Practicable Date. In October 1999, with the installation of our production line no. 1, our first decorative base paper production line commenced commercial production at our production site. Our production lines no. 2 and no. 3 commenced commercial production in August 2002 and May 2003, respectively. In view of the growth prospects for decorative base paper products in the PRC, we decided to install our production line no. 4, which commenced commercial production in August 2004. Our production line no. 4 increased our aggregate designed annual production capacity to approximately 110,000 tonnes.

In order to tap the continuously growing demand for decorative base paper products in the PRC market, we installed the production lines no. 5 and no. 6, which commenced commercial production in April 2006. In order to expand our product offerings and increase the utilisation rate of our production facilities, our production line no. 4, which was originally used for the production of decorative base paper products, was redesignated to produce printing paper product from July 2006.

In response to the growing demand for our decorative base paper products, in early 2007, we planned to construct a new production line no. 7 with a designed annual production capacity of approximately 30,000 tonnes of decorative base paper products. As our Directors believe that it is more cost effective to integrate all our production lines in the same locality, we entered into a tenancy agreement with Guang Hua for a parcel of land, which is adjacent to our existing production base, with a total site area of approximately 10,071 sq. m. for a term of 20 years from 1 April 2007 to 31 March 2027 for the planned production line no. 7, the construction of which commenced in May 2007 and is scheduled to be completed in early 2008. Please refer to the section headed "Connected transactions" in this prospectus for details of this lease arrangement.

As at the Latest Practicable Date, all the expenditures incurred in the construction of the new workshop and installation of the production line no. 7 had been funded by our internal resources. As disclosed in the section headed "Future plans and use of proceeds" in this prospectus, it is our intention to apply approximately RMB163.3 million (equivalent to approximately HK$168.2 million) from the net proceeds raised from the New Issue (on the assumption that the net proceeds from the New Issue will amount to approximately HK$1,130.8 million) to fund such construction and installation.

The following table shows the production data of our six existing production lines:

Production line no.	**Commencement of operation**	**Maximum paper width** *(mm)*	**Basis weight** *(g/sq.m)*	**Maximum speed** *(m/minute)*	**Approximate designed annual production capacity** *(tonnes)*
1	October 1999	1,760	70	160	10,000
2	August 2002	2,640	70	210	20,000
3	May 2003	2,640	90	250	30,000
4	August 2004	2,640	70	520	50,000
5	April 2006	1,575	90	410	30,000
6	April 2006	1,575	90	410	30,000

Our production lines normally operate on a continuous basis, subject to the necessary temporary stoppage for machine cleaning, calibration of production facilities for different product specifications as well as regular inspection and maintenance work that lasts for about three days in aggregate each month and an annual maintenance lasting for approximately one week. During the Track Record Period, there has been no disruption to our business operations as a result of any lack or malfunctioning of production equipment.

The following table illustrates information on the utilisation rates and actual and planned hours of operation for our production lines during the Track Record Period:

	Year end 31 December											
	2004			2005			2006			Four months ended 30 April 2007		
Production line	Actual hours of operation	Planned hours of operations[1]	Equipment Utilisation[2]	Actual hours of operation	Planned hours of operations[1]	Equipment Utilisation[2]	Actual hours of operation	Planned hours of operations[1]	Equipment Utilisation[2]	Actual hours of operation	Planned hours of operations[1]	Equipment Utilisation[2]
1	6,163	7,776	79.3%	6,660	7,776	85.6%	7,558	7,776	97.2%	2,379	2,496	95.3%
2	6,646	7,776	85.5%	6,840	7,776	88.0%	6,034	7,776	77.6%[5]	2,134	2,208	96.6%
3	6,031	7,128	84.6%	6,770	7,776	87.1%	7,294	7,776	93.8%	2,419	2,496	96.9%
4	3,017	3,240[3]	93.1%	7,284	7,776	93.7%	7,740	7,776	99.5%	2,378	2,496	95.3%
5	–	–	–	–	–	–	5,033	5,832[4]	86.3%	2,416	2,496	96.8%
6	–	–	–	–	–	–	5,477	5,832[4]	93.9%	2,476	2,496	99.2%

Notes:

(1) Planned hours of operation take into account, among other things, normal maintenance shutdowns and shutdowns for equipment optimisation.

(2) Equipment utilisation rates represent the actual hours of operation as a percentage of the planned hours of operation.

(3) Commercial operation of production line no. 4 commenced in August 2004.

(4) Commercial operation of production line nos. 5 and 6 commenced in April 2006.

(5) The decrease in the equipment utilisation rate is due to the re-engineering works carried out in this production line during the year.

(6) The average age of our machinery and equipment is approximately 3.5 years.

Ancillary facilities

To support our production, we have built our own wastewater treatment system in our production base to process the wastewater generated from our paper making activities to comply with the current PRC national and local environmental protection laws and regulations. Our wastewater treatment system is capable of processing approximately 1.7 million cubic meters of wastewater per annum. Our Directors confirm that since it has been put into operation, the wastewater treatment system has not experienced any significant malfunctioning which had led to abnormal or prolonged stoppage.

Besides, we rented from SD Changxing, a storage warehouse with a gross floor area of approximately 12,158 sq.m. for a term of 1 year from 10 May 2007 to 10 May 2008 for our logistical support. Please refer to the section headed "Connected transactions" in this prospectus for details of this lease arrangement.

Utilities supply

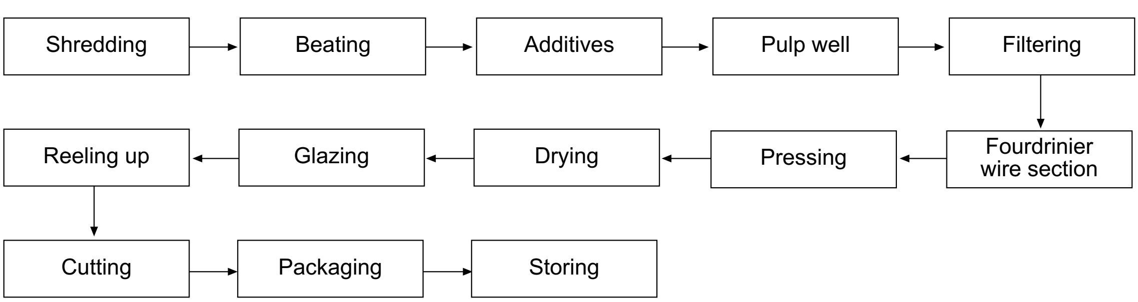
We require a significant amount of water, electricity and steam in our production process and obtain water supply from 鄒平縣水資源管理委員會(Zouping County Water Resource Management Committee*), an Independent Third Party, and electricity and steam from 山東齊星長山熱電有限公司 (Shandong Qixing Changshan Heat and Electricity Co., Ltd.*), an Independent Third Party, to support our production. For each of the three years ended 31 December 2006 and the four months ended 30 April 2007, the total cost of water, electricity and steam amounted to approximately RMB35.5 million, RMB45.8 million, RMB69.3 million and RMB28.7 million, respectively. During the Track Record Period, the supply of water, electricity and steam was adequate and stable and we had not suffered from any shortage of water, electricity and steam supply that resulted in material disruption in operations and the expenses incurred by Shandong Qunxing for the consumption of water, electricity and steam.

We also obtained a valid water-drawing permit in August 1999. Pursuant to the latest water-drawing permit, which was renewed on 24 August 2005 and valid until 23 August 2008, we are approved to draw a maximum of 1 million cubic meters of underground water per annum for our production. We negotiate with the relevant governmental authorities each year to agree on a fixed annual water resources fee for the year and such fee is payable monthly. For each of the three years ended 31 December 2006 and the four months ended 30 April 2007, we paid water resources fee of RMB780,000, RMB840,000, RMB1,140,000 and RMB380,000, respectively.

Production process

Our production process is dedicated to the use of technologically advanced machinery and equipment as they play a significant role in maintaining the efficiency of our production and enhancing our product quality. Our major production machinery and equipment are precise, highly automated and digitalised. All of our machinery and equipment employed were purchased in the PRC.

The following flow charts provide an overview of the major steps involved in the production process for both of our decorative base paper products and printing paper product:



Shredding

The process of breaking down unbroken paper leaves completely in wood pulp without disintegrating the fiber.

Beating

The process of processing paper fiber in wood pulp using physical methods, giving it qualities required by paper making machines in order to produce paper and paper board of satisfactory quality.

Additives

The process of preparing different portion of ingredients and adding various kinds of chemicals into wood pulp in order to satisfy the requirements of paper making.

Pulp well

The equipment used to store wood pulp in the sheet formation process of paper making machines aiming at preventing the disruption to the production caused by the intermittent or continuous outages of beaters or furnishing equipment.

Filtering

The equipment used to eliminate minerals, metal or larger fiber utilising the differences in density between inorganic impurities and fiber, or differences in size between larger and smaller fiber.

Fourdrinier wire section

After being filtered, mixed liquid pulp will go through this part for removal of excessive water used in the preparation of liquid pulp. By centrifugation, approximately 85% of the excessive water used will be removed from Fourdrinier wire section and then recycled for production use, while the remaining approximately 15% of the excessive water used will be channelled to the wastewater treatment system for recycling for environmental protection use.

Pressing

The process of flattening and flowing paper using the part of paper making machines which consist of two or more opposite rolling cylinders.

Drying

After pressing, paper is taken through this part which comprises one or more steam-drying metallic cylinders.

Glazing

Paper is glazed by rolling at this stage in order to increase its printing capability.

Reeling up

The process of rewinding the paper into a reel. Samples of finished paper are also regularly checked by our quality control staff at this stage before they are forwarded onwards.

Cutting

Rolls of paper are forwarded to this stage for cutting into prescribed size. The production process ceases to be computerised at this stage and need to be man-controlled by our staff again from this stage onwards.

Packaging

The process of tidying up paper and packing it with other relevant materials to achieve better appearance and good condition during transportation, storage and sale.

Storing

The process of storing products after packaging.

Production workforce

As at the Latest Practicable Date, we had a production team consisting of more than 800 staffs led by a team of 11 experienced managerial and executive staff members in the production department. We organise our production staff into three shifts, while each shift works for eight hours per day and seven days per week, so that we can maximise our production capacity. We believe that our strong production team, coupled with our highly automated production facilities, will continue to play a pivotal role in the future growth of our business.

SALES, DISTRIBUTION AND MARKETING

Our sales and marketing strategy concentrates on establishing the reputation for consistently delivering high-quality products at competitive prices, providing dependable customer support services and building up lasting and stable relationship with customers.

Sales and distribution

We operate our sales network from our office in Shandong Province, the PRC. To the best knowledge and belief of our Directors, the majority of our customers for decorative base paper products are processing factories, most of which are private enterprises and are principally engaged in the processing and/or manufacturing of laminated boards, who will further process our decorative base paper products with various materials to form laminated board. For printing paper product (a new line of product introduced in July 2006), we currently sell all of our printing paper product to a well-established paper processing and trading company in the PRC. Such entity was our single largest customer for the year ended 31 December 2006 and the four months ended 30 April 2007. In such manner, our Directors believe that we are able to use our local presence and the network of our customers in the PRC to provide better service and reduce our collection risk.

We designate six sales regions in the PRC based on the geographical concentration of our customers for our internal management of our sales and marketing activities. The six regions are, namely, Shandong, Sichuan, Guangdong, Beijing (and nearby area), Jiangsu and Zhejiang. We appoint one sales manager for each of the six regions, who is responsible for managing the sales and marketing activities in the respective region and the respective nearby areas. We do not have any separate sales office in any of these regions. The diagram below shows the locations of our six sales regions and the geographical presence of our customers in the PRC:

The staffs in our sales and marketing department are responsible for coordinating with, handling enquiries from, and confirming orders and product specifications from customers and providing after sales services. However, all orders from our products are transacted through our head office in Shandong and these sales managers do not have general authority to enter into any sales contract with any customer on our behalf.

As at the Latest Practicable Date, we had a well-trained and experienced sales and marketing team of about 30 staff and the majority of them possess 4 to 8 years of experience in sales and marketing, most of whom travel across the six regions from time to time in order to carry out their job duties.

It is our strategy to differentiate our products from those of our competitors by quality. In view of this, we have regularly provided in-house training to our sales and marketing staff to enhance their knowledge of our products as well as their sales techniques.

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

Marketing

Our sales and marketing department is also responsible for conducting marketing activities and soliciting new customers in the six designated sales regions in the PRC.

We are aware of the importance of providing suitable products that satisfy our customers' changing demands and requirements. Therefore, our sales and marketing activities are customer-oriented. Our staff of sales and marketing department will visit our customers regularly to enable our customers to better understand our products and our competitive advantages and maintain good business relationship with them. Also, as we select our customers based on their respective backgrounds and creditworthiness, we believe that such regular visit will enable us to provide response to their procurement needs, understand customers' trading conditions and gather the latest market information.

In addition, we carry out our marketing activities through other means, including promoting the latest information about us and our products through our website http://www.qxzy.com.cn, advertising our products on outdoor billboards as part of our advertising campaign, and participating in trade exhibitions, which allow us to enhance our profile. In March 2007, we participated in 第五屆中國(山東)國際造紙工業博覽會 (The 5th China International Paper Industry (Shandong) Exposition*) held in Jinan City, Shandong Province, the PRC.

In addition to the abovementioned sales and marketing channels, we also secure new customers through referrals from our existing customers, many of whom have made recommendation based on their positive view on our product quality, efficient services and competitive pricing.

During the Track Record Period, we were able to control our sales and marketing expenses in accordance with our pre-set expense approval procedures which our management closely monitor and maintain such expenses at approximately 1% of our total revenues.

Pricing strategy

Generally, we determine our product prices with reference to a number of factors, such as the manufacturing costs, operating expenses, domestic and international market prices of the products that we manufacture, as well as opinions from our customers regarding the price of our products. We typically review our product prices every six months and such intervals may be shortened or prolonged depending on the overall market condition. Prior to 2006, we adopted a flexible pricing strategy, through which the selling prices of our decorative base paper products across different regions in the PRC were determined with reference to the market conditions of the respective regions. Starting from 2006, with a view to streamlining our pricing policy, we have gradually standardised the prices of our decorative base paper products across different regions in the PRC and any deviation from our standard prices is determined after discussion and agreement among our sales and marketing department, our finance department and our senior management on a case by case basis.

We believe that because we have an established brand name in the domestic market in the PRC and are one of the market leaders in terms of designed annual production capacity, we are able to sell our products with better quality in the PRC market at a competitive price when compared to other PRC domestic industry players who manufacture similar products. Vis-a-vis foreign industry players who import specialty paper into the PRC market, we believe we also have price competitiveness over them since the specialty paper products they import into the PRC are normally sold at a higher price than those of similar quality sold by domestic industry players in the PRC. We also set our prices based on sales volume. Other than volume discounts, we typically do not provide other types of discounts to our customers.

Customers

To the best knowledge and belief of our Directors, the majority of our customers for decorative base paper products are processing factories, most of which are private enterprises and are principally engaged in the processing and/or manufacturing of laminated boards, who will further process our decorative base paper products with various materials to form laminated board. We sell all of our products to our customers in the PRC. Our Group has built a large, diversified and stable base of customers for our decorative base paper business. As at 30 April 2007, we had over 125 customers which are scattered around 13 provinces, autonomous regions and municipalities in the PRC as shown on the diagram under the sub-paragraph headed “Sales and distribution” above.

For each of the three years ended 31 December 2006 and the four months ended 30 April 2007, sales to our five largest customers in aggregate accounted for approximately 20.6%, 20.5%, 25.9% and 38.7% of our turnover, respectively. Sales to our single largest customer for the same periods accounted for approximately 5.2%, 4.6%, 12.3% and 22.7% of our turnover, respectively.

Even though we do not normally enter into long term sales agreement with most of our customers, the majority of our customers remained stable during the Track Record Period. We have established business relationships with each of our five largest customers of our decorative base paper products during the Track Record Period for over five years, and with the remaining customers for one to six years. As for our printing paper product, we commenced the supply of such product to our sole customer of printing paper product in July 2006. Our Directors believe that this is primarily due to the quality and consistency of our products, our ability to meet customer needs and our recognised service. We will continue to focus on maintaining long-term relationships with our existing customers and identifying and developing new business relationships with potential customers.

None of our Directors or their respective associates, or existing shareholders who, to the knowledge and belief of our Directors, own more than 5% of our issued share capital, has any interest in any of our five largest customers.

Terms of Sales and Credit Policy

We normally enter into framework sales contracts with our major customers which indicate the estimated total sales for a term of one year. Normally, we require our customers to settle our invoices by cash on delivery. The granting of credit to customers is assessed on a case-by-case basis. We may grant credit terms of 30 days on a rolling basis to our customers with whom we have maintained a longer business relationship. We monitor payments on credit very closely, and arrange meetings with our customers on a monthly basis. Records of the credit and payments are kept in both the accounting and sales and marketing departments so that both departments can monitor and handle the status of our customers' payments. We have not had any significant bad debts or doubtful accounts or provided for the same during the Track Record Period. We periodically review the payment status of its accounts receivables and take appropriate measures to collect overdue accounts.

PROCUREMENT OF RAW MATERIALS AND SUPPLIERS

Our procurement department is responsible for the procurement of raw materials and selection of suitable suppliers, as well as for coordinating with our quality control staff in relation to the quality control of raw materials. We have implemented internal management systems in accordance with the principles of ISO: 9001 to enable us to plan for raw material procurements to ensure a steady and timely supply of principal raw materials.

Raw materials

Our principal raw materials for both of our decorative base paper products and printing paper product are wood pulp and titanium dioxide powder. We purchase wood pulp from local wood pulp distributors, who import such wood pulp from overseas. We purchase titanium dioxide powder from local distributors as well. All the wood pulp and titanium dioxide powder, as well as other raw materials, are stored in the warehouse at our production base.

The supply of and demand for raw materials are subject to various market factors. To the best knowledge and belief of our Directors, the price of wood pulp is generally affected by the overall economy, and the price of wood pulp has increased steadily over the past three years.

To the best knowledge and belief of our Directors, the price of titanium dioxide powder has increased steadily during the Track Record Period. For the three years ended 31 December 2006 and the four months ended 30 April 2007, our purchase of wood pulp amounted to approximately RMB131.2 million, RMB191.8 million, RMB310.5 million and RMB107.8 million, respectively, representing 34.3%, 34.1%, 40.5% and 42.2%, respectively, of our total cost of sales for the respective periods and our purchase of titanium dioxide powder amounted to approximately RMB149.3 million, RMB209.5 million, RMB237.5 million and RMB54.4 million, respectively, representing 39.0%, 37.2%, 31.0% and 21.3%, respectively, of our total cost of sales for the respective periods.

For the three years ended 31 December 2006 and the four months ended 30 April 2007, our Group purchased wood pulp at the average price per tonne (value added tax inclusive) of approximately RMB5,180, RMB5,626, RMB6,056 and RMB5,975, respectively, and purchased titanium dioxide powder at the average price per tonne (value added tax inclusive) of approximately RMB11,804, RMB12,292, RMB12,887 and RMB12,909, respectively. To the best knowledge and belief of our Directors, there is adequate supply of both wood pulp (including both domestically produced wood pulp and wood pulp imported from overseas) and titanium dioxide powder in the PRC and we have not experienced any shortage of supply for wood pulp and titanium dioxide powder during the Track Record Period.

Although the prices of both wood pulp and titanium dioxide powder have increased steadily and moderately during the Track Record Period, since such increment can be passed on to our customers and does not have any material impact on our Group, we have not taken any special measures to manage the fluctuation in major raw materials costs.

During the Track Record Period, all purchases of raw materials were denominated and settled in Renminbi.

Suppliers

We normally enter into framework supply contracts with our major suppliers which indicate the estimated total amount of raw materials to be procured from the relevant suppliers for a term of one year. We are typically granted with credit terms of 30 days after the date of invoices by our suppliers. We normally settle our invoices with our suppliers by telegraphic transfer.

For the three years ended 31 December 2006 and the four months ended 30 April 2007, our five largest suppliers, who are independent chemical manufacturers and wood pulp trading companies, accounted for approximately 58.0%, 58.3%, 63.3% and 79.7%, respectively, of our total purchases and our single largest supplier accounted for approximately 15.1%, 14.7%, 22.0% and 31.0%, respectively, of our total purchases for the respective periods.

We procured a substantial portion of the raw materials from the major suppliers during the Track Record Period since it is our strategy to concentrate our purchase from a few suppliers in order to increase our bargaining power with these suppliers by ordering sufficient or bulk quantities from such suppliers. In addition, we also consider it is commercially beneficial to build up stable and close business relationship with some of these suppliers. However, we also have a policy to diversify our sources of supply and to maintain at least a small proportion of raw material supplies from suppliers other than the major suppliers for each type of raw materials, in particular, wood pulp and titanium dioxide powder, to ensure a list of readily available alternative suppliers. We believe we have a sufficiently large suppliers' base to support our policy in order to mitigate possible risk of reliance on any of our major suppliers.

Our Directors consider that we have established good relationship with our suppliers and we had not experienced any major difficulties in procuring sufficient amount of raw materials to meet our production requirements during the Track Record Period. Although we do not normally enter into any supply contract for a term exceeding one year with any of our suppliers, we believe that even if any of our top five supplies fails to satisfy our need, there are sufficient alternative suppliers for our principal raw materials in the market to allow us to select suitable replacement suppliers.

As ultimate purchaser, we are not, under the existing applicable laws and regulations, legally liable for any failure on the part of our suppliers (or the ultimate suppliers) of wood pulp to comply with all applicable legal requirements in the jurisdictions in which such suppliers conduct their business operations nor will we assume any legal liability for not requesting the relevant certification on quality of wood pulp from the supplier from whom we procure such raw materials. However, as additional precautionary measures, it is our plan to enhance our internal standard of environmentally responsible practices by the following means:

(1) in the short term, we will use our best endeavour to require our existing wood pulp suppliers to complete questionnaires in ascertaining the legality of the ultimate wood pulp suppliers' in sourcing the wood pulp and their operations in their respective jurisdiction and whether such suppliers have adopted any environmentally responsible practices, before renewing the annual framework contracts with our wood pulp suppliers. To effectively implement such policy, we will, assuming other factors such as price, quality of wood pulp supply, supply lead time and stability of supply constant and without affecting business efficacy, give priority to those suppliers who could provide adequate and sufficient information to us for fair assessment of not only of their background but also that of the ultimate suppliers.

    If it has come to our attention any evidence of illegality on the part of such suppliers in importing or distributing wood pulp or that the relevant suppliers, immediate or ultimate, may not have adopted such environmentally responsible practices, we will undertake to conduct thorough evaluation of such suppliers. We may consider not to place any order for wood pulp from such suppliers or even to terminate, as a more draconian measure, the relevant framework contract with the relevant suppliers, to the extent permitted by laws and regulations, if the evaluation of the suppliers or their ultimate suppliers falls short of our expectations.

(2) in the long run, we will adopt a more stringent set of supplier selection criteria, including not only pricing and quality of raw materials supplied but also compliance with environmental standards. It is expected that we would evaluate a supplier's background in details, including its quality and environmental certifications and compliance, test results of its supplies and other relevant information before selecting the supplier.

Our Directors confirm that it is also our long term goal to obtain independent certification of its own environmentally responsible practices.

None of our Directors or their respective associates, or existing shareholders who, to the knowledge and belief of our Directors, own more than 5% of our issued share capital, has any interest in any of our five largest suppliers.

INVENTORY CONTROL

We monitor and control the inventory levels of our raw materials and finished products by implementing an inventory management policy in order to enhance the smooth running of our operations and to minimise wastage.

It is our practice to purchase sufficient amount of raw materials based on our production schedule and keep one week's supply in storage at our warehouse at our production base. We may also increase our stocks of raw materials at times when our Directors anticipate that the price of our raw materials will increase, with reference to the market information gathered by our procurement department. We hold regular meeting on a monthly basis to discuss about the supply and price movement of wood pulp and titanium dioxide powder. If any circumstance arises which requires us to change our safety stock level, such issue will be discussed amongst our Directors and the head of each department, and final approval will be obtained from our Directors. During the Track Record Period, we have discussed the supply and price movement of raw materials during monthly meetings. Our Directors confirm that we had not experienced any such circumstances that required us to change our inventory level in usual practice. For finished products, it is our practice to keep minimal stock of finished products in the storage warehouse at our production base to satisfy any customer's urgent demand. We may also keep reserve stocks of finished products at times when our Directors believe that the market demand for decorative base paper makes it prudent to do so. We are equipped with sufficient storage area to meet such increase in stock of raw materials and finished products.

QUALITY CONTROL

We place strong emphasis on quality control and implement stringent quality control system for procuring raw materials, monitoring production process and inspecting finished products. We obtained the accreditation of ISO: 9001 in June 2004, which was renewed in June 2007 for a validity period from 21 June 2007 to 20 June 2010. We have applied the principles of ISO: 9001 throughout our quality control system. We believe that quality control is essential to the continuous growth of our business. We have implemented a comprehensive and effective quality control system covering certain important stages of the production process and other aspects of our business. Our quality control procedures and guidelines are designed to ensure that the quality of our products satisfies the specifications of our customers.

Raw materials

We examine wood pulp and titanium dioxide powder upon the arrival before the same is unloaded from the container for storage in our production base. Samples of wood pulp and titanium dioxide powder are also taken for laboratory testing to ensure their quality.

Production process

All our production lines are operated by highly automated or digitalised quality control systems which systematically monitor production parameters such as moisture, basis weight, coating weight and calliper of the sheets, thus allowing us to maintain consistent product quality, increase production efficiency and minimise disruption of the production process.

In particular, we scrutinise our products for quality control purposes at certain important stages of the production process. Firstly, our quality control staffs regularly check the concentration of the aqueous pulp to ensure that it will produce the paper products of the same specifications as ordered by our customers. During the reeling up process, samples of paper are regularly checked by the quality control staff in respect of various physical properties, including strength, thickness, moisture, appearance basis weight and printability of the paper products.

Finished products

Samples of finished paper products are regularly checked by the quality control staff after the cutting process before they are forwarded onwards for packaging. We take samples of finished paper products for testing of various physical properties, including strength, thickness, water absorption ability, basis weight and smoothness, as applicable, to ensure that the products meet the required specifications.

As at the Latest Practicable Date, our quality control department, which is led by two engineers who oversee both the research and development and quality control departments, has deployed 25 staff members engaged in testing and quality control activities ancillary to our production process. All of such staff possess tertiary education and majority of them possess 3 to 6 years of relevant experiences. We provide on-the-job training to our quality control staff from time to time to ensure that these staff members are equipped with the knowledge to carry out their duties competently and in compliance with our quality control system implemented under the 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, as such we did not hold any regular meeting to discuss our product return issues. 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, nor have we adopted any specific product return policy.

RESEARCH AND DEVELOPMENT

Our Directors believe that continuous technical advancements in terms of processing technology and product development play a key role for our future success. As at the Latest Practicable Date, our research and development department, which is led by two engineers who oversee both the research and development and quality control departments, has deployed 11 technical staff members engaged in research and development activities. All of such technical staff members possess tertiary education and nearly half of them possess 3 to 7 years of relevant experiences.

Our research and development activities focus on the improvement of efficiency of our production equipment and process, the development of new products and enhancement of the quality of our existing products. As at the Latest Practicable Date, we had applied for two patents with respect to inventions we developed through our research and development efforts, one of which is in respect of a drying equipment installed in our paper making machines and the other is in respect of a method used by us to add titanium dioxide powder during the production of white decorative base paper products. In addition, we possess processing and preparation know-how developed and accumulated since we commenced operation, such as the formulae we have developed and prescribed for mixing aqueous pulp and other raw materials, especially titanium dioxide powder, for different types of products based on the specifications of the products ordered by our customers.

With an aim to expanding our research and development capability, Shandong Qunxing entered into a technology agreement in May 2007 with 山東省造紙工業研究設計院 (Research and Design Institute of Paper Manufacturing Industry of Shandong Province*) for the establishment of new products and technology research and development centre based in Shandong Qunxing for a term of two years commencing from 1 May 2007.

Under the technology agreement, Shandong Qunxing is required to provide funding in the amount of RMB50,000 on an annual basis as research and development fees of the research personnel at the centre and 山東省造紙工業研究設計院 (Research and Design Institute of Paper Manufacturing Industry of Shandong Province*) shall (i) be responsible for the daily operation of the research and development centre; (ii) provide laboratory facilities and personnel for the research and development activities on new paper products and paper manufacturing technology and collect technical information in accordance with the requirements of Shandong Qunxing. 山東省造紙工業研究設計院 (Research and Design Institute of Paper Manufacturing Industry of Shandong Province*) shall ensure the confidentiality of the technology involved and it shall be liable for the legal consequences arising from any leakage of confidential information.

The technology agreement does not expressly provide for the entitlement of the ownership of the intellectual property rights generated from the research activities in the centre or stipulate any profit sharing ratio between Shandong Qunxing and 山東省造紙工業研究設計院 (Research and Design Institute of Paper Manufacturing Industry of Shandong Province*), in the event that any new products developed by the centre are put into commercial production. Our Directors confirm that the research and development fees for the centre will be funded by internal resource of our Group. Our Directors believe that such arrangement will help to bolster our product manufacturing capabilities, improve our production efficiency, lower our overall manufacturing costs and enhance our product quality.

Apart from the technology agreement which we entered into with 山東省造紙工業研究設計院 (Research and Design Institute of Paper Manufacturing Industry of Shandong Province*), we have been seeking to expand our research and development capability by forming strategic alliance with established academic institutions in future. As at the Latest Practicable Date, we had not identified any other specific academic institutions for strategic alliance.

We collect our customers' views and feedbacks in relation to the quality and range of our product offerings, which are valuable for our research and development efforts. We have developed six new decorative base paper products for the year 2006, while we intend to develop five more new decorative base paper products for the year 2007. After a new product has been developed, we normally attempt to sell it to the market when the market conditions and requirements justify us to do so.

For the three years ended 31 December 2006 and the four months ended 30 April 2007, we applied approximately RMB0.5 million, RMB0.9 million, RMB1.2 million and RMB0.4 million, respectively, in the research and development activities, including the development of new products and enhancement of production efficiency.

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 environmental protection laws and regulations.

Under the current PRC national and local environmental protection laws and regulations, any enterprise which discharges wastewater, sewage and polluted air is required to seek approval from the relevant environmental protection authorities as part of the approving process for setting up such an enterprise in the PRC. The relevant PRC laws and regulations also require such enterprise to set up wastewater, sewage and polluted air treatment facilities that meet the relevant environmental protection standards and to treat any wastewater, sewage and polluted air before being discharged. In addition, current PRC national and local environmental protection laws and regulations impose fees for the discharge of polluted water and fines for the discharge of pollutants which are inadequately treated. The relevant laws and regulations also empower the relevant governmental authorities to close down any enterprise that cause serious pollution.

Before April 2006, small scale wastewater treatment facilities were built in our production facilities and were considered sufficient to process the wastewater generated from our operations. However, in anticipation of the substantial increase in the operation scale upon the commencement of commercial production of production lines nos. 5 and 6, and to ensure compliance with the increasingly stringent environmental protection laws and regulations in the PRC, Shandong Qunxing decided to build a new and custom designed wastewater treatment system to assist for the treatment of wastewater from all the production lines when it proceeded with the installation of production lines nos. 5 and 6. Hence, we invested approximately RMB2.18 million for the construction of our existing wastewater treatment system which commenced operation around the same time of which production lines no. 5 and 6 were put into commercial operation. The wastewater treatment system is estimated to have a useful life of approximately 20 years, the wastewater treatment is capable of processing approximately 1.7 million cubic meter of wastewater per annum and our Directors believe that the scale of the existing wastewater treatment capability is adequate for our production requirements and, most importantly, for compliance with the relevant environmental laws and regulations to which Shandong Qunxing is subject. Other than wastewater, there are no other waste disposals generated by our production.

As our production process involves the discharge of wastewater, Shandong Qunxing has obtained 排放污染物許可證(Pollutant Discharge Permit*) (the "**Permit**") issued by 鄒平縣環境保護局(Zouping County Environmental Protection Bureau*) on 5 January 2007 in compliance with 水污染防治法實施細則 (Detailed Rules for the Implementation of the Law on the Prevention and Control of Water Pollution*) which was promulgated by the State Council on 20 May 2000 and took effect on the same day, 水污染物排放許可証管理暫行辦法 (Interim Measures on Pollutant Discharge Permit of Water Pollution*) which was promulgated and took effect on 20 March 1988, and 山東省水污染防治條例 (Regulations on Prevention and Control of Water Pollution of Shandong Province*) which was promulgated by the People's Congress of Shangdong Province on 26 October 2000 and took effect on 1 December 2000. As advised by our legal advisers as to PRC law, according to the Environmental Protection Law of the PRC, 鄒平縣環境保護局(Zouping County Environmental Protection Bureau*) is the competent department which shall conduct unified supervision and arrangement of the environmental protection work in Zouping County, so it supervises and administers our Group's environmental matters and is authorised to issue the Permit to our Group with a validity of up to five years. Our legal advisers as to PRC law further advised that, according to the confirmation issued by 鄒平縣環境保護局 (Zouping County Environmental Protection Bureau*), Shandong Qunxing has not been instructed to obtain the Permit before 2007 solely due to the fact that Zouping County Environmental Protection Bureau administered the pollutant discharge related permission by way of requiring relevant enterprises, including Shandong Qunxing, to issue a responsibility letter, pursuant to which the relevant enterprises, including Shandong Qunxing, had undertaken to control the discharge of pollutant under the pre-approved level before 2007. Since 2007, Zouping County Environmental Protection Bureau has started to issue the Permit in Zouping County. As such, Shandong Qunxing will not be consequently liable for any punishment for such administrative arrangements. Accordingly, our legal advisers as to PRC law are of the view that Shandong Qunxing is not liable for any kind of punishment as such default was only attributable to the administrative acts of Zouping County Environmental Protection Bureau and cannot be attributable to any fault on the part of Shandong Qunxing. All manufacturing enterprises in Zouping are required to obtain the Permit by the latest in second half of 2008.

We perform constant maintenance work on and monitor the existing wastewater treatment system to ensure that our operations do not cause any material environmental problems or breach of the relevant environmental laws and regulations or the Permit. Our production staff monitors our wastewater discharge level on a daily basis to ensure that the level of our discharge pollutants is within the level permitted under the applicable environmental laws and the Permit. We monitor the existing wastewater treatment system to ensure our operations do not cause any material environmental problems or breach of the relevant environmental laws and regulations or the Permit. To facilitate such monitor work, Shandong Qunxing has installed electronic meters in its water treatment facilities from which the data of the density of pollutant discharged from treated water and the total volume of treated water that discharged from the system can be obtained and monitored by our designated staff on a daily basis in order to ensure that the level of the pollutant discharge of Shandong Qunxing is within the level permitted under the applicable environmental laws and the Permit. During the Track Record Period, we paid a fixed fee of RMB72,216 per annum for the discharge of wastewater to the relevant governmental authorities and our Directors do not expect any major or significant expenditures to be incurred in this aspect as our existing wastewater treatment is adequate to satisfy the relevant environmental laws and regulations. Save for the aforesaid fixed fee of RMB72,216 per annum paid for the discharge of wastewater, we have not separately accounted for the expenses used for the compliance with environmental rules and regulations during the Track Record Period. Furthermore, we plan to install another new and custom designed wastewater treatment system for the new production lines no. 7, no. 8, no. 9, no. 10 and no. 11. The cost for installing such wastewater treatment system will amount to approximately RMB40 million, which has been included in the expected capital costs of

RMB720 million for the construction of new production lines no. 8, no. 9, no. 10 and no. 11.

In addition, since 2007, 鄒平縣環境保護局 (Zouping County Environmental Protection Bureau*) has also separately established and managed a wastewater check-point in Shandong Qunxing to conduct its independent monitor on Shandong Qunxing's compliance with applicable laws and regulations and the Permit. The check-point, installed with electronic meter, provides real time data with respect to the discharge pollutants of Shandong Qunxing to 鄒平縣環境保護局 (Zouping County Environmental Protection Bureau*) so that it can independently verify the data provided by Shandong Qunxing from time to time.

Prior to 2007, 鄒平縣環境保護局 (Zouping County Environmental Protection Bureau*) paid monthly visits to Shandong Qunxing to obtain sample of certain amounts of treated water discharged by Shandong Qunxing and examined the pollutant density of such sample in order to estimate and monitor (by computing with the total pollutant density in the sample and the total volume of treated water discharged according to the abovementioned electronic meter) the total pollutant discharge by Shandong Qunxing falls within the pre-determined level prescribed in the responsibility letters.

Our Directors confirm that since the inception of Shandong Qunxing, the level of pollutants discharged by Shandong Qunxing has complied with and within all the pre-approved level prescribed in the responsibility letter prior to 2007. Moreover, our legal advisers as to the PRC law also advised that, according to the information and confirmation provided by us and 鄒平縣環境保護局 (Zouping County Environmental Protection Bureau*), Shandong Qunxing has strictly complied with the relevant requirements prescribed in the responsibility letter and, save for the default in obtaining the Permit before 2007 as a result of the abovementioned administrative acts of 鄒平縣環境保護局(Zouping County Environmental Protection Bureau*), all of our production activities are in full compliance with the relevant environmental laws and regulations in the PRC. Our Directors confirm that we have not been fined for any breach of the relevant environmental protection laws and regulations nor have we been subject to any claims or actions against us in this respect since the establishment of Shandong Qunxing.

INSURANCE

We maintain insurance in respect of our properties, plants and equipment, machinery and vehicle. Our Directors consider that our Group's insurance coverage is sufficient and in line with the normal commercial practice in the PRC. We also provide social insurance for our employees as required by the PRC social security regulations, such as insurance for retirement, unemployment, sickness and industrial injuries suffered by our employees.

INTELLECTUAL PROPERTY

We seek to protect our intellectual property rights by relying on laws and regulations such as trademark law and patent law of the PRC and by imposing confidentiality obligations on our employees.

As at the Latest Practicable Date, we had registered our trademarks “” and “”, and applied for the registration of the trademark “”, which has been used as the brand name of our decorative base paper products, and “” in the PRC. In addition, we have registered the domain name http://www.qxzy.com.cn as our official website.

We have stringent confidentiality protection arrangements in place to protect such know-how, including requiring our technical and management personnel to enter into confidentiality and non-competition undertakings to ensure that such know-how is not passed to our competitors.

Our Directors confirm that we are not involved in any proceedings in respect of, and we have not received 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.

Further information relating to the trademarks, domain name and patents above is set forth in the paragraph headed “Intellectual property rights of the Group” in Appendix VI to this prospectus.

AWARDS AND ACCREDITATION

The table below sets out other major corporate awards/recognitions received by our Group since our establishment:

Awards/recognition	Issuing institutions	Year
ISO 9001:2000 accreditation in respect of our decorative base paper products in relation to production, sales and services	中經科環質量認證有限公司 (Zhong Jing Kehuan Quality Certification Ltd.*) *(Note 1)*	2004 (for a validity period from 7 June 2004 to 6 June 2007) 2007 (for a validity period from 21 June 2007 to 20 June 2010)
Certificate of Binzhou City Private Technology Enterprise (濱州市民營科技企業證書)	濱州市科學技術局 (Binzhou City Science and Technology Bureau*) *(Note 2)*	2006
Science and Technology Accredited Results Certificate (科學技術成果鑒定證書)	山東省科學技術廳 (Department of Science & Technology of Shandong Province*) *(Note 3)*	2006

Notes:

1. A certification body in China for conformity assessment, which has been accredited by 中國合格評定國家認可委員會 (China National Accreditation Service for Conformity Assessment*).

2. A governmental entity in charge of the implementation of science and technology law in Binzhou City, Shandong Province the PRC and the operation of high technology enterprise.

3. A provincial committee in charge of the implementation of science and technology law in Shandong Province the PRC and the operation of high technology enterprise.

COMPETITION

Our Group is principally engaged in the manufacture and sales of decorative base paper products and printing paper product. Based on our Directors' knowledge and experience in the decorative base paper and printing paper industries, the overall paper manufacturing industry in China, including the decorative base paper manufacturing industry, is relatively fragmented with a large number of manufacturers. However, due to intensive capital investment, environmental concerns and constraints in raw material supplies in the paper manufacturing industry, these factors present significant entry barriers to newcomers. Nonetheless, we do not rule out the probability that there may exist certain manufacturers with substantially more capital and resources for research and development, higher production capacity and better marketing capability than those of our Group. 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 advantages" above, our Group is well-positioned to face any competition.

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 manufacturers of decorative base paper products and printing paper product in the PRC.

Moreover, with increasing emphasis on the perception of product quality nowadays, the technology development and quality control in the specialty paper manufacturing industry have become core elements. According to China Paper Association, only a few specialty paper manufacturers, including those manufacturing decorative base paper products, have enjoyed an economy of scale and acquired satisfactory technological know-how in developing high quality specialty paper products.

According to 人造板工業十一五規劃分析報告 (The Outline for Development of the Laminated Board Industry under the Eleventh Five Year Plan*), the PRC government intends to foster the development of domestic specialty paper manufacturing industry. Pursuant to 人造板工業十一五規劃分析報告 (The Outline for Development of the Laminated Board Industry under the Eleventh Five Year Plan*), governmental bodies in the Shandong Province have issued several notices which promulgated specific policies in relation to the development of specialty paper manufacturing industry in the Shandong Province as well as approved altogether 116 projects in relation to the paper industry, such as projects relating to the construction of new production sites or expansion of existing production bases for different types of paper products as well as projects relating to wood pulp and chemical manufacturing. In this connection, our plan to expand our production capacity was approved by 山東省輕工業辦公室 (Shandong Province Light Industry Department*) in January 2007 as one of such approved projects in the PRC. It has also been specified in these notices that the governmental bodies of Shandong Province will, in principle, no longer approve any project for construction of new paper products manufacturing production site or expansion of existing paper products manufacturing production bases during the period of 人造板工業十一五規劃分析報告 (The Outline for Development of the Laminated Board Industry under the Eleventh Five Year Plan*) other than those which have already been approved pursuant to such notices. In light of the abovementioned provincial policies of the PRC government and the fact that Shandong Province was ranked amongst other provinces (i) the first in terms of the production volume and sales revenue; and (ii) the third in terms of number of paper products manufacturers in the PRC, our Directors believe that our Group is well-positioned in the specialty paper manufacturing industry in the PRC as the barriers for newcomers to start paper manufacturing activities and for those existing paper manufacturers who wish to switch production of one category of paper products to another, which will be deemed as new projects, in the Shandong Province are difficult to be overcome.

LOGISTICS

We do not maintain our own logistic team to deliver raw materials from our suppliers or deliver finished products to our customers. Our suppliers usually deliver the raw materials direct to us. For our finished products, delivery is rendered by one of the following three methods:

- our customers pick up the finished products at our factory themselves;
- at the request of our customers, we arrange for third party logistics operators to deliver the finished products from our factory to our customers, the delivery cost of which will be borne by the customers; or
- our customers arrange for third party logistics operators to deliver the finished products from our factory to our customers at their expenses.

In situations where we arrange for third party logistics operators to deliver our finished products from our factory to our customers, we normally enter into contracts with such third party logistics operators for such delivery. Typically, we require the third party logistics operators to provide us with a security deposit to cover any loss or damages that may be incurred to us as a result of or in connection with the delivery of our products by such third party logistics operators.

During the Track Record Period, we had not experienced any material disruption in the logistics services for our raw materials or products.

LEGAL PROCEEDINGS, CLAIMS AND COMPLIANCE

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.

Since the establishment of our Group in 1999, there has not been any claim against us in relation to harmful or defective products. Our Directors attribute this principally to our success in minimising our product liability risk through stringent quality control on our products.

APPROVALS AND PERMITS

We have complied with all relevant laws and regulations in the jurisdictions where we have operations. Set out below are the major approval, permits, licences and certificates required for our principal operations:

No	Name of document	Issuer	Document No	Date of issue	Validity
Shandong Qunxing					
1	Enterprise legal person business licence	Industrial and Commercial Administration Bureau of Binzhou City	Qi Du Lu Bin Zong Zi No.000362	14-Feb-07	Valid, subject to annual review
2	Certificate of approval for establishment of enterprises with investment of Taiwan, Hong Kong, Macao and overseas Chinese in the PRC	The People's Government of Shangdong Province	Shang Wai Zi Lu Fu Zi[2006] No.2170	28-Jul-06	Valid, subject to annual review
3	Taxation registration certificate	State Tax Bureau of Zouping County Shandong Province	Lu Shui Bin Zi 372330737240623	13-Mar-07	Valid as long as the business licence remains valid
4	Taxation registration certificate	Local Tax Bureau of Zouping County Shandong Province	Lu Shui Bin Zi 372330737240623	13-Mar-07	Valid as long as the business licence remains valid
5	Foreign exchange registration certificate for foreign-invested enterprise	State Administration Bureau of Foreign Exchange, Shandong Bureau		22-Aug-06	Valid, subject to annual review

No	Name of document	Issuer	Document No	Date of issue	Validity
6	Foreign exchange registration certificate for foreign-invested enterprise	State Administration Bureau of Foreign Exchange, Zouping Branch		15-Sep-06	Valid, subject to annual review
7	Pollution Discharge Permit	Environment protection Bureau of Zouping County	No. 008	5-Jan-07	Valid, subject to annual review
8	Water Drawing Permit	The Ministry of Water Resources of the PRC	Qu Shui Lu Bu Shui Zi(2005)No.04-024	24-Aug-05	24 Aug 2005 to 23 Aug 2008

PROPERTY

Owned properties

As of 30 June 2007, we owned three parcels of land with a total site area of approximately 62,520 sq. m. and the buildings erected thereon with a total gross floor area of approximately 38,226 sq. m. in the PRC. Our existing production lines no. 1 to no. 6 and head office premises are currently housed in these buildings. We have obtained all relevant title documents, including land use rights and building ownership certificates, of such parcels of land and buildings.

According to our legal advisers as to PRC law, we have obtained all relevant approvals in relation to these buildings 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.

Leased properties

As of 30 June 2007, we leased a parcel of land with a total site area of approximately 10,070.6 sq. m. from Guang Hua and a warehouse in the PRC with a total gross floor area 12,158 sq. m. from SD Changxing. We also leased an office premises in Hong Kong with a total gross floor area of approximately 95.6 sq. m.

The land leased from Guang Hua, which is adjacent to our existing production base, with a total site area of approximately 10,070.6 sq. m. is intended to be used for the construction of our new production line. no. 7 with a designed annual production capacity of approximately 30,000 tonnes and which is expected to commence commercial production in early 2008. According to our legal advisers as to PRC law, Guang Hua owns the land use right of, and has the legal right to lease, such land. Moreover, the lease agreement between Shandong Qunxing and Guang Hua, which has been duly registered with the relevant local authorities, is legal, valid and enforceable and our right to use such land is confirmed and protected under laws of the PRC . Our legal advisers as to PRC law also advised that we have obtained all required permits, approvals and filings as well as the required construction permits, namely《建設用地規劃許可証》(Planning Permit for Using Construction Usage Land*),《建設工程規劃許可証》(Construction Planning Permit*) and《建築工程施工許可証》(Permit to Commence Construction*).

On 1 April 2007, Shandong Qunxing entered into a supplemental agreement with Guang Hua whereby Guang Hua has agreed to vacate such land for the transfer of the land use right of this land to Shandong Qunxing before 31 December 2008 at a fair and reasonable consideration to be arrived at with reference to an independent valuation of the land on a fair market value basis after taking into consideration the then market value of land of similar properties and features in the proximity. Our Directors currently intend to finance the acquisition cost of the abovementioned land use right by our internal resources of our Group. According to our legal advisers as to PRC law, there is no legal impediment for us to obtain such land use right from Guang Hua upon the fulfillment of the terms and conditions stipulated in the supplemental agreement. The detailed terms of the acquisition of such land use right are expected to be concluded between our Group and Guang Hua after the Listing. We would comply with the relevant requirements under Chapters 14 and 14A of the Listing Rules (including the reporting, announcement and/or independent shareholders' approval requirements, as the case may be) as and when appropriate.

Our Directors consider that such land is not crucial to our existing operation until the commencement of commercial production of our production line no. 7, which is currently under construction. Taking into account that (i) our right to use this land is sufficiently long under the lease agreements which is legal, valid and enforceable according to our legal advisers as to PRC law, and (ii) we have been given the right to acquire the relevant land at a fair and reasonable price in the future, our Directors consider that there is sufficient protection for us to minimise any interruption of our production activities.

In respect of the warehouse leased from SD Changxing, we have been advised by our legal advisers as to PRC law that SD Changxing has obtained the title certificates of the warehouse and the land on which the warehouse erected and SD Changxing has the right to lease such property, and that the lease agreement with SD Changxing, which has been duly registered with the relevant local authorities, is legal, valid and enforceable. As the warehouse only serves as an additional storage facility of our Group and no production activities are carried out in such premises, we foresee no major difficulties in finding a suitable alternative warehouse in substitution for the one currently leased from SD Changxing in the event that relocation is required. Therefore, our Directors do not consider that such warehouse is crucial to our existing operation.

Notwithstanding the abovementioned lease agreements and supplemental agreement with Guang Hua and SD Changxing, our Directors consider that our operational independence is not affected as such agreements were entered into in our usual and ordinary course of business and the terms therein were determined based on normal commercial terms and on an arm's length basis.

Other than the above leased properties, we use an office premises in Hong Kong with a total gross floor area of approximately 95.6 sq. m. leased from an Independent Third Party. Our Directors have been advised that the tenancy agreement in respect of this office premises is legal, valid and enforceable.

CONNECTED TRANSACTIONS

Upon Listing, the transactions set forth below will constitute continuing connected transactions (as such term is defined under the Listing Rules) for our Company.

RELATIONSHIP BETWEEN OUR GROUP AND OUR CONNECTED PERSONS

Mr. Zhu, Mrs. Zhu and Mr. Zhu Mo Qun are our Directors and the Controlling Shareholders and are therefore Connected Persons of our Company under the Listing Rules.

SD Changxing is owned by Mr. Zhu, Mr. Zhu Mo Qun and Mrs. Zhu (all being Directors and the Controlling Shareholders) as to 55%, 30% and 15%, respectively. SD Changxing is an associate of Mr. Zhu, Mr. Zhu Mo Qun and Mrs. Zhu and is therefore a Connected Person of our Company under the Listing Rules. SD Changxing is located in the southern side of Changxing Road, Chang Shan Town, Zhouping county, Binzhou City, Shandong Province, the PRC and is principally engaged in the production and sale of vacuum rollers (which are mainly used as machinery parts of production machines in heavy industry, such as paper making machines, steel manufacturing machines and enamel container for chemical production process), and its revenue for the financial year ended 31 December 2006 and net asset value as at 31 December 2006 amounted to approximately RMB503 million and RMB235 million, respectively.

Guang Hua is owned by Mr. Zhu, Mr. Zhu Mo Qun and Mrs. Zhu (all being Directors and the Controlling Shareholders) as to approximately 50%, 33% and 17%, respectively. Guang Hua is an associate of Mr. Zhu, Mr. Zhu Mo Qun and Mrs. Zhu and is therefore a Connected Person of our Company under the Listing Rules. Guang Hua is located in proximity area to our production base in San Li He, Chang Shan Town, Zhouping County, Binzhou City, Shandong Province, the PRC and is principally engaged in the production and sale of veneer, a type of laminated board, and its revenue for the financial year ended 31 December 2006 and net asset value as at 31 December 2006 amounted to approximately RMB503 million and RMB285 million, respectively.

Save for the transactions with SD Changxing and Guang Hua as disclosed below, we did not share any customers, suppliers or facilities with SD Changxing or Guang Hua during the Track Record Period, nor will we share any customers, suppliers or facilities with SD Changxing or Guang Hua in the foreseeable future.

Under the Listing Rules, for so long as each of SD Changxing and Guang Hua remains as a Connected Person of our Company, the following transactions between us and each of them would constitute connected transactions upon Listing.

(A) Exempted continuing connected transactions

The following connected transactions under this paragraph (A) will constitute exempt connected transactions for our Company under Rule 14A.33(3) of the Listing Rules and will be exempted from the reporting, announcement and independent Shareholders' approval requirements stipulated under the Listing Rules because they are conducted on normal commercial terms where each of the percentage ratios (other than the profits ratio) of the following transactions is on an annual basis less than 0.1% or each of the percentage ratios (other than the profits ratio) of the following transactions is on an annual basis equal to or more than 0.1% but less than 2.5% and the annual consideration of each of following transactions is less than HK$1,000,000.

Tenancy agreement with SD Changxing

SD Changxing is the holder of a building with a gross floor area of approximately 12,158 sq.m. situate at the southern side of Changxing Road, Chang Shan Town, Zouping County, Binzhou City, Shandong Province, the PRC, SD Changxing has also obtained the land use right certificate（《國有土地使用證》（鄒國用(2003)第020148號））in respect of the land on which the warehouse is located.

By a tenancy agreement dated 10 May 2007 and a supplemental tenancy agreement dated 11 May 2007, both made between SD Changxing (as lessor) and Shandong Qunxing (as lessee) which superseded the tenancy agreement between the parties dated 1 January 2006, Shandong Qunxing leased from SD Changxing such property for warehouse purpose for a term of 1 year from 10 May 2007 to 10 May 2008 at an annual rental of RMB400,000 (equivalent to approximately HK$412,000). The tenancy agreement was entered into in our ordinary course of business and it contains normal commercial terms made by parties on arm's length basis.

The warehouse situated on the site which was rented from SD Changxing has been used by our Group for storage purpose. The annual tenancy rental payable by Shandong Qunxing to SD Changxing during the Track Record Period (i.e. for the financial year ended 31 December 2006 and for the four months ended 30 April 2007, as the tenancy started in January 2006) was approximately RMB400,000 and RMB133,000, respectively.

Such warehouse was a newly added facility of our Group which enhances our storage capacity to accommodate the increasing production volume of our Group. The site and the warehouse were not used by our Group before January 2006 and no activity was conducted by our Group on the site prior to the entering into of the tenancy agreement with SD Changxing.

Tenancy agreement with Guang Hua

Guang Hua is the holder of certain land use rights of a parcel of land situate at San Li He, Chang Shan Town, Zouping County, Binzhou City, Shandong Province, the PRC. The parcel has a site area of approximately 10,070.6 sq.m. and has one single storey workshop building and a single storey supporting workshop erected thereon with a total gross floor area of approximately 5,916 sq.m.

By a tenancy agreement dated 1 April 2007 and made between Guang Hua (as lessor) and Shandong Qunxing (as lessee), Shandong Qunxing leased from Guang Hua such property for a term of 20 years from 1 April 2007 to 31 March 2027 at an annual rental of RMB160,000 (equivalent to approximately HK$164,800). The tenancy agreement has been duly registered with the State Administration of Land of Zouping. Shandong Qunxing has obtained the land other rights certificate (《土地他項權利證明書》(鄒他項(2007)字第18094號)). A new workshop for our production line no. 7 is now being constructed on such property and the scheduled completion date of the construction is early 2008. The tenancy agreement was entered into in the ordinary course of business of our Group and it contains normal commercial terms made by parties on arm's length basis.

The parcel of land which was rented from Guang Hua is now being used for construction of the workshop for production line no. 7. The site was not used by our Group before April 2007 and no activity was conducted by our Group on the site prior to the entering into of the tenancy agreement with Guang Hua.

According to the view of LCH (Asia-Pacific) Surveyors Limited, an independent property valuer, the annual rentals under both the tenancy agreements with SD Changxing and Guang Hua respectively are at market rates.

(B) Continuing connected transactions subject to the reporting and announcement requirements, in respect of which a waiver has been granted by the Stock Exchange

The continuing connected transactions (being of the nature of supply of decorative base paper products) as described under this paragraph (B) below were and will be entered into by our Group in the ordinary course of business and on normal commercial terms. They are subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47, and 14A.55 and 14A.56 of the Listing Rules. A waiver application from strict compliance with the relevant announcement requirement under the Listing Rules has been submitted to the Stock Exchange, subject to the conditions set forth under "Waiver from compliance with announcement requirement" below.

Supply of decorative base paper products

Nature of the transactions and historical figures

Guang Hua has been sourcing decorative base paper products from Shandong Qunxing during the Track Record Period. During each of the three financial years ended 31 December 2006 and the four months period ended 30 April 2007, the sales of the decorative base paper products by Shandong Qunxing to Guang Hua amounted to approximately RMB7.8 million, RMB9.0 million, RMB6.2 million and RMB2.3 million, respectively (equivalent to approximately HK$8.0 million, HK$9.3 million, HK$6.4 million and HK$2.4 million, respectively).

The sales volumes by Shandong Qunxing to Guang Hua during the Track Record Period are as follows:

	Year ended 31 December			Four months ended 30 April
	2004	**2005**	**2006**	**2007**
	(tonnes)	*(tonnes)*	*(tonnes)*	*(tonnes)*
Sales volume by Shandong Qunxing to Guang Hua	704	710	471 *(Note)*	176
Total sales volume of our Group	44,675	62,504	91,625	35,659
% to total sales	1.6%	1.1%	0.5%	0.5%

Note: Our Directors confirmed the decrease in the sales volume by Shandong Qunxing to Guang Hua in 2006 was mainly due to the fact that Guang Hua has changed its product mix during the year and it focused on producing certain laminated board products which do not require the use of our decorative base paper products in plain colours as much. Instead, Guang Hua had sourced the relevant materials from third parties to satisfy its production need.

Principal terms of the transactions

During the Track Record Period, no written master agreement has been entered into between our Group and Guang Hua for the supply of the decorative base paper products. The selling prices thereof have been agreed between Shandong Qunxing and Guang Hua with reference to the terms offered by Shandong Qunxing to Independent Third Parties and at the prevailing market prices of decorative base paper products. Our Directors confirmed that the historical transactions were conducted at arm's length basis and at market prices.

By entering into the Master Supply Agreement, we agreed to supply decorative base paper products to Guang Hua at prices to be determined from time to time by Shandong Qunxing and Guang Hua at the prevailing market prices of decorative base paper products and on such other standard terms of sale and purchase applicable from time to time which include procedures to place purchase orders, quality of products, mode of delivery and inspection of products and payment terms, provided that such terms are on normal and usual commercial terms and are no more favourable than those applicable to the sale of the same type and quality of decorative base paper products for comparable quantity by our Group to Independent Third Parties. The Master Supply Agreement commenced on 3 September 2007 and will expire on 31 December 2009, unless terminated earlier by three months' prior written notice by either party as of contractual right of either party, or immediately upon written notice being served by either party if the other party is in material breach (or continued material breach after written warning) of the terms of the Master Supply Agreement or if the other party goes into liquidation or analogous proceedings.

Annual monetary caps for the three financial years ending 31 December 2009

It is expected that the aggregate sales of the decorative base paper products by Shandong Qunxing to Guang Hua under the Master Supply Agreement for each of the three financial years ending 31 December 2009 will be more than 2.5% but less than 25% of each of the percentage ratios (other than the profits ratio) on an annual basis calculated with reference to Rule 14.07 of the Listing Rules, but will not exceed the annual monetary caps ("**Annual Caps**") of RMB7.3 million, RMB7.5 million and RMB7.8 million, respectively (equivalent to approximately HK$7.5 million, HK$7.7 million and HK$8.0 million, respectively).

The Annual Caps were determined by our Directors after taking into consideration the following factors:

i) based on the actual sales volumes of the decorative base paper products sold by Shandong Qunxing to Guang Hua during the four months ended 30 April 2007 which amounted to approximately 176 tonnes, our Directors expect that the annualised aggregate sales volumes for the year ending 31 December 2007 will amount to approximately 529 tonnes;

ii) our Directors expect that the estimated sales volumes of the decorative base paper products by Shandong Qunxing to Guang Hua will be at a similar level for the three financial years ending 31 December 2009;

iii) the average selling price for the decorative base paper products sold by Shandong Qunxing to Guang Hua during the year ended 31 December 2006 was approximately RMB13,110 per tonne; and

iv) with reference to the historical growth rate of the average selling price for the decorative base paper products sold to Guang Hua during the Track Record Period, our Directors expect that the average selling price for the respective decorative base paper products will be increased by 4% annually during the three financial years ending 31 December 2009.

Waiver from compliance with announcement requirement

Based on the respective Annual Caps for the transactions under the Master Supply Agreement, it is expected that each of the percentage ratios (other than the profits ratio), where applicable, calculated with reference to Rule 14.07 of the Listing Rules, in respect of the transactions under the Master Supply Agreement will exceed the threshold under Rule 14A.33(3) of the Listing Rules but will not exceed the threshold under Rule 14A.34 of the Listing Rules. Therefore, these transactions are subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules. We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver pursuant to Rule 14A.42(3) of the Listing Rules to exempt the transactions under the Master Supply Agreement from compliance with the announcement requirements under Rule 14A.47 of the Listing Rules.

We will comply with Rules 14A.35(1) and (2), 14A.36 to 14A.40 and 14A.45 to 14A.46 of the Listing Rules in relation to transactions under the Master Supply Agreement.

Upon expiry of the waiver granted for the period ending 31 December 2009, we will comply with the relevant requirements under Chapter 14A of the Listing Rules.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable provisions under Chapter 14A of the Listing Rules as at the date of this prospectus relating to continuing connected transactions, we will take immediate steps to ensure compliance with such requirements within a reasonable period.

Confirmation from our Directors

Our Directors, including the independent non-executive Directors, confirm that the transactions under the Master Supply Agreement were entered into on normal commercial terms, in the ordinary and usual course of business and are fair and reasonable to our Group on the basis that the terms of the Master Supply Agreement are no less favorable to our Group than terms offered by Independent Third Parties, and therefore are in the interests of the Shareholders and our Group as a whole.

Our Directors, including the independent non-executive Directors, are of the view that the respective Annual Caps are fair and reasonable and in the interests of the Shareholders and our Group as a whole.

Confirmation from the Joint Sponsors

The Joint Sponsors are of the opinion that the transactions under the Master Supply Agreement are in the ordinary and usual course of business of our Group, on normal commercial terms, are fair and reasonable and in the interests of the Shareholders and our Group as a whole, and that the respective Annual Caps are fair and reasonable and in the interests of the Shareholders and our Group as a whole.

Non-Competition Undertakings

Each of our Controlling Shareholders has confirmed that, none of them is engaged in, or interested in any business which, directly or indirectly, competes or may compete with our business. In accordance with the non-competition undertakings ("**Non-Competition Undertakings**") set out in the deed of non-competition dated 8 September 2007, each of our Controlling Shareholders has undertaken, jointly and severally, that during the period in which any of them and their respective associates, individually or taken as a whole, remains as a controlling shareholder (as defined under the Listing Rules) of our Company:–

– if there is any project or new business opportunity that relates to the business activities engaged by us from time to time, it or he or she shall refer such project or new business opportunity to us for consideration;

– it or he or she will not invest or participate in any project or business opportunity that competes or may compete, directly or indirectly, with the business activities engaged by us from time to time; and

– it or he or she will procure its or his or her associates (excluding our Group) not to invest or participate in any project or business opportunity mentioned above, unless such project or business opportunity shall have been rejected by us in board meeting(s) with participation of the independent non-executive Directors without the attendance by any Directors with beneficial interest in such project or business opportunity, in which resolutions have been duly passed by the majority of the independent non-executive Directors that our Company or relevant member of our Group has rejected such project or business opportunity and that the relevant associate(s) of the Controlling Shareholder(s) (excluding our Group) shall be entitled to accept or engage in such opportunities.

This deed is conditional on (i) the Listing Committee granting listing of, and permission to deal in, all the Shares in issue and the New Shares to be issued under the Share Offer and the Shares which may be issued upon the exercise of the Over-allotment Option and options that may be granted under the Share Option Scheme; and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant as a result of the waiver of any condition(s) by the Underwriters) and that the Underwriting Agreements not being terminated in accordance with their terms or otherwise. The Non-Competition Undertakings will cease to have effect on the earlier of the date on which: (a) the Controlling Shareholders and their respective associates (individually or taken as a whole) cease to own 30% or more of the then issued share capital of our Company directly or indirectly or cease to be deemed as controlling shareholder of our Company (within the meaning defined in the Listing Rules from time to time) and do not have power to control the Board and there is at least one other independent Shareholder holding more Shares than the Controlling Shareholders and their associates taken together; or (b) the Shares cease to be listed on the Stock Exchange.

In addition, each of the Controlling Shareholders has undertaken under the Non-Competition Undertakings that he or she or it shall provide to our Company and/or the Directors (including the independent non-executive Directors) from time to time all information necessary for annual review by the independent non-executive Directors with regard to compliance of the terms of the Non-Competition Undertakings. Each of the Controlling Shareholders has also undertaken to make annual declaration on compliance with the terms of the Non-Competition Undertaking in the annual reports of our Company.

Concerning the Non-Competition Undertakings,

(i) the independent non-executive Directors would review, at least on an annual basis, the compliance with and enforcement of the terms of the Non-Competition Undertakings by the Controlling Shareholders, and if any, the options, pre-emptive rights or first rights of refusals provided by the Controlling Shareholders and/or their respective associates on its existing or future competing businesses;

(ii) our Company shall disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the Non-Competition Undertakings either through annual report, or by way of announcement; and

(iii) our Company shall disclose in the corporate governance report of its annual reports on how the terms of the Non-Competition Undertakings are complied with and enforced.

In addition, each Director confirms that he does not have any competing business with our Group and has, pursuant to his service agreement or engagement letter, covenanted with and undertaken to our Company that during the term of his service or appointment, he shall not, and shall procure that none of his associates shall, directly or indirectly, be engaged in or concerned with or interested in any business which is or may be in any respect in competition with the business carried on from time to time by our Group or any of the companies within our Group. However, the aforesaid restriction does not prohibit the holding (directly or through nominees) by a Director of any securities listed on any stock exchanges as long as not more than 5% of the total voting rights attaching to the securities of the same class shall be so held and shall not restrict the holding of any securities of our Company. Subject to the exceptions as aforesaid, for a period of one (1) year after the expiry or the termination of his service or appointment, a Director shall not, and shall procure that none of his associates will, directly or indirectly, engage or be engaged in Hong Kong or those regions and markets within the PRC or elsewhere in which any member of our Group operates or has operated any part of its business from time to time, whether directly or indirectly, in any business which is or may be in competition with the business carried on from time to time by our Group or any of the companies within our Group.

Corporate governance

Our Directors recognise the importance of incorporating elements of good corporate governance in management conducive to the protection of the interests of our Shareholders. In particular, the following corporate governance measures in relation to managing potential conflict of interests between our Group and our Controlling Shareholders, the compliance and enforcement of the Non-Competition Undertakings are taken:

(a) our independent non-executive Directors will be responsible for deciding and given authority to decide, without attendance by any Directors with beneficial interests in the new business opportunity, whether or not to take up a new business opportunity which relates to the business activities engaged by us from time to time and is referred to us by the Controlling Shareholders or any other matter arising under the terms of the Non-Competition Undertakings. For this purpose, our independent non-executive Directors will meet regularly on a quarterly basis and from time to time as required;

(b) our independent non-executive Directors may, from time to time, engage external professional advisers as they may consider necessary to advise them on the issues which relate to matters set out in the above paragraph;

(c) any transaction between (or proposed to be made between) our Group and Connected Persons will be required to comply with Chapter 14A of the Listing Rules, including, where applicable, the announcement, reporting and independent shareholders' approval requirements and with those conditions imposed by the Stock Exchange for the granting of waiver from strict compliance with the relevant requirements under the Listing Rules (including those connected transactions as set out in the section headed "Connected transactions" in this prospectus);

(d) in the event that there are conflict of interest in the operations of our Group and our Controlling Shareholders and their respective associates, and in respect of any proposed contract or arrangement between our Group and our Controlling Shareholders and their respective associates, given that each of Mr. Zhu, Mr. Zhu Mo Qun and Mrs. Zhu is a Director and is also a Controlling Shareholder, and that each of them is considered to be interested in a particular matter or the subject matter, he/she shall disclose his/her interests to the Board and where, pursuant to the applicable provisions in the Articles, he/she has a material interest in the matter, he/she may not vote on the resolutions of the Board approving the same and shall not be counted in the quorum for the voting as required under the Listing Rules. A relevant board meeting attended by disinterested Directors who have no material interest in the matter shall be held to deliberate on the matters;

(e) under the agreements governing the non-exempt continuing connected transactions as referred to in the paragraph headed "Continuing connected transactions subject to the reporting and announcement requirements in respect of which a waiver has been granted by the Stock Exchange" in the section headed "Connected transactions" in this prospectus, the counterparties to these agreements have undertaken to our Group to allow our Group's auditors sufficient access to their records for reporting on the transactions involved; and

(f) under the Non-Competition Undertakings to be given by the Controlling Shareholders as referred to in the paragraph headed "Non-Competition Undertakings" in the section headed "Non-Competition Undertakings given by our Controlling Shareholders" in this prospectus, the Controlling Shareholders have jointly and severally undertaken to our Group to allow our Directors, their respective representatives and the auditors to have sufficient access to the records of the Controlling Shareholders and their respective associates to ensure its compliance with the terms and conditions under the Non-Competition Undertakings.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between the Controlling Shareholders and their respective associates and our Group and to protect the interests of the Shareholders, in particular, the minority Shareholders.

Independence from the Controlling Shareholders and their associates

Our Directors confirm that our Group is capable of carrying on its business independently of the Controlling Shareholders and their associates after Listing based on the following particulars:

Management independence

Mr. Zhu has ceased to be general manager of SD Changxing and Guang Hua and Mr. Sun Zhen Shui has also resigned from his position of financial controller with SD Changxing. Each of them is committed to devote all his time to our Group. Mr Zhu Mo Qun has not been the management of SD Changxing or Guang Hua

Despite the resignations of Mr. Zhu and Mr. Sun Zhen Shui, both of SD Changxing and Guang Hua have independent management team to manage their respective operations.

Mrs. Zhu is a director of both SD Changxing and Guang Hua and is a non-executive Director of our Company. Our Directors are of the view that our management team and that of our Controlling Shareholders or their respective associates is and will be independent from each other.

Our Directors further confirm that save as disclosed above, there is no management overlapping of directors or senior management members between the Group and that of its Controlling Shareholders or their respective associates.

Products and business independence

SD Changxing, an associate of the Controlling Shareholders, is principally engaged in the production and sale of vacuum rollers (which are machinery parts of industrial machines including paper making machines, steel manufacturing machines and enamel vacuum tanks in chemical production process) and Guang Hua, another associate of the Controlling Shareholders, is principally engaged in the production and sale of veneer, a type of laminated board, which businesses are entirely different from that of the Group.

Save for the leasing of certain premises from SD Changxing and Guang Hua as disclosed in the paragraph headed "Exempted continuing connected transactions" under the section headed "Connected transactions" in this prospectus, the Group did not share any customers, suppliers or facilities with SD Changxing or Guang Hua during the Track Record Period, nor will it share any of the foregoing with SD Changxing or Guang Hua in the foreseeable future. Our Directors further confirm that the Group has independent access to its customers and/or suppliers.

Our Directors are of the view that the Controlling Shareholders and their associates do not pose any competition to the Group as the businesses of the Controlling Shareholders and their associates are entirely different.

During the Track Record Period, the Group sold decorative base paper products to Guang Hua. By the Master Supply Agreement, the Group has agreed to supply such products to Guang Hua in the three financial years ending 31 December 2009. Please refer to the subsection headed "Continuing connected transactions subject to the reporting and announcement requirements, in respect of which a waiver has been granted by the Stock Exchange" under the section headed "Connected transactions" in this prospectus for details of this transaction.

Save as disclosed in this prospectus, the Group does not engage in or enter into other transactions with the Controlling Shareholders or their respective associates.

Our Directors believe the Group does not have to rely on the Controlling Shareholders and their associates to carry on its business given that the sales of decorative base paper products to Guang Hua for each of the three financial years ended 31 December 2006 and the four months ended 30 April 2007 accounted for approximately 1.7%, 1.3%, 0.6% and 0.7% respectively of the Group's turnover for the relevant periods and that our Directors expect that the sales of such products to Guang Hua for the next three financial years ending 31 December 2009 will not exceed 1.0% of the total turnover of the Group for each financial year. In addition, transactions with Guang Hua were conducted on arm's length basis and on normal commercial terms which were comparable to that with Independent Third Parties.

Financial independence

During the Track Record Period, non-trade receivables from Controlling Shareholders or their respective associates to our Group amounted to approximately RMB26,000, RMB47,000, RMB198,000 and RMB296,000 as at 31 December 2004, 31 December 2005 and 31 December 2006 and 30 April 2007 respectively, while non-trade payables to Controlling Shareholders or their respective associates from our Group amounted to approximately RMB120.0 million, nil, RMB194.5 million and RMB5.4 million as at 31 December 2004, 31 December 2005, 31 December 2006 and 30 April 2007, respectively.

Certain bank loans of our Group amounting to approximately RMB127.2 million, RMB250.2 million, RMB145.0 million and RMB70.0 million as at 31 December 2004, 31 December 2005 and 31 December 2006 and 30 April 2007 respectively were guaranteed by SD Changxing.

The above non-trade balances and guarantees between our Group and its Controlling Shareholders or their respective associates had been settled or released in full before the Latest Practicable Date.

Our Directors confirm that our Group has the ability to operate independently from the Controlling Shareholders and their associates from the financial perspective. As at the Latest Practicable Date, certain of the bank borrowings of our Group which were secured by corporate guarantee given by SD Changxing were fully repaid.

Administrative independence

All essential administrative functions have been and will be carried out by our Group without requiring the support of the Controlling Shareholders or their associates. Our Group has its own capabilities and personnel to perform all essential administrative functions, including financial and accounting management, research and development and general and administration.

Guang Hua and SD Changxing are not included in our Group because our Directors consider that the business and operation of Guang Hua and SD Changxing are entirely different from and independent of that of our Group and we are able to carry on our business independently on the basis set out above. Moreover, our Directors consider that the business targets of both Guang Hua and SD Changxing are different from our Group's and the sale of vacuum rollers (which are mainly used as machinery parts of production machines in heavy industry, such as paper making machines, steel manufacturing machines and enamel container for chemical production process) and veneer has not been and will not be part of our business. In this light, our Directors believe that no actual or potential competition exists between the Controlling Shareholders and our Group and it is in the best interest of our Group to exclude Guang Hua and SD Changxing from our Group for the Listing such that we can focus on our core business of sale and manufacture of decorative base paper products and printing paper product.

DIRECTORS

Executive Directors

Mr. Zhu Yu Guo (朱玉國), aged 52, was one of the two founders of our Group. Mr. Zhu is the husband of Mrs. Zhu, our non-executive Director, and the father of Mr. Zhu Mo Qun, one of our executive Directors. Mr. Zhu was appointed as an executive Director and the chairman of our Company on 5 September 2006. He is responsible for overseeing and planning the business strategies of our Group. Prior to the incorporation of Shandong Qunxing, Mr. Zhu had been engaged in work which relate to the manufacture of paper manufacturing machinery parts for over 10 years during which he also studied the features of different types of paper products and has acquired the experience and knowledge of paper manufacturing industry. From June 1999 to July 2006, Mr. Zhu was the supervisor of Shandong Qunxing, being responsible for supervising the formulation of its development strategies and investment planning. Since August 2006, he has become the legal representative and a director of Shandong Qunxing. Mr. Zhu has obtained various awards and qualifications. In 1990, he was appraised as an economist by 鄒平縣科學技術委員會 (Zouping County Science and Technology Committee*). In July 2003, he was honoured by Shandong Provincial People's Government as an outstanding private entrepreneur in Shandong Province, the PRC. In January 2007, Mr. Zhu was hired by the Information Management Institute of Shandong Economic Institute as a part-time professor. Mr. Zhu completed tertiary education in 山東省經濟管理幹部學院 (Shandong Province Economic Management Official Institute*) in PRC in April 1992, majoring in corporate management.

Mr. Zhu Mo Qun (朱墨群), aged 27, was the other founder of our Group and is the son of Mr. Zhu and Mrs. Zhu, our non-executive Director. He was appointed as an executive Director, the vice-chairman and general manager of our Company on 5 September 2006. He is responsible for the overall management of our business. He completed tertiary legal education in 山東省政法管理幹部學院 (Shandong Province Political & Legal Management Official Institute*) in the PRC in July 2001. After graduation and since 2002, Mr. Zhu Mo Qun has become the general manager of Shandong Qunxing to oversee its operation. In 2004, he was awarded with the title of International Professional Manager by International Managers Union. In January 2005, he was approved by 中華人民共和國人事部全國人才流動中心 (China Human Resource Exchange Centre*) to become a member of a country-level database of experts, which stores the information of senior enterprise administrators called the 全國企業經營管理人才庫 (National Data Base of Human Resources in Business Operation and Management*). In 2005, he was appraised as one of the 山東十大優秀企業家 (ten outstanding entrepreneurs in Shandong*) by 山東十大優秀企業家評委會(Appraisal Committee for Ten Outstanding Entrepreneurs in Shandong*). In April 2006, he was honoured jointly by the 共青團濱州市委 (Binzhou City Committee of the Communist Youth League*) and 濱州市經貿委 (State Economic and Trade Commission in Binzhou City*) as an 濱州市傑出青年企業家 (outstanding young entrepreneur in Binzhou City*). In July 2006, he was appointed as a director of Shandong Qunxing.

Mr. Sun Zhen Shui (孫振水), aged 52, joined our Group as an executive Director in 3 September 2007 and is responsible for managing the financial and administrative aspects of our Group. Mr. Sun has gained over 20 years of experiences in the financial industry through his position as the supervising accountant of 長山鎮經濟委員會 (Changshan Town Economy Committee*) from 1983 to 2004. From August 2004 to May 2007, he was the financial controller of SD Changxing. Mr. Sun completed tertiary education in business management in 山東省經濟管理幹部學院 (Shandong Province Economic Management Official Institute*) in the PRC in May 1994 and obtained from 山東省濱州地區職稱改革領導小組 (Shandong Province Binzhou District Professional Title Reform Leader Group*) the qualification as a qualified accountant in the PRC on 30 December 1994.

Non-Executive Director

Ms. Sun Rui Fang (孫瑞芳), aged 52, is the wife of Mr. Zhu and the mother of Mr. Zhu Mo Qun, one of our executive Directors. Mrs. Zhu joined our Group as a director of Shandong Qunxing in July 2006 and prior to such appointment, Mrs. Zhu has since the inception of Shandong Qunxing helped Mr. Zhu, her husband, and Mr. Zhu Mo Qun, her son, in attending general administrative works of Shandong Qunxing. Although she has not been involved in all major management or operational decisions of our Group, she has gained an understanding of our Group's overall businesses and operations. Based on Mrs. Zhu's previous working experience with Shandong Qunxing, our Board considers it appropriate to appoint Mrs. Zhu as a non-executive Director. She attended high school education in the PRC in July 1971.

Independent Non-Executive Directors

Mr. Zhao Wei (趙偉), aged 47, joined our Group as an independent non-executive Director in 3 September 2007. Mr. Zhao became a senior qualified engineer in December 1993 and is now the chief secretary of 中國造紙協會 (China Paper Association*). He was previously 副處長(Deputy Director*) of 輕工部人事司科幹處 (Division of Officers of the Human Resource Department of the Ministry of Light Industries*), 副處長 (Deputy Director*) of the 輕工部造紙司生產處 (Division of Production of the Department of Paper of the Ministry of Light Industries*) as well as 副秘書長(Deputy Secretary General*)、副理事長 (Deputy Director*) and 秘書長 (Secretary General*) of 中國造紙協會 (China Paper Association*).

Mr. Zhao is currently an independent director of 廣東冠豪高新技術股份有限公司 (Guangdong Guanhao High-tech Company Limited*) 山東華泰紙業股份有限公司(Shandong Huatai Paper Co., Ltd.*), both of which are listed on the Shanghai Stock Exchange of the PRC. Mr. Zhao is also an non-executive director of 山東晨鳴紙業集團股份有限公司 (Shandong Chenming Paper Holdings Co., Ltd.), a company listed on the Shenzhen Stock Exchange of the PRC, respectively. He completed tertiary education in 大連輕工業學院 (Dalian Light Industry Institute*) in the PRC in June 1982, majoring in paper manufacturing. Mr. Zhao has accumulated twenty-five years of experience in the paper industry through his current and previous employment in different organisations as well as his tertiary education.

Mr. Wang Lu (王魯), aged 26, joined our Group as an independent non-executive Director in 3 September 2007. He graduated from Shandong University in July 2003 with a degree in computer science and technology and subsequently obtained a master's degree in information technology from Monash University in Australia in October 2005. He has been a lecturer of a university in the PRC. He currently works as engineer at

Yantai University. Mr. Wang has accumulated four years of experience in computer engineering through his tertiary education and employment with different universities.

Mr. Kwong Kwan Tong (鄺焜堂), aged 41, joined our Group as an independent non-executive Director in 3 September 2007. He is currently a fellow member of the Association of Chartered Certified Accountants, associate member of the Hong Kong Institute of Certified Public Accountants and the Chartered Institute of Management Accountants. Mr. Kwong has about twenty years of experience in management accounting and financial control through his previous employment with different companies in Hong Kong and the PRC. He is now the financial controller of Tianjin Binhai TEDA Logistics (Group) Corporation Limited, a state-owned enterprise in the PRC. Mr. Kwong obtained a diploma in accounting from Morrion Hill Technical Institute in Hong Kong in 1987.

SENIOR MANAGEMENT

Mr. Sun Shu Guang (孫曙光), aged 53, joined our Group as a deputy general manager and the head of finance department of Shandong Qunxing in April 2003, and has been responsible for our Group's financial management work in the PRC. Previously, Mr. Sun had worked in the economy authorities of the PRC government. He has extensive experience in corporate management. He completed tertiary education in 山東省委黨校 (Shandong Province Communist Party School*) in the PRC in December 1994, majoring in economic administration.

Mr. Liu Shu Li (劉樹理), aged 52, joined our Group as a deputy general manager in August 2003 and was in charge of our Group's administrative affairs. Previously, Mr. Liu performed military service at the General Administration of Civil Aviation of China and was given the title of senior engineer. He had also worked in the judicial authority of the government and is experienced in legal matters. He has years of legal work experience. Mr. Liu completed tertiary education in 全國法院幹部業餘法律大學 (National Judicial Official Amateur Legal University*) in the PRC in August 1994, majoring in law.

Mr. Wu Zhen Jun (吳振軍), aged 42, joined our Group as a deputy head of the finance department of Shandong Qunxing in July 1999. He was appointed as the secretary to the board of directors of Shandong Qunxing in August 2006. Previously, Mr. Wu had worked for domestic commercial enterprises and the PRC government's policy investigation and research department. Mr. Wu also previously worked in 鄒平縣經濟技術開發區籌建處(Office for development of Zouping economic and technology development zone*) as deputy manager being responsible for marketing. Mr. Wu completed tertiary education in 國家法官學院 (National Judiciary Institute*) in the PRC in July 2002, majoring in law.

Mr. Cheng Gang (成剛), aged 48, joined our Group as the head of the strategic planning department of Shandong Qunxing in August 1999. In May 2007, he was appointed as the deputy general manager of Shandong Qunxing. He has been in charge of our Group's strategic planning and major projects, environmental protection and cultural promotion affairs. Previously, Mr. Cheng had worked for state-owned enterprise(s) and government departments. He graduated from Shandong Education University (山東師範大學), majoring in Chinese Language, in December 1986.

Mr. Au-Yeung Kwong Wah (歐陽廣華), aged 43, joined our Group in January 2007 as our financial controller, company secretary and qualified accountant. Mr. Au-Yeung is responsible for overseeing our Group's financial company secretarial matters. He has over ten years of experience in auditing and financial control through his prior employment with accounting firms and listed companies in Hong Kong. Mr. Au-Yeung has obtained a bachelor's degree in commerce from the Bond University in Australia in 1996, a master's degree in accountancy from the Chinese University of Hong Kong in 2000, and a post-graduate diploma in corporate administration from the Hong Kong Polytechnic University in 2005. Mr. Au-Yeung is a member of CPA Australia and the Hong Kong Institute of Certified Public Accountants. Prior to joining our Group in January 2007, Mr. Au-Yeung was a director of C&O Pharmaceutical Technology Holdings Limited, the shares of which are listed on the main board of the Singapore Stock Exchange.

AUDIT COMMITTEE

We established an audit committee on 8 September 2007 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. Kwong Kwan Tong, Mr. Zhao Wei and Mr. Wang Lu. Mr. Kwong Kwan Tong is the chairman of the audit committee. The primary duties of the audit committee are to review and supervise the financial reporting process and the internal control procedures of our Group.

REMUNERATION COMMITTEE

We established a remuneration committee on 8 September 2007 in compliance with Appendix 14 to the Listing Rules. The remuneration committee consists of four members, namely Mr. Zhu Yu Guo, Mr. Zhao Wei, Mr. Wang Lu and Mr. Kwong Kwan Tong. Mr. Zhu Yu Guo is the chairman of the remuneration committee. The primary functions of the remuneration committee are to make recommendations to our Board on the remuneration of our Directors and senior management and determine on behalf of our Board specific remuneration packages and conditions of employment for our Directors and senior management.

NOMINATION COMMITTEE

We established a nomination committee pursuant to a resolution of our Directors passed on 8 September 2007. The nomination committee consists of four members, namely Mr. Zhu Mo Qun, Mr. Zhao Wei, Mr. Wang Lu and Mr. Kwong Kwan Tong. Mr. Zhu Mo Qun is the chairman of the nomination committee. The primary function of the nomination committee is to make recommendations to our Board regarding candidates to fill vacancies on our Board and senior management.

DIRECTORS' COMPENSATION

The aggregate amount of fees, salaries, housing allowances, other allowances and benefits-in-kind (including our contribution to the pension scheme for our Directors) or any bonuses paid by us to our Directors for each of the three years ended 31 December 2006 was approximately RMB0.2 million, RMB0.2 million and RMB0.2 million, respectively.

Save as disclosed above, no other payments had been paid or are payable, in respect of the three years ended 31 December 2006, by our Company or any of our subsidiaries to our Directors.

STAFF

As at the Latest Practicable Date, we had 959 full-time staff in the PRC and 2 full-time staff in Hong Kong. The following sets forth the total number of our staff by functions:

	Total number
Management	28
General and administration	50
Production and logistics	808
Sales and marketing	28
Finance and accounting	11
Quality control	25
Research and development	11
Total	961

Relationships with our employees

We have not experienced any significant problems with our employees or disruptions to our operations due to labour disputes, nor have we experienced 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.

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 2006 and the four months ended 30 April 2007, our Group incurred staff costs (including Directors' remuneration) of approximately RMB11.0 million, RMB13.4 million, RMB20.8 million and RMB8.5 million, respectively, representing approximately 2.4%, 1.9%, 2.2% and 2.5%, respectively of our Group's turnover for the respective periods.

Benefit schemes

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 enrolled on a mandatory provident fund scheme for our employees in Hong Kong in accordance with the applicable Hong Kong laws and regulations.

We also make contributions to the following staff related plans and funds in accordance with the local regulations of the PRC, namely, pension plans, unemployment insurance, basic medical insurance, and work-related injury insurance. Based on the confirmations issued by the provincial and local government authorities where our operation are located, our Directors confirm that during the Track Record Period, our Group duly paid all social insurance contributions and that our Group was in compliance with the applicable 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 VI 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 the paragraph headed "Share Option Scheme" in Appendix VI to this prospectus.

COMPLIANCE ADVISOR

We will appoint, before the Listing Date, ICEA as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance advisor 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 under Chapters 14 or 14A of the Listing Rules, is contemplated including shares issues and shares repurchases;
- where we propose to use the proceeds of the Share Offer 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 under Rule 13.10 of the Listing Rules.

The term of the appointment shall commence on the Listing Date and end on the date on which we comply with Rule 13.46 of the Listing Rules 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.

So far as is known to our Directors, immediately following completion of the Share Offer and Capitalisation Issue (but without taking into account of any Shares which may be taken up under the Share Offer or any Shares which may be allotted and issued upon the exercise of Over-allotment Option and the options to be granted under the Share Option Scheme), the following persons will have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to us 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	Company/ Name of Group member	Capacity	Class and number of securities	Approximate percentage of shareholding
Boom Instant	Our Company	Beneficial owner	700,000,000 Shares (L)	70%
Addinsight *(Note 2)*	Our Company	Interest of a controlled corporation	700,000,000 Shares (L)	70%
Mr. Zhu *(Note 3)*	Our Company	Interest of a controlled corporation	700,000,000 Shares (L)	70%
Mrs. Zhu *(Note 4)*	Our Company	Interest of spouse	700,000,000 Shares (L)	70%

Notes:

1. The letter “L” denotes the entity/person’s long position in the Shares.

2. Subject to any borrowing arrangement which may be effected under the Stock Borrowing Agreement, the 700,000,000 Shares will be registered in the name of Boom Instant, 80% of the issued share capital of which is beneficially owned by Addinsight. Under the SFO, Addinsight is deemed to be interested in all the Shares held by Boom Instant. The remaining 20% of the issued share capital of Boom Instant is owned by Be Broad which is solely owned by Mr. Zhu Mo Qun, a Director.

3. Subject to any borrowing arrangement which may be effected under the Stock Borrowing Agreement, the 700,000,000 Shares will be registered in the name of Boom Instant. 87.5% of the issued share capital of Addinsight is beneficially owned by Mr. Zhu (an executive Director), and the remaining 12.5% is beneficially owned by Mrs. Zhu (a non-executive Director). Under the SFO, Mr. Zhu is deemed to be interested in the Shares held by Boom Instant.

4. Mrs. Zhu is the spouse of Mr. Zhu and is therefore deemed to be interested in the said Shares in which Mr. Zhu is deemed to be interested.

Further details of interests and short position (if any) of the above persons in the Shares are set out in the paragraph “Further information about Directors, management and staff and experts” in Appendix VI to this prospectus.

SHARE CAPITAL

The following table is prepared on the basis that the Share Offer becomes unconditional. This table does not take into account Shares which may be issued upon exercise of the Over-allotment Option and/or any options that may be granted under the Share Option Scheme and/or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares granted to the Directors as referred to below.

Authorised share capital:

		HK$
10,000,000,000	Shares	1,000,000,000

Shares in issue or to be issued, paid-up or credited as fully paid:

100,000,000	Shares in issue	10,000,000
650,000,000	Shares to be issued under the Capitalisation Issue	65,000,000
250,000,000	Shares to be issued pursuant to the Share Offer (before any exercise of the Over-allotment Option)	25,000,000
1,000,000,000	Shares *(Note)*	100,000,000

Note: If the Over-allotment Option is exercised in full, 45,000,000 additional Shares will be issued resulting in an aggregate of 1,045,000,000 Shares to be in issue.

Ranking

The New Shares will rank pari passu in all respects with all Shares in issue and/or to be allotted and issued and will qualify for all dividends or other distributions hereafter declared, paid or made on our Shares, except for the Capitalisation Issue.

Share Option Scheme

The Company has conditionally adopted the Share Option Scheme. Under the Share Option Scheme, the eligible participants of the scheme, including the Directors, full-time employees of and advisers and consultants to the Company or its subsidiaries may be granted options which entitle them to subscribe for Shares, when aggregated with options granted under any other scheme, representing initially of not more than 10% of the Shares in issue immediately upon commencement of dealings of Shares on the Listing Date. Further details of the principal terms of the Share Option Scheme are set out in sub-paragraph 15 headed “Share Option Scheme” under the paragraph headed “Other information” in Appendix VI to this prospectus.

General mandate given to our Directors to issue new Shares

Subject to the Share Offer 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 exceeding the sum of:

- 20 per cent. of the aggregate nominal amount of the Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue (excluding the Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of options that may be granted under the Share Option Scheme), and

- the aggregate nominal amount of the Shares repurchased by our Company under the authority referred to in the paragraph headed "General mandate given to our Directors to repurchase our Shares" below.

This mandate does not apply to situations where our Directors allot, issue or deal with our Shares by way of rights issue, scrip dividend schemes or similar arrangements providing for the allotment and issue of our Shares in lieu of whole or part of any dividend in accordance with the Articles, or pursuant to the exercise of any subscription or conversion rights attaching to any warrants or any securities which are convertible into Shares or pursuant to the Share Offer, the Capitalisation Issue or the exercise of the Over-allotment Option, or the Shares to be issued upon the exercise of options to be granted under the Share Option Scheme.

This mandate will expire:

- at the conclusion of our Company's next annual general meeting; or

- at the date by which our Company is required by any applicable laws or the Articles to hold its next annual general meeting; or

- when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

Particulars of this general mandate are set forth under "Resolutions in writing of the sole Shareholder passed on 8 September 2007" in Appendix VI to this prospectus.

GENERAL MANDATE GIVEN TO OUR DIRECTORS TO REPURCHASE OUR SHARES

Subject to the Share Offer 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 exceeding 10 per cent. of the aggregate nominal amount of our Shares in issue and to be issued immediately following completion of Share Offer and the Capitalisation Issue (excluding the Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of options that may be granted under the Share Option Scheme).

This mandate only relates to repurchases made on the Main Board, 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. A summary of the relevant Listing Rules are set forth under "Repurchase by the Company of its own securities" in Appendix VI to this prospectus.

This mandate will expire:

- at the conclusion of our Company's next annual general meeting; or
- at the date by which our Company is required by any applicable laws or the Articles to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

Particulars of this general mandate are set forth under "Resolutions in writing of the sole Shareholder passed on 8 September 2007" in Appendix VI to this prospectus.

SELECTED FINANCIAL INFORMATION

The following tables present selected financial information of our Group for the years indicated. The selected audited combined income statements and combined cash flow statements of our Group for each of the three financial years ended 31 December 2006 and the four months ended 30 April 2007, and the selected audited combined balance sheet information of our Group as of 31 December 2004, 2005, 2006 and 30 April 2007 have been extracted from the accountants' report on our Group, prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") throughout the Track Record Period, the text of which is set forth in Appendix I to this prospectus. For the basis of presentation of our Group's selected financial information, see the Accountants' Report in Appendix I to this prospectus.

TRADING RECORD DURING THE TRACK RECORD PERIOD

The following table summarises our audited combined results for the Track Record Period which are extracted from the accountants' report, and also illustrates certain items in our audited combined income statement expressed as a percentage of turnover for the Track Record Period:–

	Years ended 31 December						Four months ended 30 April			
	2004		2005		2006		2006		2007	
	RMB'000	*% of turnover*	*RMB'000*	*% of turnover*	*RMB'000*	*% of turnover*	*RMB'000* (unaudited)	*% of turnover*	*RMB'000*	*% of turnover*
Turnover	467,158	100.0	696,425	100.0	950,844	100.0	260,132	100.0	338,018	100.0
Cost of sales	(382,497)	81.9	(563,115)	80.9	(766,727)	80.6	(207,915)	79.9	(255,547)	75.6
Gross profit	84,661	18.1	133,310	19.1	184,117	19.4	52,217	20.1	82,471	24.4
Other revenue	370	0.1	662	0.1	726	0.1	179	0.1	163	0.0
Selling expenses	(5,084)	1.1	(7,008)	1.0	(9,597)	1.0	(2,723)	1.0	(2,357)	0.7
Administrative expenses	(6,287)	1.3	(9,377)	1.3	(11,929)	1.3	(3,447)	1.3	(5,330)	1.6
Profit from operations	73,660	15.8	117,587	16.9	163,317	17.2	46,226	17.8	74,947	22.2
Finance costs	(5,281)	1.1	(13,793)	2.0	(20,625)	2.2	(5,860)	2.3	(7,310)	2.2
Profit before taxation	68,379	14.6	103,794	14.9	142,692	15.0	40,366	15.5	67,637	20.0
Income tax	(24,023)	5.1	(35,460)	5.1	(48,755)	5.1	(14,542)	5.6	–	0.0
Profit for the year/period	44,356	9.5	68,334	9.8	93,937	9.9	25,824	9.9	67,637	20.0
Earnings per Share (RMB)										
– basic	0.06		0.09		0.13		0.03		0.09	

COMBINED BALANCE SHEETS

	As at 31 December			As at 30 April
	2004	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Property, plant and equipment	297,857	268,228	499,776	497,608
Construction in progress	–	132,411	16,000	–
Lease prepayments	–	–	–	10,960
Prepayment for the acquisition of plant and equipment	–	–	–	16,678
	297,857	400,639	515,776	525,246
Current assets				
Inventories	33,124	38,365	50,989	34,870
Trade and other receivables	39,490	64,257	81,785	66,347
Amounts due from controlling shareholders of the Company	26	47	15	–
Amounts due from related parties	–	–	183	296
Tax recoverable	–	–	–	4,365
Restricted bank balance	–	–	–	20,000
Cash and cash equivalents	51,983	65,568	67,265	58,224
	124,623	168,237	200,237	184,102
Current liabilities				
Bank loans	127,200	250,200	332,000	204,000
Trade and other payables	39,700	111,885	79,013	66,156
Amounts due to controlling shareholders of the Company	119,986	–	194,491	140
Amounts due to related parties	–	–	–	5,270
Tax payable	14,686	17,549	21,671	–
	301,572	379,634	627,175	275,566
Net current liabilities	(176,949)	(211,397)	(426,938)	(91,464)
Total assets less current liabilities	120,908	189,242	88,838	433,782
Non-current liabilities				
Bank loans	–	–	–	83,000
NET ASSETS	120,908	189,242	88,838	350,782
Capital and reserves				
Share capital	30,000	30,000	102	9,894
Reserves	90,908	159,242	88,736	340,888
TOTAL EQUITY	120,908	189,242	88,838	350,782

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

You should read the following discussion and analysis in conjunction with our audited combined financial information as at and for each of the three financial years ended 31 December 2006 and the four months ended 30 April 2007 and the accompanying notes thereto, the text of which is set forth in the accountants' report as included as Appendix I to this prospectus. The following discussion contains forward-looking statements that involve risks and uncertainties. Factors that could cause or contribute to such differences include those discussed in the section headed "Risk factors" in this prospectus.

Overview

We are principally engaged in the manufacture and sale of a kind of specialty paper products, decorative base paper products, and printing paper product. According to China Paper Association, we are one of the few domestic paper manufacturers in the PRC who are capable of manufacturing high-class decorative base paper products, and was ranked by China Paper Association as the largest decorative base paper manufacturer in terms of the actual annual production capacity in the PRC in 2005 and 2006.

By leveraging our production capacity expansion and the technical know-how in the manufacture of high-class decorative base paper products, we achieved encouraging growth in our business during the Track Record Period. For the three years ended 31 December 2006, our Group's turnover were approximately RMB467.2 million, RMB696.4 million and RMB950.8 million, respectively, representing a CAGR of approximately 42.7%, and our Group's profit for the year were approximately RMB44.4 million, RMB68.3 million and RMB93.9 million, respectively, representing a CAGR of approximately 45.4%. Moreover, our turnover and profit after taxation for the four months ended 30 April 2007 was approximately RMB338.0 million and RMB67.6 million, respectively, representing a growth of approximately 30.0% and 162.0%, respectively when compared to those for the four months ended 30 April 2006.

Due to strong personal disposable income growth and rising living standard in the PRC, it is expected that the demand for housing in terms of quality and floor space and household wares, such as furniture, will continue to rise, which will in turn fuel the growth in the demand for decorative construction materials, including laminated boards. According to China Paper Association, based on the development of the laminated board industry in the PRC and the high correlation between laminated board production and decorative base paper consumption, it is expected that there will be enormous growth potential at a 20% annual growth rate in the demand for decorative base paper industry in the PRC for the next 10 years.

Our decorative base paper products, being intermediate products, are commonly used as the decorative layer to furnish the surface of laminated board, a decorative material which has wide applications in interior decoration of buildings, transportation vehicles, processed products such as fortified wooden floorboard, furniture and composite office and household wares. To the best knowledge and belief of our Directors, the majority of our customers for decorative base paper products are processing factories, most of which are private enterprises and are principally engaged in the processing and/or manufacturing of laminated boards, who will further process our decorative base paper products with various materials to form laminated boards. Our printing paper product is mainly used for photocopying and printing. Since we commenced the production of printing paper product using our production line no. 4 from July 2006, we have sold all such product to a paper processing and trading company, an Independent Third Party, in the PRC. This customer was also our largest customer for the year ended 31 December 2006 and for the four months ended 30 April 2007.

With our highly automated production facilities at our production base located in Zouping County, Binzhou City, Shandong Province, the PRC, we are able to serve as a one-stop shop for a wide range of decorative base paper products. As at the Latest Practicable Date, we owned and operated six fully automated paper production lines (no. 1 to no. 6), with an aggregate designed annual production capacity of approximately 170,000 tonnes. Our annual production capacity increased at a CAGR of approximately 41.5% from the beginning of 2004 to the end of 2006. An additional fully automated production line no. 7 with a designed annual production capacity of approximately 30,000 tonnes is currently under construction and is expected to commence commercial production in early 2008.

Our Directors believe that, with our fully automated production lines, effective quality control systems and a highly skilled and well-trained workforce, we are well-positioned in the specialty paper manufacturing industry to capture the anticipated growth in the market demand for decorative base paper products and printing paper product in the PRC.

Basis of preparation of financial information

In preparation for the Listing, the companies comprising our Group underwent the Reorganisation to rationalise our Group's structure and our Company has become the holding company of our Group. The major steps of the Reorganisation involved (i) on 17 July 2006, Mr. Zhu and Mr. Zhu Mo Qun entered into a share transfer agreement with Best Known, pursuant to which the entire equity interest in the registered capital of Shandong Qunxing was transferred to Best Known for a cash consideration of HK$193,521,070.70. The said transfer of equity interest and the conversion of Shandong Qunxing into a wholly foreign owned enterprise were approved by 山東省對外貿易經濟合作廳 (Foreign Trade and Economic Cooperation Office of Shandong Province*) on 28 July 2006; (ii) the transfer to our Company by Boom Instant the entire issued share capital of Double Nation, the intermediate holding company of our Group, in consideration and in exchange for which our Company (a) allotted and issued, credited as fully paid, 9,000,000 new Shares to Boom Instant; (b) credited as fully paid at par the 1,000,000 nil-paid Shares then held by Boom Instant; and (iii) on 16 April 2007, 90 million Shares were allotted and issued to Boom Instant as consideration for the capitalisation of the shareholder's loan in the principal amount of HK$193,522,000 owing by our Company to Boom Instant. Details of the Reorganisation are set out in the paragraph headed "Corporate reorganisation" in Appendix VI to this prospectus.

The financial information has been prepared on the basis as if the current group structure had been in existence throughout the Track Record Period. The combined income statements, combined statements of changes in equity and combined cash flow statements of our Group include the results of operations of the companies comprising our Group for the relevant period (or where the companies were incorporated at a date later than 1 January 2004, for the period from their respective dates of incorporation to 30 April 2007) as if the current group structure had been in existence throughout the relevant period. The combined balance sheets of our Group as at 31 December 2004, 2005, 2006 and 30 April 2007 have been prepared to present the state of affairs of the companies comprising our Group as at the respective dates as if the current group structure had been in existence as at the respective dates.

Please refer to section A of the accountants' report set out in Appendix I to this prospectus for further details.

Critical accounting policies and practices

The discussion and analysis of our operating results and financial condition are based on our audited financial information, which have been prepared in accordance with IFRSs issued by IASB. Our operating results and financial condition 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.

Our management considers the following factors in reviewing our combined financial information:

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

Useful lives of plant and machinery

Our management determines the estimated useful lives and related depreciation expenses for our Group's manufacturing plant and machinery. The estimate is based on the expected lifespan of the paper making machines. It could change significantly as a result of technical innovations in response to industry cycles. Our management will increase the depreciation expenses where useful lives are shorter than previously estimated lives, and will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Major factors affecting our results of operations

Our Group has recorded satisfactory results for the Track Record Period and our Directors believe that our Group will continue to be one of the leaders in the specialty paper industry in the PRC in terms of production capacity in future. However, potential investors should be aware of the following factors which we consider may affect our results of operations and financial condition and the period-to-period comparability of our results of operations:

The business environment in the PRC

Although we plan to export our decorative base paper products overseas to tap demand in selecting international markets, all of our products were sold to customers in the PRC during the Track Record Period. Hence, the demand for our products is primarily driven by the economic conditions in the PRC as reflected by the consumer spending, investment, industrial output and export. The rapid development of the property market in the PRC is expected to fuel the growth in the demand for laminated boards and hence decorative base paper, an important raw material for manufacturing laminated boards. Due to strong personal disposable income growth and rising living standard in the PRC, the demand for housing in terms of quality and floor space and household wares, such as furniture, will continue to rise. According to China Paper Association, based on the development of the laminated board industry and high correlation between laminated board production and decorative base paper consumption, it is expected that there will be an enormous growth potential for decorative base paper industry in the PRC.

In recent years, the PRC has had to import decorative base paper products from overseas due to a shortfall in the domestic supply. In response to the increasing demand for such products in the PRC and to capture such business opportunity, we have expanded our production capacity significantly in recent years. See "The expansion of our production capacity in recent years" below.

The expansion of our production capacity in recent years

Our production capacity has been expanded significantly in recent years by constructing new production lines as well as re-engineering and modifying our existing production facilities with a view to improving our production efficiency. The following table sets forth the increase in our designed annual production capacity as of the dates indicated.

	As at 31 December			As at 30 April
	2004	2005	2006	2007
Production line no.		*(in tonnes)*		*(in tonnes)*
1, 2, 3, 4	110,000	110,000	110,000	110,000
5, 6	–	–	60,000	60,000
	110,000	110,000	170,000	170,000

We believe that the increase in our production capacity in recent years has strengthened our market position and enhanced our competitiveness in the market. It is our plan to keep expanding our production capacity in the future, and such plan was approved by 山東省輕工業辦公室 (Shandong Province Light Industry Council*) in January 2007 as one of the approved projects for paper manufacturing industry in the PRC under 人造板工業十一五規劃分析報告 (The Outline for Development of the Laminated Board Industry under the Eleventh Five Year Plan*). In order to tap the continuously growing demand for decorative base paper products in the PRC market, in May 2007, we commenced the construction of our new production line no. 7 with a designed annual production capacity of 30,000 tonnes and the construction is expected to be completed in early 2008. 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.

The increase of our equipment utilisation rate

The following table illustrates information on the utilisation rates and actual and planned hours of operation for our production lines during the Track Record Period.

	Years ended 31 December									Four months ended 30 April		
	2004			2005			2006			2007		
Production line	Actual hours of operation	Planned hours of operation(1)	Equipment Utilisation(2)	Actual hours of operation	Planned hours of operation(1)	Equipment Utilisation(2)	Actual hours of operation	Planned hours of operation(1)	Equipment Utilisation(2)	Actual hours of operation	Planned hours of operation(1)	Equipment Utilisation(2)
1	6,163	7,776	79.3%	6,660	7,776	85.6%	7,558	7,776	97.2%	2,379	2,496	95.3%
2	6,646	7,776	85.5%	6,840	7,776	88.0%	6,034	7,776	77.6%(5)	2,134	2,208	96.6%
3	6,031	7,128	84.6%	6,770	7,776	87.1%	7,294	7,776	93.8%	2,419	2,496	96.9%
4	3,017	3,240(3)	93.1%	7,284	7,776	93.7%	7,740	7,776	99.5%	2,378	2,496	95.3%
5	–	–	–	–	–	–	5,033	5,832(4)	86.3%	2,416	2,496	96.8%
6	–	–	–	–	–	–	5,477	5,832(4)	93.9%	2,476	2,496	99.2%

Notes:

(1) Planned hours of operation takes into account, among other things, planned maintenance shutdowns and shutdowns for equipment optimisation.

(2) Equipment utilisation rates represent the actual hours of operation as a percentage of the planned hours of operation.

(3) Commercial operation of production line no. 4 commenced in August 2004.

(4) Commercial operation of production lines nos. 5 and 6 commenced in April 2006.

(5) The decrease in the equipment utilisation rate is due to the re-engineering works carried out in this production line during the year.

(6) The average age of our machinery and equipment is approximately 3.5 years.

Our production lines normally operate on a continuous basis, subject to the necessary temporary stoppage for the purposes of machine cleaning and for adjusting for the production settings for different product specifications as well as carrying out regular inspection and maintenance work that lasts for about 3 days in aggregate each month and an annual maintenance that lasts for approximately 1 week.

As increase or decrease in our equipment utilisation rates will have an impact on our product volume and, thus, can have a significant effect on our unit costs and gross profit margins, we therefore plan our production schedules carefully so as to minimise the shutdown time required for making adjustments to the paper making machines for product and specification changes.

Our product mix

As detailed in the section headed "Business" in this prospectus, we manufacture and sell decorative base paper products and printing paper product. Our decorative base paper products can be further divided into four categories: (i) premium coloured decorative base paper; (ii) premium white decorative base paper; (iii) ordinary coloured decorative base paper; and (iv) ordinary white decorative base paper, depending on their colours, specifications and features. As we use different formula for the production of each category of our decorative base paper products as well as our printing paper product, the production costs as well as the average selling price for each category of our decorative base paper products and printing paper product are different.

Moreover, as a result of the shutdown time required for making adjustments to the machine for product and specification changes, product mix can affect our utilisation rate and hence can also have a significant effect on our unit costs and gross profit margins.

The following table sets forth the gross profit margin of each category of our products during the Track Record Period:

Products	Years ended 31 December 2004	2005	2006	Four months ended 30 April 2007
Decorative base paper products				
– Premium coloured decorative base paper	23.3%	24.0%	25.8%	36.8%
– Premium white decorative base paper	17.6%	18.2%	17.8%	26.4%
– Ordinary coloured decorative base paper	17.3%	17.6%	20.3%	25.1%
– Ordinary white decorative base paper	15.4%	16.0%	17.4%	18.0%
Printing paper product	–	–	13.3%	18.0%

Our product mix hence affects our margins as different products and specifications may provide different margins depending on the market at a particular point in time. In order to meet the market demand and customers' requirements, we may change our product mix from time to time, which could have impact on our overall margins.

Our sales volumes and average selling prices

The sales volumes of our decorative base paper products and printing paper product are primarily a function of our production capacity as well as the market demand and supply. The table below sets forth the sales volumes and average selling prices of our principal products for the periods indicated:

	Years ended 31 December			Four months ended 30 April
	2004	2005	2006	2007
Premium coloured decorative base paper				
Revenue (RMB'000)	59,369	153,388	212,453	20,547
Quantity (tonne)	4,259	10,692	14,538	1,491
Average selling price per tonne (RMB)	13,940	14,346	14,614	13,781
Premium white decorative base paper				
Revenue (RMB'000)	212,492	281,412	367,837	118,024
Quantity (tonne)	17,286	22,017	29,121	9,173
Average selling price per tonne (RMB)	12,293	12,782	12,631	12,866
Ordinary coloured decorative base paper				
Revenue (RMB'000)	172,995	218,231	138,651	109,617
Quantity (tonne)	20,304	24,557	14,982	11,162
Average selling price per tonne (RMB)	8,520	8,887	9,255	9,821
Ordinary white decorative base paper				
Revenue (RMB'000)	22,302	43,394	115,219	12,973
Quantity (tonne)	2,826	5,238	13,481	1,481
Average selling price per tonne (RMB)	7,892	8,284	8,547	8,760
Printing paper product				
Revenue (RMB'000)	–	–	116,684	76,857
Quantity (tonne)	–	–	19,503	12,352
Average selling price per tonne (RMB)	–	–	5,983	6,222

Our cost of production

Our results of operations are also subject to price fluctuations of raw materials we use in our production process. The principal raw materials for the production of both of our decorative base paper products and printing paper product are wood pulp and titanium dioxide powder. To the best knowledge and belief of our Directors, the price of wood pulp is generally affected by the overall economy, and the price of wood pulp and titanium dioxide powder have increased steadily and moderately over the Track Record Period. For each of the three years ended 31 December 2006 and the four months ended 30 April 2007, our purchase of wood pulp amounted to approximately RMB131.2 million, RMB191.8 million, RMB310.5 million and RMB107.8 million, respectively, representing approximately 34.3%, 34.1%, 40.5% and 42.2%, respectively, of our total cost of sales for the respective periods and our purchase of titanium dioxide powder amounted to approximately RMB149.3 million, RMB209.5 million, RMB237.5 million and RMB54.4 million, respectively, representing approximately 39.0%, 37.2%, 31.0% and 21.3%, respectively, of our total cost of sales for the respective periods. For the three years ended 31 December 2006 and the four months ended 30 April 2007, our Group purchased wood pulp at the average price per tonne (value added tax inclusive) of approximately RMB5,180, RMB5,626, RMB6,056 and RMB5,975, respectively, and purchased titanium dioxide powder at the average price per tonne (value added tax inclusive) of approximately RMB11,804, RMB12,292, RMB12,887 and RMB12,909, respectively.

The prices of both wood pulp and titanium dioxide powder had increased steadily and moderately during the Track Record Period. As the increase in the prices of raw materials had been offset by the increase in the average selling prices of our products as well as the economy of scale enjoyed by us as a result of the increase in our production capacity, the increase in the prices of both wood pulp and titanium dioxide powder during the Track Record Period did not have a material impact on our Group. Therefore, we have not taken any special measures to manage the fluctuation in major raw materials costs.

Description of the major components of our results of operations

Turnover

Our turnover is generated from the manufacture and sale of decorative base paper products and printing paper product through our production base located in Binzhou City, Shandong Province, the PRC. Turnover represents the net amounts received and receivable for goods sold by our Group to customers who are primarily processing factories in the PRC, most of which, to the best knowledge and belief of our Directors, are private enterprises and are principally engaged in the processing and/or manufacturing of laminated boards. Revenue from the sale of goods is recognised when goods are delivered and title has passed to the customers. Our turnover is affected by the volume of total products sold and the product mix during the years/periods.

Cost of sales

Our cost of sales represents the production costs of goods sold during the years/periods. Our production costs comprise cost of raw materials, direct labour costs and manufacturing overheads, which include depreciation charges, utility expenses, consumables, repairs and maintenance and other overhead related expenses. Of these, the cost of raw materials, which is the largest cost component for us, representing approximately 81.9%, 83.1%, 80.6%, 77.0%, respectively, of our production costs during the Track Record Period. The cost of sales and hence our profit margin are sensitive to the changes in the market prices of wood pulp and titanium dioxide powder, which are the major raw materials we use in our production.

Other revenue

Our other revenue represents the interest income earned from our cash deposits placed with the local banks in the PRC during the years/periods and is recognised as it accrues using the effective interest method.

Selling expenses

Our selling expenses consist primarily of sales and marketing staff salaries and benefits, traveling and sundry expenses. As detailed in the paragraph headed "Logistics" in the section headed "Business" in this prospectus, we normally are not responsible for the delivery of our products to the customers and, instead, we rely on third party logistics solutions at the cost of our customers or our customers will arrange for delivery themselves at their own cost. Accordingly, we do not incur any distributing expenses and our selling expenses largely depend on our costs incurred in conducting marketing activities and soliciting new customers in the six designated sales regions in the PRC.

Administrative expenses

Our administrative expenses consist primarily of administrative and management staff salaries and benefits, depreciation of non-production related fixed assets, research and development cost, pension contributions and the city maintenance and construction tax at the rate of 5% on our applicable value-added tax and certain educational surcharge at such rate as determined in accordance with relevant regulations applicable to domestic enterprises in the PRC.

Finance costs

Our finance costs consist primarily of interest expenses on our bank borrowings.

Income tax

Our Company and our subsidiaries are incorporated in different jurisdictions, with different taxation requirements.

(i) Pursuant to the rules and regulations of the Cayman Islands and BVI, our Group is not subject to any income tax in the Cayman Islands and BVI.

(ii) No provision has been made for Hong Kong profits tax as our Group does not have assessable profits subject to Hong Kong profits tax during the relevant period.

(iii) According to our legal advisers as to PRC law, pursuant to the income tax rules and regulations of the PRC, before its conversion into a wholly foreign owned enterprise in August 2006, Shandong Qunxing was liable to pay PRC income tax at a rate of 33% (comprising 30% national enterprise income tax and 3% local income tax) for the years ended 31 December 2004, 2005 and 2006. Nonetheless, as Shandong Qunxing became a foreign investment enterprise on 16 August 2006, it has been granted certain tax relief whereby it is fully exempted from the 30% national enterprise income tax for the two years starting from 1 January 2007 to 31 December 2008, followed by a reduced national enterprise income tax rate at 15% for the remaining three years from 1 January 2009 to 31 December 2011 . Moreover, Shandong Qunxing is further exempted for the 3% local income tax for the five years ending 31 December 2011.

Our Group has made all required tax filings and paid all outstanding tax liabilities to the relevant tax authorities. Our Group had no dispute or potential dispute with tax authorities as at the Latest Practicable Date.

Our Group's effective tax rate for each of the three years ended 31 December 2006 was approximately 35.1%, 34.2% and 34.2%, respectively and 0% for the four months ended 30 April 2007. The reconciliation between income tax expenses and accounting profit at applicable tax rates during the Track Record Period is set out as follows:

	Years ended 31 December			Four months ended 30 April
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Profit before taxation	68,379	103,794	142,692	67,637
Income tax on profit before taxation, calculated at the tax rates applicable to the countries concerned	22,565	34,252	47,131	22,413
Tax effect of tax concession period	–	–	–	(22,628)
Tax effect of non-deductible expenses	1,458	1,208	1,624	215
Income tax expenses for the year/period	24,023	35,460	48,755	–

Period-to-period analysis of our trading record

Comparison between the four months ended 30 April 2007 and the four months ended 30 April 2006

Turnover

Our turnover increased by approximately 30.0% from RMB260.1 million in the four months ended 30 April 2006 to approximately RMB338.0 million in the four months ended 30 April 2007. The increase in our turnover during the four months ended 30 April 2007 was mainly attributable to the combined effects of (i) the increase in the sales volumes of decorative base paper products by approximately 6.8% from 21,818 tonnes to 23,307 tonnes; and (ii) sales of the printing paper product, a new product line which we started to manufacture in July 2006 and the sales volumes of which was 12,352 tonnes during the four months ended 30 April 2007.

The sales volume growth was primarily due to the introduction of new product line of printing paper product and the continual growth of the decorative base paper products market in the PRC during the two periods of review. The increase in our sales volumes during the four months ended 30 April 2007 was supported by the increase of approximately 60.1% in our production volume from 21,885 tonnes to 35,038 tonnes. The increase in our production volume was mainly due to the commencement of commercial production of our production lines no. 5 and no. 6 in April 2006, which added a total of 8,876 tonnes to our total production volume for the four months ended 30 April 2007.

In January 2007, we successfully developed a new production process, which improves the technique and formula for mixing aqueous pulp and other raw materials. Such new production process has been employed for the production of our premium coloured and premium white decorative base paper products. During the four months ended 30 April 2007, sales volume of our premium coloured, premium white, ordinary coloured and ordinary white decorative base paper products accounted for approximately 6.4%, 39.4%, 47.9% and 6.3%, respectively of our total sales volume of decorative base paper products during the same period. Compared to the product mix during the year ended 31 December 2006 (in which sales of our premium coloured, premium white, ordinary coloured and ordinary white decorative base paper products accounted for approximately 20.2%, 40.4%, 20.8% and 18.7%, respectively of total sales volume of decorative base paper products), the decrease in the proportion of sales in premium coloured and premium white decorative base paper products was mainly due to the trial running of the new production process during the four months ended 30 April 2007. Therefore, the production volume as well as sales volume of the premium coloured and premium white decorative base paper products had been temporarily decreased. Nevertheless, the customers' demand for our premium coloured decorative base paper products has been tapped by our ordinary coloured decorative base paper products. Therefore, the sales volume of our ordinary coloured decorative base paper products increased significantly during the four months ended 30 April 2007.

In March 2007, we increased our overall product prices with a view to transferring the increase in the prices of our raw materials to our customers. As a result, the average selling prices of our premium white, ordinary white and ordinary coloured decorative base paper products for the four months ended 30 April 2007 were increased by approximately 2.2%, 2.5% and 6.7%, respectively, when compared to those for the four months ended 30 April 2006. However, the average selling prices of premium coloured decorative base paper products for the four months ended 30 April 2007 decreased when compared to those for the four months ended 30 April 2006 despite the increase in our overall product prices as mentioned above. Our Directors confirm that this was mainly due to the fact that more products at the lower end of the price range of premium coloured decorative paper products category were sold during the period.

Cost of sales

Our cost of sales increased by approximately 22.9% from RMB207.9 million in the four months ended 30 April 2006 to RMB255.5 million in the four months ended 30 April 2007. The increase in the cost of sales was primarily due to an increase in the raw material costs, which are the major component of our cost of sales, as a result of the increased sales volume as described above. Moreover, production overheads such as electricity and steam expenses also increased which was in line with the increase in production volume. Depreciation expenses also increased due to the commencement of commercial production of our production lines no. 5 and no. 6 in April 2006.

The new production process mentioned in the sub-paragraph headed "Turnover" above, which has improved the technique and formula for mixing aqueous pulp and other raw materials, allows us to vary the proportion of the usage of different wood pulp in order to improve the water absorption rate of the decorative base paper products. By using the new production process, we are able to substitute the usage of a specific type of titanium dioxide powder with other types of titanium dioxide powder and chemicals, which are less costly, while maintaining our product quality. Hence, it enables us to effectively lower the production cost per unit of our premium coloured and premium white decorative base paper products by 18.2% and 22.1%, respectively.

Gross profit and gross profit margin

As a result of the factors mentioned in the sub-paragraphs headed "Turnover" and "Cost of sales" above, our gross profit increased by approximately 58.0% from RMB52.2 million in the four months ended 30 April 2006 to RMB82.5 million in the four months ended 30 April 2007, while our gross profit margin increased significantly from approximately 20.1% to approximately 24.4% during the two periods of review.

The following table sets forth the gross profit margin of each category of our decorative base paper products:

	Four months ended 30 April	
	2006	**2007**
	(unaudited)	
Decorative base paper product category		
Premium coloured	25.7%	36.8%
Premium white	17.7%	26.4%
Ordinary coloured	20.0%	25.1%
Ordinary white	17.4%	18.0%

The reasons for the change in gross profit margin for each category of decorative base paper products are as follows:

1. Premium coloured – The overall selling prices had been increased by 5-8% in March 2007. Furthermore, by using a new production process developed in-house for certain premium coloured decorative base paper products, our Group is able to lower the average production cost per unit by approximately 18.2%.

2. Premium white – The overall selling prices had been increased by 5-8% in March 2007. Furthermore, by using a new production process developed in-house for certain premium white decorative base paper products, our Group is able to lower the average production cost per unit by approximately 22.1%.

3. Ordinary coloured – The overall selling prices had been increased by 5-8% in March 2007.

4. Ordinary white – In 2007, we have adjusted our product mix and sales strategies to focus more on the production of decorative base paper products with higher profit margin. As the utilisation rates of our six production lines have almost reached their respective optimal level, we have temporarily suspended the production of our ordinary white decorative base paper products since March 2007 in order to re-allocate our production capacity for the production of decorative base paper products with higher profit margin. Accordingly, the gross profit margin of our ordinary white decorative base paper products was not benefited by the overall product prices adjustment in March 2007. The slight increase in gross profit margin of our ordinary white decorative base paper products compared with that of the corresponding period in 2006 was mainly due to the better economy of scale enjoyed by us.

Other revenue

Other revenue, which represented our interest income earned from the bank deposits, slightly decreased by approximately 8.9% from RMB179,000 in the four months ended 30 April 2006 to RMB163,000 in the four months ended 30 April 2007. The slight decrease was primarily due to the fact that we applied our bank deposits in acquiring the land use rights of the two parcels of land, at which our production base are located, from Guanghua in April 2007, after which our bank deposits decreased during the four months ended 30 April 2007 and so did the associated interest income.

Selling expenses

Our selling expenses decreased by approximately 11.1% from RMB2.7 million in the four months ended 30 April 2006 to RMB2.4 million in the four months ended 30 April 2007. Despite the increase in our turnover by approximately 30.0% during the two periods of review, our selling expenses did not increase proportionally with our sales volume. Our selling expenses as a percentage of turnover dropped from approximately 1.0% for the four months ended 30 April 2006 to approximately 0.7% for the four months ended 30 April 2007. The decrease was mainly attributed to the adoption of a more stringent cost control on our costs incurred in conducting marketing activities and soliciting new customers during the four months ended 30 April 2007. Besides, the sundry and travelling expenses incurred by our sales and marketing staff decreased considerably by approximately 17.4% from RMB2.3 million in the four months ended 30 April 2006 to RMB1.9 million in the four months ended 30 April 2007.

Administrative expenses

Our administrative expenses increased by approximately 55.9% from RMB3.4 million in the four months ended 30 April 2006 to RMB5.3 million in the four months ended 30 April 2007. This increase in administrative expenses was mainly due to the combined effects of (i) increase in the administrative expenses incurred by our Hong Kong office of approximately RMB0.5 million, representing approximately 9.4% of our Group's total administrative expenses for the four months ended 30 April 2007; and (ii) the increase in the city maintenance and construction tax and educational surcharge by approximately 137.5% from approximately RMB0.8 million to approximately RMB1.9 million. The increase in the city maintenance and construction tax and educational surcharge is in line with the increase of our taxable income and the expansion of our business.

Profit from operations

As a result of the factors discussed above, our profit from operations increased by approximately 62.1% from RMB46.2 million in the four months ended 30 April 2006 to RMB74.9 million in the four months ended 30 April 2007. The increase in operating profit margin was mainly attributable to the improved gross profit margin and better control on our costs incurred in conducting marketing activities and soliciting new customers during the second half of 2006 and the four months ended 30 April 2007.

Finance costs

Our finance costs increased by approximately 23.7% from RMB5.9 million in the four months ended 30 April 2006 to RMB7.3 million in the four months ended 30 April 2007. The increase in interest expenses was mainly due to the increase in the bank borrowings to finance working capital and capital expenditures for the expansion of our business during two periods of review.

Income tax

We are not liable to pay any income tax expense for the four months ended 30 April 2007 as our principal operating subsidiary, Shandong Qunxing, has become a foreign investment enterprise since August 2006. According to our legal advisers as to PRC law, under the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises, Shandong Qunxing, being an enterprise with foreign investment which conducts manufacturing business operation and has an operating term of more than ten years, is entitled to full exemption from national enterprise income tax of 30% for a period of two years commencing from 2007, and a 50% relief on the applicable tax rate for the national enterprise income tax for the succeeding three years. Moreover, according to our legal advisers as to PRC law, pursuant to 關於擴大外商投資企業地方所得税減免範圍有關問題的通知 (Notice on Relevant Issues Relating to Expanding the Scope of Reduction and Exemption of Local Incomes Tax on Foreign-invested Enterprises*) promulgated by the State Tax Bureau of Shandong in June 2000 and 關於確認山東群星紙業有限公司享受定期減免税資格的批覆 (Approval on Confirming the Qualification of Shandong Qunxing on Enjoyment of Tax Reduction and Exemption*) issued by the State Tax Bureau of Zouping County in April 2007, Shandong Qunxing is further entitled to a full exemption of the local income tax of 3% as long as it maintains its corporate existence.

Profit for the period and the net operating profit margin

As a result of the foregoing factors, our profit for the period increased significantly by approximately 162.0% from RMB25.8 million in the four months ended 30 April 2006 to RMB67.6 million in the four months ended 30 April 2007. The increase in the net operating profit margin from approximately 9.9% in the four months ended 30 April 2006 to 20.0% in the four months ended 30 April 2007 is mainly attributable to the improved gross profit margin and better control of our selling expenses. Moreover, the full exemption of the national and local income tax in the PRC during the four months ended 30 April 2007 has allowed us to further improve our net operating profit margin.

Year-to-year analysis of our trading record

Comparison between the financial year ended 31 December 2006 and the financial year ended 31 December 2005

Turnover

Our turnover increased by approximately 36.5% from RMB696.4 million in the year ended 31 December 2005 to RMB950.8 million in the year ended 31 December 2006. The increase in our turnover during the year was mainly attributable to the combined effects of (i) the increase in our sales volumes of decorative base paper products by approximately 15.4% from 62,504 tonnes to 72,122 tonnes; (ii) the launch of our new product line of printing paper in July 2006 and the sales volumes of which was 19,503 tonnes during the period ended 31 December 2006; and (iii) the increase in the average selling prices of our decorative base paper products by approximately 3.8% from RMB11,142 per tonne to RMB11,566 per tonne on average.

The sales volume growth during the year ended 31 December 2006 was primarily due to the enlarged customer base, the introduction of new product line of printing paper during the year and the continued growth of the decorative base paper products market in the PRC. The increase in our sales volumes during the year ended 31 December 2006 was supported by the increase of approximately 45.2% in our production volume from 62,858 tonnes to 91,274 tonnes. The increase in our production volume was mainly due to the commencement of commercial production of our production lines no. 5 and no. 6 in April 2006, which added a total of 22,047 tonnes to our total production volume for the year ended 31 December 2006.

During the year ended 31 December 2006, we experienced strong growth in the sales volume of our premium coloured, premium white and ordinary white decorative base paper products while the sales volume of our ordinary coloured decorative base paper products decreased as compared to that of the year ended 31 December 2005. Our Directors consider that the decrease in the sales volume of ordinary coloured decorative base paper products was mainly due to (i) our emphasis on the promotion of premium decorative base paper products during the year, which were sold at a higher gross profit margin; and (ii) the designation of our production line no. 4 for the production of printing paper product from July 2006, which decreased our production capacity for producing decorative base paper products.

During the year ended 31 December 2006, the average selling prices of our premium coloured, ordinary coloured and ordinary white decorative base paper products increased by approximately 1.9%, 4.1% and 3.2%, respectively, as compared to those for the year ended 31 December 2005. The increase in the average selling prices of such products was mainly due to the fact that we had transferred the increase in prices of our raw materials to our customers. During the year ended 31 December 2006, the average selling price of our premium white decorative base paper products slightly decreased by 1.2%. Our Directors confirm this was mainly because more products of the lower prices within the range of premium white decorative base paper products category have been sold during the year.

Cost of sales

Our cost of sales increased by approximately 36.2% from RMB563.1 million in the year ended 31 December 2005 to RMB766.7 million in the year ended 31 December 2006. As there was no material change in the selling prices of wood pulp and titanium dioxide powder, which are the major raw materials for our production, during the year, the increase in our cost of sales is principally due to, and in line with, the corresponding increase in our sales.

Gross profit and gross profit margin

As a result of the factors mentioned in the sub-paragraphs headed "Turnover" and "Cost of sales" above, our gross profit increased by approximately 38.1% from RMB133.3 million in the year ended 31 December 2005 to RMB184.1 million in the year ended 31 December 2006, while our gross profit margin slightly increased from approximately 19.1% to approximately 19.4% during the year.

The following table sets out the gross profit margin of each category of our decorative base paper products for the two years ended 31 December 2006:

	Years ended 31 December	
Decorative base paper product category	**2005**	**2006**
Premium coloured	24.0%	25.8%
Premium white	18.2%	17.8%
Ordinary coloured	17.6%	20.3%
Ordinary white	16.0%	17.4%

The increase in overall gross profit margin of ordinary coloured decorative base paper products was mainly due to the increase in sales of products of such category with higher margin during the year ended 31 December 2006. Apart from that, there were no material changes in the gross profit margin for the other three categories of decorative base paper products.

Other revenue

Our other revenue, which represented our interest income earned from the bank deposits, increased by approximately 9.7% from RMB662,000 in the year ended 31 December 2005 to RMB726,000 in the year ended 31 December 2006. The slight increase was in line with the increase in our cash and cash equivalent balances during the year from RMB65.6 million as at 31 December 2005 to RMB67.3 million as at 31 December 2006.

Selling expenses

Our selling expenses increased by approximately 37.1% from RMB7.0 million in the year ended 31 December 2005 to RMB9.6 million in the year ended 31 December 2006. As a percentage of turnover, our selling expenses were maintained at approximately 1.0% for each of the two years ended 31 December 2006. It is the policy for our Group to allocate approximately 1.0% of our sales as the annual budget for our marketing activities and the expenses to be incurred in soliciting new customers in the six designated sales regions in the PRC. As such, the increase in our selling expenses was largely in line with the increase of our turnover during the two years of review.

Administrative expenses

Our administrative expenses increased by approximately 26.6% from RMB9.4 million in the year ended 31 December 2005 to RMB11.9 million in the year ended 31 December 2006. The increase in administrative expenses is mainly due to (i) the increase in the administrative staff costs, employee benefits and pension expenses by approximately 8.7% from RMB2.3 million in the year ended 31 December 2005 to RMB2.5 million in the year ended 31 December 2006, which was resulted from additional employees for the expansion of our operation as our production lines no. 5 and no. 6 commenced commercial production since April 2006; and (ii) the increase in the city maintenance and construction tax and educational surcharge by approximately 42.3% from RMB2.6 million in the year ended 31 December 2005 to RMB3.7 million in the year ended 31 December 2006. Such increase is in line with the increase of our taxable income and the expansion of our business.

Profit from operations

As a result of the factors discussed above, our profit from operations increased by approximately 38.9% from RMB117.6 million in the year ended 31 December 2005 to RMB163.3 million in the year ended 31 December 2006. The increase in operating profit margin was in line with the increase in sales during the year.

Finance costs

Our finance costs increased by approximately 49.3% from RMB13.8 million in the year ended 31 December 2005 to RMB20.6 million in the year ended 31 December 2006. The increase in interest expenses was mainly due to the increase in the bank borrowings for the expansion of our business during the year.

Income tax

The income tax increased by approximately 37.5% from RMB35.5 million in the year ended 31 December 2005 to RMB48.8 million in the year ended 31 December 2006. The increase was in line with the increase in our profit before taxation during the year.

Profit for the year and the net operating profit margin

As a result of the factors discussed above, our profit for the year increased by approximately 37.5% from RMB68.3 million in the year ended 31 December 2005 to RMB93.9 million in the year ended 31 December 2006. The net operating profit margin slightly improved from approximately 9.8% in the year ended 31 December 2005 to approximately 9.9% in the year ended 31 December 2006.

Comparison between the financial year ended 31 December 2005 and the financial year ended 31 December 2004

Turnover

Our turnover increased by approximately 49.1% from RMB467.2 million in the year ended 31 December 2004 to RMB696.4 million in the year ended 31 December 2005. The increase in our turnover during the year was mainly attributable to the combined effects of (i) the increase in our sales volumes of decorative base paper products by approximately 39.9% from 44,675 tonnes to 62,504 tonnes; and (ii) the increase in the average selling prices of our decorative base paper products by approximately 6.6% from RMB10,457 per tonne to RMB11,142 per tonne on average during the year.

The sales volume growth during the year was primarily due to the enlarged customer base and the continued growth of the decorative base paper products market in the PRC. The increase in our sales volumes during the year was supported by the increase of approximately 37.1% in our production volume from 45,863 tonnes to 62,858 tonnes. The increase in our production volume during the year was mainly due to the full year production of our production line no. 4, which commenced its commercial production in August 2004.

During the year ended 31 December 2005, we experienced strong growth in the sales of all categories of our decorative base paper products. Our Directors consider that the strong growth in the sales of our decorative base paper products was mainly due to the increasing demand for the laminated boards in the PRC and, hence, the decorative base paper products.

During the year ended 31 December 2005, the average selling prices of our premium coloured, premium white, ordinary coloured and ordinary white decorative base paper products increased by approximately 2.9%, 4.0%, 4.3% and 5.0%, respectively. The increase in the average selling prices of such products was mainly due to the fact that we had transferred the increase in prices of our raw materials to our customers.

Cost of sales

Our cost of sales increased by approximately 47.2% from RMB382.5 million in the year ended 31 December 2004 to RMB563.1 million in the year ended 31 December 2005. As there was no material change in the selling prices of wood pulp and titanium dioxide powder, which are the major raw materials for our production, during the year, the increase in our cost of sales was principally due to, and in line with, the corresponding increase in our sales.

Gross profit and gross profit margin

As a result of the increase in our sales of the decorative base paper products due to the increase in the demand for laminated boards in the PRC as a result of economic growth as well as the increase in our production volume contributed by the full year operation of the production line no. 4, our gross profit increased by approximately 57.4% from RMB84.7 million in the year ended 31 December 2004 to RMB133.3 million in the year ended 31 December 2005. Our gross profit margin increased from approximately 18.1% in the year ended 31 December 2004 to approximately 19.1% in the year ended 31 December 2005 as a result of the change in our product mix and the expansion of our production scale during the year, which brought us a better economy of scale.

The following table sets out the gross profit margin of each category of our decorative base paper products for the two year ended 31 December 2005:

	Years ended 31 December	
Decorative base paper product category	**2004**	**2005**
Premium coloured	23.3%	24.0%
Premium white	17.6%	18.2%
Ordinary coloured	17.3%	17.6%
Ordinary white	15.4%	16.0%

During the years of review, as there was no material fluctuation in the production costs and selling prices of our decorative base paper products, the gross profit margin remained constant.

Other revenue

Our other revenue, which represented our interest income earned from the bank deposits, increased by approximately 78.9% from RMB370,000 in the year ended 31 December 2004 to RMB662,000 in the year ended 31 December 2005. The increase was in line with the increase in our average amount of cash and cash equivalent balances from the year ended 31 December 2004 to the year ended 31 December 2005.

Selling expenses

Our selling expenses increased by approximately 37.3% from RMB5.1 million in the year ended 31 December 2004 to RMB7.0 million in the year ended 31 December 2005. As a percentage of turnover, our selling expenses improved from approximately 1.1% for the year ended 31 December 2004 to approximately 1.0% for the year ended 31 December 2005. It is the policy for our Group to allocate approximately 1.0% of our sales as the annual budget for our marketing activities and the expenses to be incurred in soliciting new customers in the six designated sales regions in the PRC. The improvement in our selling expenses as a percentage of turnover was mainly attributable to our better cost control on our costs incurred in conducting our marketing activities and soliciting new customers during the year ended 31 December 2005 by requesting our marketing and sales staff to plan their visit route in a more effective manner.

Administrative expenses

Our administrative expenses increased by approximately 49.2% from RMB6.3 million in the year ended 31 December 2004 to RMB9.4 million in the year ended 31 December 2005. This increase in administrative expenses was mainly due to the expansion of our operations as a result of the full year operation of our production line no. 4 during the year ended 31 December 2005.

Profit from operations

As a result of the factors discussed above, the profit from operations increased by approximately 59.6% from RMB73.7 million in the year ended 31 December 2004 to RMB117.6 million in the year ended 31 December 2005. The increase in operating profit margin was mainly attributable to the improved gross profit margin and better control of the selling costs as explained above.

Finance costs

Our finance costs increased by approximately 160.4% from RMB5.3 million in the year ended 31 December 2004 to RMB13.8 million in the year ended 31 December 2005. The increase in interest expenses was mainly due to the increase in the bank borrowings during the year to finance the construction of our production lines no. 5 and no 6.

Income tax

The income tax increased by approximately 47.9% from RMB24.0 million in the year ended 31 December 2004 to RMB35.5 million in the year ended 31 December 2005. The increase was in line with the increase in our profit before taxation during the year ended 31 December 2005.

Profit for the year and the net operating profit margin

As a result of the factors discussed above, the profit for the year increased by approximately 53.8% from RMB44.4 million in the year ended 31 December 2004 to RMB68.3 million in the year ended 31 December 2005. The increase in the net operating profit margin was mainly attributable to the improved gross profit margin and better control of the selling costs as explained above.

Key financial ratios

The following table sets forth certain financial ratios of our Group as of the date or for the year/period indicated.

	Note	As of or for the years ended 31 December 2004	2005	2006	As of or for the four months ended 30 April 2007
Profitability ratios					
Gross profit margin (%)	*1*	18.1	19.1	19.4	24.4
Net profit margin (%)	*2*	9.5	9.8	9.9	20.0
Return on assets (%)	*3*	10.5	12.0	13.1	9.5
Return on equity (%)	*4*	36.7	36.1	105.7	19.3
Liquidity ratios					
Current Ratio	*5*	0.4	0.4	0.3	0.7
Quick Ratio	*6*	0.3	0.3	0.2	0.5
Gearing Ratio (%)	*7*	30.1	44.0	46.4	40.5
Inventory turnover days	*8*	37	30	30	23
Debtors' turnover days	*9*	31	34	31	23
Creditors' turnover days	*10*	30	24	31	33

Notes:–

1. Gross profit margin is calculated based on the gross profit divided by turnover and multiplied by 100%.

2. Net profit margin is calculated based on the profit for the year/period divided by turnover and multiplied by 100%.

3. Return on assets is calculated based on the profit for the year/period divided by the total assets at the end of the year/period and multiplied by 100%.

4. Return on equity is calculated based on the profit for the year/period divided by capital and reserves at the end of the year/period and multiplied by 100%.

5. Current ratio is calculated based on the total current assets divided by the total current liabilities at the end of the year/period.

6. 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/period.

7. Gearing ratio is calculated based on the total bank borrowings divided by total assets and multiplied by 100%.

8. Inventory turnover days is calculated based on the inventory at the end of the year/period divided by the total purchases during the year/period and multiplied by the number of days during the year/period.

9. Debtors' turnover days is calculated based on trade receivables at the end of the year/period divided by turnover during the year/period and multiplied by the number of days during the year/period.

10. Creditors' turnover days is calculated based on trade payables at the end of the year/period divided by the total purchases during the year/period and multiplied by the number of days during the year/period.

ANALYSIS ON SELECTED FINANCIAL RATIOS

Current and quick ratios

The current ratio of our Group was maintained at approximately 0.4 as at 31 December 2004 and 0.4 as at 31 December 2005, respectively and the quick ratio of our Group was maintained at approximately 0.3 as at 31 December 2004 and 0.3 as at 31 December 2005, respectively, while both ratios as at 31 December 2006 decreased as a result of (1) the net increase in the bank borrowings of approximately RMB81.8 million to finance the construction of our production lines no. 5 and no. 6 during the year; and (2) the amounts due to Controlling Shareholders of approximately RMB194.5 million as at 31 December 2006. The amounts due to Controlling Shareholders of approximately RMB194.5 million as at 31 December 2006 mainly represent the consideration payable to Boom Instant for the acquisition of entire equity interest of Shandong Qunxing by Best Known during the year ended 31 December 2006. The balances are unsecured, interest-free and have fixed repayment terms due within 1 year. The amounts due to the Controlling Shareholders as at 31 December 2006 had been fully settled by way of the proceeds from the ICBC Loan during the four months ended 30 April 2007.

As at 30 April 2007, the current ratio and the quick ratio of our Group improved to approximately 0.7 and 0.5, respectively, which was mainly attributable to the combined effects of (i) the decrease of short-term bank loans from approximately RMB332.0 million as at 31 December 2006 to RMB204.0 million as at 30 April 2007. Out of the decreased amount of RMB128.0 million, RMB45.0 million was repaid by our internally generated fund and the remaining RMB83.0 million was extended to long-term bank loans; (ii) the full settlement of the amounts due to the Controlling Shareholders as at 31 December 2006 by our Group during the four months ended 30 April 2007 by the proceeds from the ICBC Loan; and (iii) the record of a tax recoverable amounting to approximately RMB4.4 million, which represented the income tax paid by our Group during the four months ended 30 April 2007 and is expected to be refunded by the tax bureau at the year end of 2007, because our principal operating subsidiary, Shandong Qunxing, has become a foreign investment enterprise since August 2006, as a result of which it is granted certain tax relief on 5 April 2007 whereby it is fully exempted from the PRC income tax for the two years starting from 1 January 2007, followed by a reduced PRC income tax rate at 15% for the three years from 1 January 2009.

Gearing ratio

The increase in the gearing ratio during the three years ended 31 December 2006 was mainly due to the increase in bank borrowings from approximately RMB127.2 million as at 31 December 2004 to RMB332.0 million as at 31 December 2006. Due to the continuous expansion of our business as well as the increasing capital investment in our new production facilities during the three years ended 31 December 2006, we had to finance such expansion plans by means of bank borrowings. Accordingly, the level of bank borrowings has increased during the three years ended 31 December 2006.

Our gearing ratio decreased from approximately 46.4% as at 31 December 2006 to approximately 40.5% as at 30 April 2007, which was mainly due to the fact that our bank borrowings decreased by approximately 13.6% from RMB332.0 million as at 31 December 2006 to RMB287.0 million as at 30 April 2007 while there was no material change in our total assets as at the respective date. During the four months ended 30 April 2007, our net cash generated from operating activities amounted to approximately RMB108.9 million which had been used to repay the bank borrowings of RMB45.0 million and part of the trade payables. Therefore, the total assets, comprising the non-current assets and current assets, had no material change while our bank borrowings decreased by 13.6%.

Return on assets

Return on assets is an indicator of how profitable a company is in terms of its total assets and gives an idea as to how efficient a company is in using its assets to generate earnings. Our return on assets for each of the three years ended 31 December 2006 and the four months ended 30 April 2007 amounted to approximately 10.5%, 12.0%, 13.1% and 9.5% (with the annualised figures amounting to approximately 28.5% for indicative purpose only), respectively. The improved return on assets during the three years ended 31 December 2006 was mainly attributable to the economy of scale brought by the increase in equipment utilisation rate of our production lines as well as the expansion of our production scale during the years. As a result of the entitlement of taxation holiday by our principal operating subsidiary in the PRC, Shandong Qunxing, as explained above, our return on assets for the four months ended 30 April 2007 further improved.

Return on equity

Return on equity measures the efficiency of a company in generating profits from every dollar of net assets invested. Our return on equity for each of the three years ended 31 December 2006 and the four months ended 30 April 2007 amounted to approximately 36.7%, 36.1%, 105.7% and 19.3% (with the annualised figures amounting to approximately 57.9% for indicative purpose only), respectively. The comparatively high return on equity for the year ended 31 December 2006 was mainly attributable to the fact that the consideration payable by Best Known for the acquisition of entire equity interest of Shandong Qunxing for the purpose of Reorganisation remained outstanding as at 31 December 2006 and was, therefore, classified as an amount due to the Controlling Shareholders instead of a component of the shareholders' equity of our Group as at 31 December 2006. As such, the shareholders' equity of our Group as at 31 December 2006 dropped significantly which resulted in an increase in our return on equity for the year ended 31 December 2006.

Our improved profitability attributable to the benefit resulting from the economy of scale and the entitlement of taxation holiday of Shandong Qunxing had improved the return on equity as at 30 April 2007 as compared to that of approximately 12.0% as at 30 April 2006.

Inventories and the inventory turnover days

Inventories balance as at the respective year/period end during the Track Record Period represents our raw materials reserve and the unsold finished goods that were kept in our warehouse.

Our inventories level increased by approximately 16.0% from approximately RMB33.1 million as at 31 December 2004 to approximately RMB38.4 million as at 31 December 2005. The increase was mainly attributable to the increase in the inventories of our finished goods, which was in line with the increase in our production capacity during the year ended 31 December 2005 as a result of the full year production of our production line no. 4 which commenced its commercial production in August 2004.

Our inventories level increased by approximately 32.8% from approximately RMB38.4 million as at 31 December 2005 to approximately RMB51.0 million as at 31 December 2006. The increase was mainly due to the increase in the inventories of our raw materials as a result of (i) the commencement of commercial production of our production lines no. 5 and no. 6 in April 2006 which added a total of 22,047 tonnes to our total production volume for the year ended 31 December 2006; and (ii) our implementation of the safety stock policy to maintain our inventories of raw materials at a level which can satisfy our production needs for approximately 1 week.

Our inventories level decreased by approximately 31.6% from approximately RMB51.0 million as at 31 December 2006 to approximately RMB34.9 million as at 30 April 2007. The decrease in the inventories level as at 30 April 2007 was mainly attributable to the fact that fewer raw materials were kept by us as at 30 April 2007 as a result of the planned suspension of our production during the Labour Day Golden Week public holidays in the PRC which began on 1 May 2007. In addition, fewer finished goods were kept by us as at 30 April 2007 as a large part of our finished goods were sold and delivered to our customers before the said long public holidays. As at the Latest Practicable Date, over 99.7% of the closing inventory as at 30 April 2007, which amounted to approximately RMB34.9 million, had been utilised subsequently.

Our inventory turnover days were 37, 30, 30 and 23 for each of the three years ended 31 December 2006 and the four months ended 30 April 2007, respectively. The improvement during the Track Record Period was mainly due to the implementation of more effective inventory control policy and measures. It is our practice to purchase sufficient amount of raw materials based on our production schedule and to keep seven one week's supply in storage. For finished products, it is our practice to keep minimal stock of finished products in the storage warehouse at our production base at Binzhou City to satisfy any customer's urgent demand. We may also keep reserve stock of finished products at times when our Directors believe that the market demand for decorative base paper makes it prudent to do so.

Trade receivables and debtors' turnover days

Trade receivables balance as at the respective year/period end during the Track Record Period represents the outstanding amounts receivable by us from our customers who have been granted with credit period. Normally, we require our customers to settle our invoices by cash on delivery. The granting of credit to customers is assessed on a case-by-case basis and we may grant credit terms of 30 days on a rolling basis to our customers with whom we have maintained a longer business relationship.

Our trade receivables balance as at 31 December 2004, 2005, 2006 and 30 April 2007 amounted to approximately RMB39.3 million, RMB64.1 million, RMB80.5 million and RMB63.4 million, respectively. The increase in trade receivables as at 31 December 2004, 2005 and 2006 was consistent with the increase in revenue from our decorative paper products and the revenue generated from the introduction of a new product line of printing paper in July 2006. Our Group has further tightened the credit period offered to part of our major customers with a view to minimising the outstanding balance receivable from such customers, such that our exposure to the credit risk from trade debtors could be reduced. Thus, our trade receivable balance as at 30 April 2007 decreased by approximately 21.2% from approximately RMB80.5 million as at 31 December 2006 to approximately RMB63.4 million as at 30 April 2007. As at the Latest Practicable Date, trade receivables of approximately RMB63.4 million as at 30 April 2007 had been fully repaid by our customers.

Our debtors' turnover days were 31, 34, 31 and 23 for each of the three years ended 31 December 2006 and the four months ended 30 April 2007, respectively. We adopted a stringent customer credit control policy and credit evaluations were performed on all customers requesting for credit. During the Track Record Period, most of our sales were made either on a cash-on-delivery basis or with a 30-day credit period from the date of billing. Customers with overdue balances are generally requested to settle all outstanding balances before any further goods are delivered to them. As such, the ageing of most of our trade receivables balance as at each of 31 December 2004, 2005, 2006 and 30 April 2007 can be maintained within 30 days from the date of billing to our customers.

Trade payables and creditors' turnover days

Trade payables balance as at the respective year/period end during the Track Record Period represents the outstanding amounts payable by us to our suppliers of raw materials. The credit periods granted by various suppliers generally range from 3 days to 30 days during the Track Record Period. With the expected higher level of production volume of our decorative base paper products and printing paper product, more trade purchases were made by us with our suppliers for raw materials to fulfill the increasing demand. As such, our trade payables balance increased as at 31 December 2004, 2005 and 2006, which amounted to approximately RMB26.6 million, RMB31.7 million, RMB54.0 million, respectively. Our trade payables balance as at 30 April 2007 decreased by approximately 8.0% from approximately RMB54.0 million as at 31 December 2006 to approximately RMB49.7 million as at 30 April 2007. The decrease was mainly due to the decrease in purchase of raw materials before the Labour Day Golden Week public holidays and the new production process developed in-house has reduced the usage of raw materials. As at the Latest Practicable Date, trade payables of approximately RMB49.7 million as at 30 April 2007 had been fully settled.

Our creditors' turnover days were 30, 24, 31 and 33 for each of the three years ended 31 December 2006 and the four months ended 30 April 2007, respectively. In December 2005, we repaid trade debts of approximately RMB10.0 million before they fell due. As a result, our balance of trade payables as at 31 December 2005 reduced significantly which led to lower creditors' turnover days in 2005. It is our policy to settle all of the outstanding balances with our suppliers within the maximum credit period granted so as to maintain our relationships with the respective suppliers.

Other payables and accruals

Other payables and accruals balance as at the respective year/period end during the Track Record Period mainly represents the payable to independent contractors for the construction or modification of our production lines, payable for taxes and government surcharges other than the PRC income tax and accruals for staff-related costs.

Our other payables and accruals balance as at 31 December 2004 amounted to approximately RMB13.1 million, which included payable for the construction of our production line no. 4 amounting to approximately RMB7.7 million, payable for taxes and government surcharges other than the PRC income tax amounting to approximately RMB2.3 million and accruals for staff-related costs amounting to approximately RMB2.0 million. Other payables and accruals balance as at 31 December 2005 increased by 512.2% to approximately RMB80.2 million. The increase was mainly attributable to the increase in payable for construction of our production lines nos. 5 and 6 to approximately RMB71.3 million, the payables for taxes and government surcharges other than the PRC income tax amounting to RMB4.6 million, and the increase in accrued staff-related costs to approximately RMB2.7 million. Other payables and accruals balance as at 31 December 2006 decreased by 68.8% to approximately RMB25.0 million. The decrease was mainly attributable to the decrease in payable for modification of our production line no. 2 to RMB15.9 million and the decrease in payable for taxes and government surcharges other than the PRC income tax to RMB1.5 million, whereas the accrued staff-related costs increased from RMB2.7 million as at 31 December 2005 to RMB5.7 million as at 31 December 2006. Other payables and accruals balance as at 30 April 2007 further decreased to approximately RMB16.5 million. The decrease was mainly attributable to the decrease in payables for construction/modification of our production lines to RMB0.7 million.

Amounts due to the Controlling Shareholders

Amounts due to the Controlling Shareholders as at the respective year/period end during the Track Record Period mainly represented advances from the Controlling Shareholders and the consideration for the acquisition of the entire interest of the registered capital of Shandong Qunxing as set out in the section headed "Corporate reorganisation" in Appendix VI to this prospectus. The amounts due to the Controlling Shareholders are unsecured, interest-free and had no fixed repayment terms.

The amount due to a Controlling Shareholder as at 31 December 2004 was approximately RMB120.0 million, which represented the advance granted by that Controlling Shareholder to Shandong Qunxing for the purchase of property, plant and machinery as well as raw materials. Such amount was fully settled by cash during the year ended 31 December 2005. As a result, there was no remaining balance as at 31 December 2005. During the year ended 31 December 2006, as part of the Reorganisation, both Mr. Zhu Mo Qun and Mr. Zhu transferred their equity interests in the registered capital of Shandong Qunxing to Best Known at an aggregate consideration of HK$193,521,070.7 (equivalent to approximately RMB194.5 million at the exchange rate as at 31 December 2006) on 17 July 2006. Such amount was fully settled in February 2007 by way of the proceeds from the ICBC Loan. Please refer to the paragraph headed "Financing arrangement in respect of the Reorganisation" in the section headed "Business" of this prospectus for the details of the financing arrangement under the ICBC Loan. As at 30 April 2007, the amount due to a Controlling Shareholder was approximately RMB140,000 which represented the advance from that Controlling Shareholder to our Group. Such amount had been subsequently settled as at the Latest Practicable Date.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity

The following table summarises our cash flows during the Track Record Period:–

	Years ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Operating activities					
Profit before taxation	68,379	103,794	142,692	40,366	67,637
Adjustments for:					
– Loss on disposal of property, plant and equipment	–	–	–	–	6
– Depreciation	19,856	29,737	47,983	11,855	18,838
– Amortisation of lease prepayments	–	–	–	–	20
– Finance costs	5,281	13,793	20,625	5,860	7,310
– Interest income	(370)	(662)	(726)	(179)	(163)
– Foreign exchange loss	–	–	48	–	2,336
Operating profit before changes in working capital	93,146	146,662	210,622	57,902	95,984
(Increase)/decrease in inventories	(16,646)	(5,241)	(12,624)	(20,377)	16,119
(Increase)/decrease in trade and other receivables	(4,830)	(24,767)	(17,528)	(3,467)	15,438
Increase in amounts due from related parties	–	–	(81)	–	(212)
Increase in trade and other payables	14,140	8,554	22,559	42,393	2,343
Increase in amounts due to related parties	–	–	–	–	5,270
Cash generated from operations	85,810	125,208	202,948	76,451	134,942
PRC income tax paid	(18,328)	(32,597)	(44,633)	(17,988)	(26,036)
Net cash generated from operating activities	67,482	92,611	158,315	58,463	108,906

	Years ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Investing activities					
Payment for the purchase of property, plant and equipment	(148)	(108)	(5,126)	(696)	(776)
Payment for construction in progress	(142,787)	(68,780)	(213,425)	(112,210)	(15,200)
Payment for lease prepayments	–	–	–	–	(10,980)
Prepayment for the acquisition of plant and equipment	–	–	–	–	(16,678)
Proceeds from sales of property, plant and equipment	–	–	–	–	100
Interest received	370	662	726	179	163
Net cash used in investing activities	(142,565)	(68,226)	(217,825)	(112,727)	(43,371)
Financing activities					
Proceeds from loans from holding company	–	–	–	–	192,070
Proceeds from bank loans	133,200	250,200	342,047	228,000	183,000
Repayment of bank loans	(57,000)	(127,200)	(260,247)	(119,200)	(228,000)
Increase in restricted bank balance	–	–	–	–	(20,000)
Interest paid	(5,281)	(13,793)	(20,625)	(5,860)	(7,310)
(Increase)/decrease in amounts due from controlling shareholders of the Company	(26)	(21)	32	(545)	(194,476)
Increase/(decrease) in amounts due to controlling shareholders of the Company	19,986	(119,986)	–	333	140
Net cash generated from/(used in) financing activities	90,879	(10,800)	61,207	102,728	(74,576)
Net increase/(decrease) in cash and cash equivalents	15,796	13,585	1,697	48,464	(9,041)
Cash and cash equivalents at beginning of the year/period	36,187	51,983	65,568	65,568	67,265
Cash and cash equivalents at end of the year/period	51,983	65,568	67,265	114,032	58,224

Financial resources and capital structure

Net current assets as at 31 July 2007

As at 31 July 2007, being the latest practicable date for the preparation of the working capital sufficiency statement in this prospectus, we had net current assets of approximately RMB106.0 million, comprising current assets of approximately RMB213.9 million and current liabilities of approximately RMB107.9 million. The following table sets out the composition of our unaudited current assets and liabilities as at 31 July 2007:

	RMB'000 (unaudited)
Current assets	
Inventories	38,990
Trade and other receivables	66,560
Tax recoverable	4,365
Cash and cash equivalents	104,018
	213,933
Current liabilities	
Bank loans	40,000
Trade and other payables	67,882
	107,882
Net current assets	106,051

Capital structure

As at 30 April 2007, we had net assets of approximately RMB350.8 million, comprising non-current assets of approximately RMB525.2 million (principally consisting of property, plant and equipment, construction in progress and prepayment for acquisition of plant and equipment), net current liabilities of approximately RMB91.5 million and non-current liabilities of approximately RMB83.0 million (consisting of long term bank borrowings).

Cash flows

We generally finance our operations through a combination of shareholders' equity, internally generated cash flows and bank borrowings. Following completion of the Share Offer, we expect to finance our capital expenditure and operational requirements through internally generated cash flows, net proceeds from the New Issue and our cash reserve. Our Directors believe that on a long-term basis, our liquidity will be funded from operations and, if necessary, additional equity financing or bank borrowings.

As at 30 April 2007, we had bank and cash balances of approximately RMB78.2 million (including restricted bank balance of approximately RMB20.0 million), and unutilised banking facilities of RMB20.0 million.

Net cashflow from operating activities

Our major operating cash flows during the Track Record Period are the sales receipt of our decorative base paper products and printing paper product. In general, the operating cash inflow increased due to the increase in sales receipt and the movement of our net working capital along with the growth of business during the Track Record Period.

Net cash generated from operating activities increased by 37.2% to RMB92.6 million for the year ended 31 December 2005 from RMB67.5 million for the year ended 31 December 2004. The increase in our operating cash flows was primarily attributed to the increase in our turnover for the year ended 31 December 2005 as a result of the increase in our sales volumes of decorative base paper products and the increase in the average selling prices of our decorative base paper products as detailed under the sub-paragraph headed "Comparison between the financial year ended 31 December 2005 and the financial year ended 31 December 2004" under the paragraph headed "Year-to-year analysis of our trading record" in this section.

Net cash generated from operating activities increased by 71.0% to RMB158.3 million for the year ended 31 December 2006 from RMB92.6 million for the year ended 31 December 2005. The increase was primarily attributed to the increase in our turnover for the year ended 31 December 2006 which was driven by (i) the increase in our sales volumes of decorative base paper products; and (ii) the launch of our new product line of printing paper in July 2006, details of which are disclosed under the sub-paragraph headed "Comparison between the financial year ended 31 December 2006 and the financial year ended 31 December 2005" under the paragraph headed "Year-to-year analysis of our trading record" in this section.

Net cash generated from operating activities increased by 86.2% to RMB108.9 million for the four months ended 30 April 2007 from RMB58.5 million for the four months ended 30 April 2006. The increase was primarily attributed to the increase in our turnover from April 2006 to April 2007, which was driven by (i) the increase in our sales volumes of decorative base paper products; and (ii) sales of our printing paper product, a new product line which we started manufacturing since July 2006 with its sales volumes amounting to 12,352 tonnes during the four months ended 30 April 2007, details of which are disclosed under the sub-paragraph headed "Comparison between the four months ended 30 April 2007 and the four months ended 30 April 2006" under the paragraph headed "Period-to-period analysis of our trading record" in this section.

Net cashflow from investing activities

The principal items affecting net cash used in investing activities during the Track Record Period had been our capital expenditures for property, plant and equipment for the expansion of our production capacity. Net cash outflow from investing activities decreased by 52.2% to RMB68.2 million for the year ended 31 December 2005 from RMB142.6 million for the year ended 31 December 2004. The decrease was principally due to the completion of construction and the commencement of commercial production of our production line no. 4 in August 2004 and the fact that there was no completion of construction or commencement of commercial production of any new production line during the year ended 31 December 2005.

Net cash outflow from investing activities increased by 219.4% to RMB217.8 million for the year ended 31 December 2006 from RMB68.2 million for the year ended 31 December 2005. The substantial increase was principally due to the completion of construction and the commencement of commercial production of our production lines no. 5 and no. 6 and in April 2006 and the fact that there was no completion of construction or commencement of commercial production of any new production line during the year ended 31 December 2005.

Net cash outflow from investing activities decreased by 61.5% to RMB43.4 million for the four months ended 30 April 2007 from RMB112.7 million for the four months ended 30 April 2006. The decrease was mainly due to the fact that we did not construct any new production line but carried out re-engineering and modification works on our existing production facilities during the four months ended 30 April 2007.

Net cashflow from financing activities

Our financing activities during the Track Record Period mainly included proceeds from and repayments of loans from bank and advancements from and repayment to our Controlling Shareholders. Net cash used in financing activities for the year ended 31 December 2005 amounted to approximately RMB10.8 million, whereas for the year ended 31 December 2004 and that ended 31 December 2006, net cash was generated from financing activities which amounted to approximately RMB90.9 million and RMB61.2 million, respectively. The change from cash inflow to outflow, and from cash outflow to inflow again, from the financing activities during the years of review was mainly attributable to the fact that we had repaid an outstanding amount due to Mr. Zhu, which amounted to approximately RMB120.0 million, in May 2005. Such amount due to Mr. Zhu of approximately RMB120 million mainly represented the amount advanced by Mr. Zhu to our Group before 31 December 2004 for the purchase of property, plant and machinery and raw materials.

During the four months ended 30 April 2006, net cash amounting to approximately RMB102.7 million was generated from financing activities, whereas during the four months ended 30 April 2007, net cash amounting to approximately RMB74.6 million was used in financing activities. The change from cash inflow to outflow during the two periods of review was mainly attributable to the fact that (i) the amount of bank loans we repaid during the four months ended 30 April 2007 was equal to the amount of new bank loans we borrowed during the four months ended 30 April 2006; and (ii) restricted bank balance amounting to approximately RMB20.0 million was placed with a local bank to secure the ICBC Loan for the purpose of Reorganisation as disclosed in the paragraph headed "Financing arrangement in respect of the Reorganisation" under the "Business" section of this prospectus. During the four months ended 30 April 2006, we financed the construction cost of our production lines no. 5 and no. 6 mainly by short-term bank borrowings. During the four months ended 30 April 2007, no new production line was being constructed. Thus, we did not roll over some of its short-term bank loans when they fell due during the four months ended 30 April 2007, while the remaining balance payable to the banks was settled by internally generated funds.

Capital expenditures management

As a leading decorative base paper products manufacturer in the PRC in terms of actual annual production capacity, our ability to maintain and grow our revenues, profits and cash flows largely depends on continued capital investment in expanding the scale of our operations. Our capital investment during the Track Record Period primarily comprised purchases of land, property, plant and equipment for our production lines no. 4, no. 5 and no. 6, which were funded by the cash generated from our operating activities, bank loans and advancement from the Controlling Shareholders.

In order to meet the expected growth in demand for the decorative base paper products and printing paper product in the PRC, our Directors believe that sufficient capital expenditure investment will be fundamental to our expansion plans, details of which have been set out in the section headed "Future plans and use of proceeds" in this prospectus. Among others, we expect to spend (i) approximately RMB883.3 million (equivalent to approximately HK$909.9 million) out of the net proceeds from the New Issue for the construction of our new production lines; and (ii) approximately RMB40.0 million (equivalent to approximately HK$41.2 million) out of the net proceeds from the New Issue for the re-engineering and modification of our existing production lines in order to expand our production capability and capacity.

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 New Issue. The amount of our capital expenditures and capital commitments during the Track Record Period, the capital commitment existed as at the Latest Practicable Date and the estimated capital expenditure budget of our Group for the three years ending 31 December 2009 are shown as follows:

	Year ended 31 December 2004	Year ended 31 December 2005	Year ended 31 December 2006	Four months ended 30 April 2007
		(RMB in million)		
Capital expenditure	124.4	132.5	163.1	0.8
Capital commitment	–	138.6	–	180.1

	Year ending 31 December 2007	Year ending 31 December 2008	Year ending 31 December 2009
Estimated capital expenditure budget	18.6	565.3	356.8
Capital commitment existed as at the Latest Practicable Date	180.1		

Our Directors expect that the estimated capital expenditure budget will be financed by the net proceeds from the New Issue and our internal financial resources.

Working capital and cash flow management

We finance our working capital requirements primarily through cash flow from our operating activities and bank borrowings. The net cash generated from our operating activities had improved during the Track Record Period and amounted to approximately RMB67.5 million, RMB92.6 million, RMB158.3 million and RMB108.9 million for the three years ended 31 December 2006 and the four months ended 30 April 2007, respectively. Despite the improving net cash generated from our operating activities, the utilisation of short-term bank loans for financing our business, operations and capital expenditure during the Track Record Period caused us to have net current liabilities of approximately RMB176.9 million, RMB211.4 million, RMB426.9 million and RMB91.5 million as at each of 31 December 2004, 2005, 2006 and 30 April 2007, respectively.

We have implemented and will implement several measures to improve our working capital management. For example, at the beginning of each year commencing from 1 January 2008, we will prepare an annual working capital requirements budget and will project the expected sales volume for the year to determine the level of our production that will need to be achieved before meeting such a target. We will also consider factors such as our production capacity, available manpower and market trends to determine our working capital requirements for the year. 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 its plans or implement new measures accordingly.

Directors' opinion on the sufficiency of our working capital

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 taking into consideration:

(a) our cash flow from operating activities had been improving during the three years ended 31 December 2006 and net cash generated from operating activities in the four months ended 30 April 2007 was approximately RMB108.9 million as compared to approximately RMB58.5 million in the four months ended 30 April 2006;

(b) we have successfully extended our short-term loans to long-term loans when they fell due and, as a result, our short-term loans decreased from approximately RMB332.0 million as at 31 December 2006 to RMB204.0 million as at 30 April 2007;

(c) our management believes that our existing banking facilities will continue to be available during the next 12 months from the date of this prospectus;

(d) cash required for our investing activities could be satisfied by the proceeds from the New Issue; and

(e) our historical working capital had proven to be sufficient for the operation of our Group during the Track Record Period.

INDEBTEDNESS

Borrowing and banking facilities

As at 31 July 2007, being the latest practicable date for the purposes of this indebtedness statement prior to the printing of this prospectus, we had aggregate banking facilities of approximately RMB307.0 million, of which approximately RMB247.0 million had been utilised.

All of these borrowings were made by Shandong Qunxing from financial institutions in the PRC and were secured by certain properties and equipment owned by Shandong Qunxing.

Debt securities

As at the close of business on 31 July 2007, we had no debt securities issued outstanding, or authorised or otherwise created but unissued.

Capital commitment

As at the close of business on 31 July 2007, we had capital commitments contracted but not provided for in respect of acquisition of property, plant and equipment of approximately RMB180.1 million.

Contingent liabilities

As at 31 July 2007, certain of our assets/items as detailed below were assigned and charged in favour of ICBC (Asia) as security for a bridging loan of HK$213,522,000 granted by ICBC (Asia) to Boom Instant:

– dividends payable to Best Known, Double Nation and our Company from time to time with respect to their shares in their respective subsidiary;

– all assets of our Company, Double Nation and Best Known;

– our Company's rights, title, and interest in all of the issued share capital of Double Nation registered in the name of our Company;

– Double Nation's rights, title, and interest in all of the issued share capital of Best Known registered in the name of Double Nation; and

– Best Known's rights, title, and interest in the registered capital of and equity interest in Shandong Qunxing in respect to the paid up capital of RMB190,000,000 registered in the name of Best Known.

As part of the above bridging loan arrangement, Shandong Qunxing, ICBC Zouping and ICBC (Asia) had signed an account control agreement for the joint-control of the deposit of Shandong Qunxing in the account with ICBC Zouping by the parties thereto. The balance standing to the credit of the Shandong Qunxing account with ICBC Zouping shall not, without the prior written consent of ICBC (Asia) Limited, be less than RMB20,000,000 at any and all times during the loan period. The restricted bank balance can only be released upon the receipt of written notice from ICBC to Boom Instant.

According to the letter dated 27 August 2007 issued by ICBC (Asia) to Boom Instant, the above assets/items assigned and charged in favour of ICBC (Asia) will be released on or before the listing of our Company's shares on the Stock Exchange.

Disclaimer

Save as otherwise disclosed herein, and apart from any intra-group liabilities, we did not, as at the close of business of 31 July 2007, have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, shares or debentures, mortgages, loans, or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptances, acceptance credits or any guarantees or other material contingent liabilities outstanding at the close of business on 31 July 2007. Our Directors have confirmed that there has been no material adverse change in our indebtedness and contingent liabilities since 31 July 2007, being the latest practicable date for the purposes of this indebtedness statement prior to the printing of this prospectus.

PROFIT FORECAST FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2007

The following unaudited pro forma fully diluted forecast earnings per share for the financial year ending 31 December 2007 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Share Offer as if it had taken place on 30 April 2007. This unaudited pro forma fully diluted forecast earnings per share has been prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the financial results of our Group following the Share Offer.

Forecast combined net profit attributable to the equity holders of our Company for the financial year ending 31 December 2007 (1)	not less than RMB210.0 million (equivalent to approximately HK$216.3 million)
Unaudited pro forma forecast earnings per Share – fully diluted(2)	not less than RMB0.210 (equivalent to approximately HK$0.216)

Notes:

1. The bases and assumptions on which the above profit forecast has been prepared are summarised in Appendix III to this prospectus.

   The forecast combined net profit attributable to equity holders of our Company for the financial year ending 31 December 2007 is based on the audited combined results of the Group for the four months ended 30 April 2007, the unaudited management accounts of our Group for the three months ended 31 July 2007, and a forecast of the combined results of our Group for the remaining five months ending 31 December 2007.

2. The calculation of the unaudited forecast earnings per Share on a pro forma fully diluted basis is based on the forecast combined net profit attributable to equity holders of our Company for the financial year ending 31 December 2007 assuming that our Company had been listed on the Main Board since 1 January 2007 and a total of 1,000,000,000 Shares (including the Shares in issue as at 30 April 2007, Shares under the Capitalisation Issue and the Share Offer) had been in issue during that financial year, but does not take into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme or which may be allotted and issued or repurchased by our Company pursuant to the general mandates for the allotment and issue or repurchase of the Shares referred to under the paragraph headed "Resolutions in writing of the sole Shareholder passed on 8 September 2007" in Appendix VI to this prospectus.

The text of the letters from our auditors and reporting accountants, KPMG, and further details regarding the basis and assumptions of the profit forecast are set forth in Appendix III to this prospectus.

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

We did not declare or pay any dividend in each of the three years ended 31 December 2006 and the four months ended 30 April 2007. While we intend to declare and pay dividends in the future, the payment and the amount of any dividends will depend on the results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that we may consider relevant. Holders of the Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares. The declaration, payment, and amount of dividends will be subject to our Board's discretion.

Dividends may be paid only out of our distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any of our plans or at all. Our dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

Subject to the factors described above, we currently intend 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 after the Share Offer.

In respect of the ICBC Loan, the following security was given;–

(a) an assignment of dividends dated 2 February 2007 and made by our Company in favour of ICBC (Asia), all the dividends payable to our Company from time to time with respect to the shares in the capital of Double Nation registered in the name of our Company and the related dividends account were assigned and charged in favour of ICBC (Asia) as security for the ICBC Loan in accordance with the ICBC Loan Agreement.

(b) an assignment of dividends dated 2 February 2007 and made by Double Nation in favour of ICBC (Asia), all the dividends payable to Double Nation from time to time with respect to the shares in the capital of Best Known registered in the name of Double Nation and the related dividends account were assigned and charged in favour of ICBC (Asia) as security for the ICBC Loan.

(c) an assignment of dividends dated 2 February 2007 and made by Best Known in favour of ICBC (Asia), all the dividends payable to Best Known from time to time with respect to the shares in the capital of Shandong Qunxing registered in the name of Best Known and the related dividends account were assigned and charged in favour of ICBC (Asia) as security for the ICBC Loan.

The Controlling Shareholders have obtained approval in principle from ICBC (Asia) for the release of the security and guarantees provided by our Company, Double Nation, Best Known and Shandong Qunxing in respect of the ICBC Loan on or before the Listing Date.

DISTRIBUTABLE RESERVES

As at 30 April 2007, we had reserves amounting to approximately RMB139.0 million available for distribution to the Shareholders.

PROPERTY INTERESTS

As at the Latest Practicable Date, our Group held the following properties under long-term title certificates:–

	Property	Use
1.	A parcel of land together with various buildings and structures erected thereon and located at the eastern side of Zhu Jia Village, Chang Shan Town Zouping County, Binzhou City Shandong Province The PRC	Manufacturing, storage, ancillary office and staff quarters
2.	A parcel of land together with various buildings and structures erected thereon and located at the eastern side of Zhu Jia Village, Chang Shan Town Zouping County (also adjacent to Property 3 mentioned below), Binzhou City Shandong Province The PRC	Manufacturing, storage and ancillary office
3.	A parcel of land together with various buildings and structures erected thereon and located at the eastern side of Zhu Jia Village (also adjacent to Property 2 mentioned above), Chang Shan Town Zouping County, Binzhou City Shandong Province The PRC	Office and ancillary supporting

Our Group also rented two properties, one for office and storage purpose and the other one for constructing a manufacturing plant, in Chang Shan Town, Zouping County, Binzhou City, Shandong Province, the PRC. Our Group also rented an office premises in Hong Kong for office purpose.

Our legal advisers as to PRC law and as to Hong Kong Law have confirmed that there is no title defect or non-compliance in respect of our Group's property interests. LCH (Asia-Pacific) Surveyors Limited, an independent property valuer, has valued our property interests as at 30 June 2007 and is of the opinion that our property interests are valued at an aggregate amount of RMB59,820,000 as at 30 June 2007. The full text of the letter, summary of values and valuation certificate with regard to such property interests are set forth in Appendix IV to this prospectus.

The table below shows the reconciliation of property interests of our Group from our audited combined financial statement as at 30 April 2007 to the unaudited net asset value of the property interests of our Group as at 30 June 2007:

	Leasehold Land	**Buildings and structures**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Net book value as at 30 April 2007	10,960	44,539	55,499
Movement for the period from 1 May 2007 to 30 June 2007			
Additions	461	–	461
Disposal	–	–	–
Amortisation	(41)	–	(41)
Depreciation	–	(193)	(193)
Net book value as at 30 June 2007	11,380	44,346	55,726
Valuation surplus	500	3,594	4,094
Valuation as at 30 June 2007	11,880	47,940	59,820

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 30 April 2007 as if the Share Offer had occurred on 30 April 2007 and is based on the combined net assets derived from the audited financial information of our Group as at 30 April 2007, as set out in Appendix I to this prospectus and adjusted as follows.

The unaudited pro forma adjusted net tangible assets of our Group has been prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the financial position of our Group.

	Audited combined net assets of the Group as at 30 April 2007	Lease prepayments as at 30 April 2007	Estimated net proceeds from the New Issue	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB)*
Based on the maximum indicative Offer Price of HK$5.35 per Offer Share	350,782	(10,960)	1,281,918	1,621,740	1.62
Based on the minimum indicative Offer Price of HK$4.10 per Offer Share	350,782	(10,960)	977,259	1,317,081	1.32

Notes:

1. In accordance with the Group's accounting policies, leasehold land is up-front payments made to acquire the right of use of a long-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.

   As at 30 June 2007, LCH (Asia-Pacific) Surveyors Limited (the "Valuer"), an independent property valuer, performed an independent valuation for the Group's leasehold land and buildings and structures based on market value and depreciated replacement cost. The Valuer reported valuation of the land and buildings and structures at an amount of RMB59,820,000 as at 30 June 2007 and the revaluation surplus was RMB4,094,000. The Group will not account for these revaluation surpluses in its financial statements for the year ending 31 December 2007 according to its accounting policies. If they were accounted for, increases in amortisation and depreciation of approximately RMB5,000 and RMB50,000 respectively would have been recognised for the financial year ending 31 December 2007.

2. The estimated net proceeds from the New Issue are based on the maximum and minimum indicative Offer Price of HK$5.35 and HK$4.10 per Offer Share, respectively, after deduction of the underwriting fees and other related expenses payable by the Company 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.

3. The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to above and on the basis that 1,000,000,000 Shares (including the Shares in issue as at 30 April 2007, Shares under the Capitalisation Issue and the Share Offer) are in issue and that the Over-allotment Option and the options that may be granted under the Share Option Scheme are not exercised.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that there has been no material adverse change in our financial or trading position since 30 April 2007 (being the date to which our latest audited combined financial statements were prepared, as set out in the accountants' report in Appendix I to this prospectus).

FUTURE PLANS

Our Directors believe that, given the accession of the PRC into WTO, the abundant supply of relatively low-cost labour and the gradual removal of trade barriers, China will become a major production base for decorative base paper products and printing paper products. Our Group will continue to focus on production capacity expertise, sales and marketing development and research and development in order to tap the growing demand for such products in the PRC.

We intend to implement the following plans to maintain and capitalise on our strengths so as to enhance our business prospects and profitability. Based on our Group's production capacity, experienced management team, research and development capabilities, well-established relationships with our major suppliers and customers, emphasis on the quality of products and our diversified product categories, our Directors believe that we are well-positioned to benefit from the expected growth of the market for decorative base paper products and printing paper products and will continue to capture the anticipated growth in the markets for our products.

In the future, our Group will leverage its expertise and competitive strengths to develop the following plans, with a view to achieving sustainable growth in results and operations:

Expand production capacity

As a result of rapid growth of economy and higher living standard in the PRC, it is expected that the demand of the high-class decorative paper products will continue to grow for the next 5-10 years, as discussed in the section headed "Industry overview" above. Our Directors believe that should the production of decorative base paper in the PRC continue to fall short of its apparent consumption, there will be room for further expansion in China's decorative base paper industry. Our plan to expand our designed annual production capacity up to 470,000 tonnes was approved by 山東省輕工業辦公室 (Shandong Province Light Industry Council*) in January 2007 as one of the approved projects for paper manufacturing industry in the PRC under 人造板工業"十一五"規劃分析報告 (The Outline for Development of the Laminated Board Industry under the Eleventh Five Year Plan*). Accordingly we have commenced the construction of our new production line no. 7 with a designed annual production capacity of 30,000 tonnes. The capital costs for construction of our production line no. 7 amount to approximately RMB180.0 million, excluding the cost of potential acquisition of the land use right to the parcel of land where production line no. 7 is situated, of which approximately RMB16.7 million was settled in early 2007 and the remaining balance will have to be settled in two instalments by March 2008 and February 2009 respectively. Both the completion of construction and the commencement of commercial production of our production line no. 7 are expected to take place in early 2008. To the best knowledge and belief of our Directors, it is the practice of the paper manufacturing industry for paper manufacturing companies to retain approximately 5% of the total construction cost as retention fee which will be refunded to the contractors upon paper manufacturing companies' satisfaction of machinery performance at the end of the retention period as agreed in the construction contracts. Our Directors confirm that the contractor engaged by us to construct paper production line no. 7 is an Independent Third Party.

Our Group also plans to acquire the land use right for the parcel of land on which production line no. 7 is being constructed. The cost of acquisition will be determined between us and Guang Hua with reference to an independent valuation of the land and will be financed by our internally generated fund and will not be funded by proceeds from the New Issue.

In addition, we plan to construct four more new production lines no. 8 to no. 11, with an aggregate designed annual production capacity of 120,000 tonnes. The aggregate capital costs for construction of our production lines no. 8 to no. 11 are expected to amount to approximately RMB720.0 million (equivalent to approximately HK$741.6 million), which are expected to be settled by instalments. We currently intend to apply approximately RMB324.0 million, RMB378.0 million and RMB18.0 million, respectively (equivalent to approximately HK$333.7 million, HK$389.3 million and HK$18.5 million, respectively) from the net proceeds to be raised from the Share Offer for the construction of production lines no. 8 to no. 11 for each of the year ending 31 December 2008, 2009 and 2010, respectively. The commercial production of our production lines no. 8 and no. 9 is expected to commence in early 2009 and the commercial production of our production lines no. 10 and 11 in expected to commence in late 2009.

We also plan to re-engineer and modify our existing production facilities, in particular production line no. 1 and no. 3 with a view to improving our production efficiency. For our production line no. 1, the aggregate capital costs for re-engineering and modification amount to approximately RMB16.0 million (equivalent to approximately HK$16.5 million), which will be settled by three instalments, we currently intend to pay RMB4.8 million, RMB9.6 million and RMB1.6 million, respectively (equivalent to approximately HK$4.9 million, HK$9.9 million and HK$1.6 million, respectively) in May, June and July of 2009. Both the re-engineering and modification and the re-commencement of commercial production of our production line no. 1 are expected to take place in mid 2009. For our production line no. 3, the aggregate capital costs for re-engineering and modification amount to approximately RMB24 million (equivalent to approximately HK$24.7 million), which will have to be settled by three instalments. We currently intend to pay RMB7.2 million, RMB14.4 million and RMB2.4 million, respectively (equivalent to approximately HK$7.4 million, HK$14.8 million and HK$2.5 million, respectively) in December 2008, January and February 2009. We currently intend to apply approximately RMB7.2 million (equivalent to approximately HK$7.4 million) and RMB32.8 million (equivalent to approximately HK$33.8 million) from the net proceeds to be raised from the Share Offer for the re-engineering and modification of production lines no. 1 and no. 3 for each of the year ending 31 December 2008 and 2009, respectively. The re-engineering and modification and the re-commencement of commercial production of our production line no. 3 are expected to take place in the period from December 2008 to February 2009.

Except for the first instalment for our production line no. 7, which was settled by our internally sourced fund, the capital costs for construction of production lines no. 7 to no. 11 and those for re-engineering and modification of production lines no. 1 and no. 3 will be settled by the proceeds of the New Issue. All the technology, machinery and equipment required for construction of production lines no. 7 to no. 11 as well as for re-engineering and modification of production lines no. 1 and no. 3 have been and will be purchased from domestic paper manufacturing machinery suppliers in the PRC who are Independent Third Parties of our Group.

Launch more proactive sales and marketing activities

Currently, we primarily market our products through our sales and marketing staff who are based in the six designated sales regions, our internet website and outdoor billboards as well as by participating in exhibitions. We plan to carry out more marketing activities, such as, placing more advertisement in professional magazines targeted at manufacturers of construction materials and participating in more industry exhibitions and trade-fairs. We plan to use approximately RMB40.0 million (equivalent to approximately HK$41.2 million) in sales and marketing activities for the three years ending 31 December 2009.

Develop overseas market

During the Track Record Period, all of our products were sold to customers in the PRC. With a view to increasing our channels of sales and distribution, we plan to export our products overseas to tap demand in selected international markets, in particular Hong Kong, Russia, Thailand and Vietnam. We will devise plans to develop overseas market for its products, through the appointment of sole distributors in different regions or by establishing its own sales offices to the extent if it is practicable. In view of the significance of Hong Kong as the gateway for Chinese enterprises to expand their business to international market, and Russia, Thailand and Vietnam are being emerging markets with strong economic growth recently, hence our Directors believe that the expansion to these markets will benefit to our performance in future. We plan to conduct thorough market research and liaise with various intermediary parties in order to ascertain the feasibility of establishing our presence in such regions. We also plan to establish representative offices in such regions in order to facilitate communication with and respond to enquiries from our overseas customers as and where the circumstances become desirable for us to do so. We plan to use approximately RMB30.0 million (equivalent to approximately HK$30.9 million) for the development of overseas market for the 3 years ending 31 December 2009.

Enhance product research and development capability

Our Directors believe that our commitment to research and product development is essential to enhance our sales and marketing position and our ongoing research and development activities covering manufacturing techniques, processing technologies, quality control standardisation represent a critical factor for our superior overall performance as compared to our competitors.

Shandong Qunxing entered into a technology agreement in May 2007 with 山東省造紙工業研究設計院 (Research and Design Institute of Paper Manufacturing Industry of Shandong*) pursuant to which 山東省造紙工業研究設計院 (Research and Design Institute of Paper Manufacturing Industry of Shandong*) and Shandong Qunxing agreed to collaborate with each other to conduct research and develop new products and technology. Our Directors believe such arrangement will help bolster our product manufacturing capabilities and improve our production efficiency to lower our overall manufacturing costs and enhance our product quality. As at the Latest Practicable Date, we had been discussing with several established academic institutions in relation to possible strategic alliance. We plan to form more effective strategic alliance for research and development purposes in the future to ensure that every aspect of our business operation, in particular product development, production efficiency and quality control, will be covered and, as a result, can be improved. We plan to use approximately RMB5.0 million (equivalent to approximately HK$5.2 million) for the research and development activities for the three years ending 31 December 2009.

PROPOSED USE OF NET PROCEEDS FROM THE NEW ISSUE

The net proceeds from the New Issue, after deducting underwriting fees and estimated expenses payable by us in connection thereto, are estimated to be approximately HK$1,130.8 million, assuming that the Over-allotment Option is not exercised and assuming an Offer Price of HK$4.73 per Share, being the mid-point of the proposed Offer Price range of HK$4.10 to HK$5.35 per Share. We currently intend to use such net proceeds as follows:

- as to approximately RMB163.3 million (equivalent to approximately HK$168.2 million) for the settlement of the remaining balance of the construction costs of our new production line no. 7;

- as to approximately RMB360.0 million (equivalent to approximately HK$370.8 million) for the construction of our new production lines no. 8 and no. 9;

- as to approximately RMB360.0 million (equivalent to approximately HK$370.8 million) for the construction of our new production lines no. 10 and no. 11;

- as to approximately RMB40.0 million (equivalent to approximately HK$41.2 million) for re-engineering and modification of our existing production lines no. 1 and no. 3;

- as to approximately RMB40.0 million (equivalent to approximately HK$41.2 million) for strengthening our marketing activities;

- as to approximately RMB30.0 million (equivalent to approximately HK$30.9 million) for development of overseas market;

- as to approximately RMB5.0 million (equivalent to approximately HK$5.2 million) for research and development; and

- the remaining balance of approximately HK$102.5 million for our general working capital.

In the event that the Over-allotment Option is exercised in full and the Offer Price is finally determined at the highest end of the indicative Offer Price range between HK$4.10 to HK$5.35 per Offer Share, the net proceeds of the New Issue will increase by approximately HK$385.8 million to approximately HK$1,516.6 million. Our Directors intend to apply such additional net proceeds as to (i) RMB360.0 million (equivalent to approximately HK$370.8 million) for further expansion of the production capacity of the planned new production lines no. 10 and no. 11 from the total designed annual production capacity of 60,000 tonnes to 120,000 tonnes if and when appropriate; and (ii) the remaining balance of approximately HK$15.0 million for our general working capital.

In the event that the Over-allotment Option is not exercised and the Offer Price is finally determined at the highest end of the indicative Offer Price range between HK$4.10 to HK$5.35 per Offer Share, the net proceeds of the New Issue will increase by approximately HK$151.1 million to approximately HK$1,281.9 million. Our Directors intend to apply such additional net proceeds and a portion of the net proceeds for our general working capital for further expansion of the production capacity of the planned new production lines no. 10 and no. 11 from the total designed annual production capacity of 60,000 tonnes to 90,000 tonnes, which will cost approximately RMB180.0 million (equivalent to approximately HK$185.4 million), if and when appropriate.

In the event that the Over-allotment Option is not exercised and the Offer Price is finally determined at the lowest end of the indicative Offer Price range between HK$4.10 to HK$5.35 per Offer Share, the net proceeds of the New Issue will reduce by approximately HK$153.5 million to approximately HK$977.3 million. In such event, our Directors intend to reduce the intended use of proceeds for the above stated purposes on pro-rata basis and we will finance such shortfall by internal cash resources and/or additional bank borrowings, as and when appropriate.

To the extent that any part of the net proceeds from the New Issue are not immediately required for the above purposes, we may hold such funds in short-term interest-bearing deposits and/or money-market instruments with authorised financial institutions and/or licensed banks in Hong Kong and/or the PRC.

GLOBAL COORDINATOR AND SOLE BOOKRUNNER

ICEA Capital Limited

HONG KONG PUBLIC OFFER UNDERWRITERS

Lead Manager

ICEA Securities Limited

Co-lead Managers

Access Capital Limited
UOB Asia (Hong Kong) Limited
Kim Eng Securities (Hong Kong) Ltd.

Co-Managers

Mega Capital (Asia) Company Limited
Taifook Securities Company Limited
First Shanghai Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreements

Pursuant to the Hong Kong Public Offer Underwriting Agreement, our Company is initially offering for subscription of 30,000,000 New Shares at the Offer Price under the Hong Kong Public Offer, subject to the terms and conditions set forth in this prospectus and the related Application Forms. The Hong Kong Public Offer Underwriters have agreed, severally, but not jointly, subject to the terms and conditions in the Hong Kong Public Offer Underwriting Agreement, to procure subscribers for, or failing which they shall subscribe for, the Hong Kong Public Offer Shares.

Pursuant to the International Placing Underwriting Agreement, our Company and the Selling Shareholder are expected to be offering for subscription and purchase of 220,000,000 New Shares and 50,000,000 Sale Shares, respectively, at the Offer Price under the International Placing. The International Placing Underwriting Agreement is expected to be signed on or around the Price Determination Date, pursuant to which the International Placing Underwriters are expected to agree severally, but not jointly, subject to the terms contained therein, to procure subscribers and purchasers to subscribe for and purchase or failing which they shall subscribe for and purchase, the International Placing Shares.

In addition, the Over-allotment Option is expected to be granted to the International Placing Underwriters, exercisable by the Lead Manager (for itself and on behalf of the International Placing Underwriters), at any time from the Listing Date up to (and including) the date which is the 30th day after the last date for lodging the Application Forms, to require our Company to allot and issue up to 45,000,000 additional New Shares, representing 15% of the Shares initially available under the Share Offer, at the Offer Price on the same terms as those applicable to the International Placing, to cover over-allocations in the International Placing and/or the obligations of the Lead Manager to return securities borrowed under the Stock Borrowing Agreement.

The Underwriting Agreements are subject to various conditions, which include, but without limitation, (i) the Listing Committee granting listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus; and (ii) the agreement of the Offer Price on the Price Determination Date.

Grounds for termination

The obligations of the Hong Kong Public Offer Underwriters to subscribe for, or procure subscribers for, the Hong Kong Public Offer Shares are subject to termination. The Hong Kong Public Offer Underwriters shall be entitled to terminate their obligations under the Hong Kong Public Offer Underwriting Agreement upon the occurrence of any of the following events by notice in writing to our Company given by the Global Coordinator (acting on behalf of all the Hong Kong Public Offer Underwriters) 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 Global Coordinator or any of the Hong Kong Public Offer Underwriters:

    (i) any matter or event showing any of the representations, warranties or undertakings contained in the Hong Kong Public Offer Underwriting Agreement to be untrue, inaccurate or misleading in any material respect when given or repeated or there has been a breach of any of the representations, warranties or undertakings contained in the Hong Kong Public Offer Underwriting Agreement or any other provisions of the Hong Kong Public Offer Underwriting Agreement by any party thereto other than the Hong Kong Public Offer Underwriters which, in any such cases, is considered, in the sole opinion of the Global Coordinator, to be material in the context of the Hong Kong Public Offer; or

    (ii) any statement contained in this prospectus has become or been discovered to be untrue, incorrect or misleading in any material respect; or

    (iii) any event, series of events, matters or circumstances occurs or arises on or after the date of the Hong Kong Public Offer Underwriting Agreement and before the Termination Time, being events, matters or circumstances which, if it had occurred before the date of the Hong Kong Public Offer Underwriting

Agreement, would have rendered any of the representations, warranties or undertakings contained in the Hong Kong Public Offer Underwriting Agreement untrue, incorrect or misleading in any material respect, and which is considered, in the sole opinion of the Global Coordinator, to be material in the context of the Hong Kong Public Offer; 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 Global Coordinator, a material omission in the context of the Hong Kong Public Offer; or

(v) any event, act or omission which gives or is likely to give rise to any liability of our Company and any of our executive Directors and our Controlling Shareholders arising out of or in connection with the breach of any of the representations, warranties or undertakings contained in the Hong Kong Public Offer Underwriting Agreement; or

(vi) any breach by any party to the Hong Kong Public Offer Underwriting Agreement other than the Hong Kong Public Offer Underwriters of any provision of the Hong Kong Public Offer Underwriting Agreement which, in the sole opinion of the Global Coordinator, is material; or

(b) there shall have developed, occurred, existed, or come into effect any event or series of events, matters or circumstances whether occurring or continuing before, on and/or after the date of the Hong Kong Public Offer 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 the U.S., Hong Kong, the Cayman Islands, the BVI, the PRC 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 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 U.S., Hong Kong, the Cayman Islands, the BVI, the PRC or any of the jurisdictions relevant to the business of our Group, the local, regional or international financial, currency, political, military, industrial, economic, stock market or other market conditions or prospects; or

(iii) any change in the conditions of the U.S., Hong Kong, the PRC or international equity securities or other financial markets; or

(iv) the imposition of any moratorium, suspension or material 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 all forms of taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the Cayman Islands, the BVI, the PRC 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 other jurisdiction relevant to the business 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 U.S. or by the European Union (or any member thereof) on Hong Kong or the PRC; or

(viii) a general moratorium on commercial banking activities in the PRC or Hong Kong declared by the relevant authorities; or

(ix) any event of force majeure including, without limiting the generality thereof, any act of God, military action, riot, public disorder, civil commotion, fire, flood, tsunami, explosion, epidemic, terrorism, strike or lock-out,

which, in the sole opinion of the Global Coordinator:

(a) is or will be, or is very likely to be adverse, in any material respect, to the business, financial or other condition or prospects of our Group; or

(b) has or will have or is very likely to have a material adverse effect on the success of the Share Offer or the level of the Offer Shares being applied for or accepted, the distribution of the Offer Shares or the demand or the market price of our Shares following the Listing; or

(c) for any other reason makes it impracticable, inadvisable or inexpedient for the Hong Kong Public Offer Underwriters to proceed with the Hong Kong Public Offer as a whole.

For the above purpose:

(1) a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the U.S. or a devaluation of the Renminbi against any foreign currencies shall be taken as an event resulting in a change in currency conditions; and

(2) any normal market fluctuations shall not be construed as events or series of events affecting market conditions referred to above.

Similar events are contained in the International Placing Underwriting Agreement that may allow the International Placing Underwriters to terminate their respective obligations thereunder.

Commission and expenses

The International Placing Underwriters and the Hong Kong Public Offer Underwriters will receive an underwriting commission of 2.5 per cent. and 2.5 per cent. of the aggregate Offer Price payable for the International Placing Shares and the Hong Kong Public Offer Shares, respectively, out of which the Underwriters may pay any sub-underwriting commission in connection with the Share Offer. The Joint Sponsors will also receive a documentation fee. The aggregate fees, together with the underwriting commission, listing fees, legal and other professional fees, printing, translation and other fees and expenses relating to the Share Offer, are estimated to be approximately HK$1,130.8 million (assuming that the Over-allotment Option is not exercised and based on the offer price of HK$4.73 per Offer Share (being the mid-point of the indicative Offer Price range between HK$4.10 and HK$5.35)), which will be payable by us and the Selling Shareholder rateably, provided that all the seller and purchaser stamp duties, if any, shall be borne by the Selling Shareholder. We will also pay for all expenses in connection with any exercise of the Over-allotment Option or over-allocations in the International Placing.

Undertakings

Each of our Controlling Shareholders has jointly and severally undertaken with our Company, the Global Coordinator (acting on behalf of all the Underwriters) and the Joint Sponsors that, save as pursuant to the Stock Borrowing Agreement, the offer for sale of the Sale Shares by Boom Instant and charging or pledging of any direct or indirect interest in the Shares or in any share in any company controlled by him, her or it which is the beneficial owner of the interest in the Shares in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, during a period of twelve months commencing from the Listing Date, he or she or it shall not, and shall procure the registered holder(s) of the Shares shall not, dispose of, nor enter into any agreement to dispose of or otherwise create any option, right, interest or encumbrance in respect of, any of his or her or its direct and indirect interest in the Shares.

Each of Mr. Zhu, Mr. Zhu Mo Qun and Mrs. Zhu has severally undertaken with our Company, the Joint Sponsors and the Global Coordinator (acting on behalf of all the Underwriters) that save as pursuant to the Stock Borrowing Agreement, the offer for sale of the Sale Shares by Boom Instant and charging or pledging of any direct or indirect interest in the Shares or in any shares in any company controlled by Boom Instant which is the beneficial owner of the interest in the Shares in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, during a period of twelve months commencing from the Listing Date,

(a) he or she shall procure Boom Instant not to dispose of the Shares, nor enter into any agreement to dispose of or otherwise create any option, right, interest or encumbrance in respect of the Shares; and

(b) he or she shall not dispose of or enter into any agreement to dispose of or otherwise create any option, right, interest or encumbrance in respect of any of the shares of each of Addinsight, Be Broad and Boom Instant.

JOINT SPONSORS' AND UNDERWRITERS' INTEREST IN OUR COMPANY

The Joint Sponsors will receive a documentation fee. The Lead Manager and the other Underwriters will 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, ICEA 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 2008.

As part of the Reorganisation, ICBC (Asia) provided the ICBC Loan to Boom Instant for the purposes of financing the acquisition of the entire equity interest in the registered capital of Shandong Qunxing by Best Known. It is expected that 15% or more of the total proceeds to be raised from the Share Offer will be used to repay the ICBC Loan, the repayment details of which are set out in the paragraph headed "Financing arrangement in respect of the Reorganisation" under the section headed "Business" in this prospectus. Please refer to the paragraph headed "Joint Sponsors" in the Appendix VI to this prospectus regarding the reason for ICEA not being considered as an independent sponsor pursuant to Rule 3A.07 of the Listing Rules.

Save as disclosed above, none of the Joint Sponsors, the Lead Manager 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 of our members nor any interest in the Share Offer.

MINIMUM PUBLIC FLOAT

Our Directors and the Global Coordinator 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 Share Offer.

THE STRUCTURE OF THE SHARE OFFER

The Share Offer consists of:

- the International Placing; and
- the Hong Kong Public Offer.

ICEA is the Global Coordinator and Bookrunner, and ICEA Securities Limited is the Lead Manager of the Share Offer.

An aggregate of 30,000,000 New Shares have been initially allocated to the Hong Kong Public Offer for subscription, subject to reallocation as mentioned below and the requirements under the Listing Rules. An aggregate of 220,000,000 New Shares and 50,000,000 Sale Shares are initially offered under the International Placing for subscription and purchase, subject to reallocation as mentioned below, the requirements 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 Global Coordinator 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), Boom Instant will agree with the Lead Manager that, if so requested by the Lead Manager, it may, subject to the terms of the Stock Borrowing Agreement, make available to the Lead Manager up to 45,000,000 Shares held by it to facilitate settlement of over-allocations in the International Placing.

The terms of the Stock Borrowing Agreement will be in compliance of the requirements set out in Rule 10.07(3) of the Listing Rules and will therefore not be subject to the restrictions 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 Boom Instant will only be effected by the Lead Manager for settlement of over-allocations in the International Placing;
- the maximum number of Shares borrowed from Boom Instant will be limited to the maximum number of Shares which may be issued upon the full exercise of the Over-allotment Option;

- the same number of Shares so borrowed from Boom Instant will be returned to it or its nominees (as the case maybe) on or before the third Business Day following the earlier of (i) the last day on which the Over-allotment Option may be exercised; (ii) the day on which the Over-allotment Option is exercised in full; or (iii) such earlier time as may be agreed in writing between the Lead Manager and Boom Instant.

- the arrangement under the Stock Borrowing Agreement will be effected in compliance with all the applicable laws, rules and regulatory requirements; and

- no payment will be made to Boom Instant by the Lead Manager 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 maximum indicative Offer Price of HK$5.35 plus 1% brokerage, 0.005% Stock Exchange trading fee and 0.004% transaction levy imposed by the SFC amounting to a total of HK$5,403.98 for each board lot of 1,000 Shares. If the final Offer Price is less than the maximum indicative Offer Price, arrangements will be made to refund any excess amount to the investors, **without interest**.

CONDITIONS OF THE SHARE OFFER

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;

- the agreement on the Offer Price between our Company (for itself and on behalf of the Selling Shareholder) and the Global Coordinator (on behalf of the Underwriters) on the Price Determination Date; and

- the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and the Underwriting Agreements not being terminated in accordance with their respective terms and conditions prior to 8:00 a.m. on the Listing Date),

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 Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of lapse of the Share Offer 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 the paragraph headed "Refund of your money" on the notes attached to the Application Forms.

THE INTERNATIONAL PLACING

Our Company is initially offering 220,000,000 New Shares and the Selling Shareholder is offering 50,000,000 Sale Shares, both at the Offer Price, representing 90% of the initial number of the Offer Shares, for subscription and purchase by way of the International Placing, subject to reallocation as mentioned below, the requirements 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, 0.004% transaction levy imposed by the SFC and 0.005% Stock Exchange trading fee.

It is expected that the International Placing Underwriters, or selling agents nominated by them, on behalf of our Company and the Selling Shareholder, will conditionally place the International Placing Shares at the Offer Price with selected professional, institutional and/or individual investors in Hong Kong and certain other jurisdictions. Such professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and/or corporate entities which regularly invest in shares and other securities. Private investors applying through banks or other institutions who seek International Placing Shares in the International Placing may also be allocated the International Placing Shares.

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 with 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 our Company. In addition, our Company and the Global Coordinator will use their best endeavours to comply or procure the compliance with 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, our Company intends to grant the Over-allotment Option to the International Placing Underwriters, exercisable by the Lead Manager at any time from the Listing Date up to (and including) the date which is the 30th day after the last date for lodging the Application Forms, subject to the terms of the

International Placing Underwriting Agreement. Pursuant to the Over-allotment Option, our Company may be required to allot and issue, at the Offer Price, up to an additional 45,000,000 New Shares, representing 15% of the number of the Offer Shares initially available under the Share Offer, to cover over-allocations in the International Placing.

The total number of the International Placing Shares to be allotted and issued may change as a result of reallocation mentioned below and any reallocation of the unsubscribed Hong Kong Public Offer Shares to the International Placing as mentioned under the paragraph headed "The Hong Kong Public Offer" below.

The International Placing is subject to the conditions stated in the paragraph headed "Conditions of the Share Offer" above.

OVER-ALLOTMENT OPTION

In connection with the Share Offer, it is expected that we will grant to the Lead Manager, on behalf of the International Placing Underwriters, the Over-allotment Option which is exercisable at any time from the Listing Date up to (and including) the date which is the 30th day after the last date for lodging the Application Forms. Pursuant to the Over-allotment Option, we may be required by the Lead Manager (on behalf of the International Placing Underwriters) to issue up to and not more than an aggregate of 45,000,000 additional New Shares (representing 15% of the total number of the 300,000,000 Shares initially available under the Share Offer) at the same price per Offer Share under the International Placing to cover over-allocations in the International Placing, if any. The Lead Manager may also cover such over-allocations by, among other means, purchasing Shares in the secondary market or through stock borrowing arrangements from holders of Shares or exercise of the Over-allotment Option or by a combination of these means or otherwise as may be permitted under applicable laws. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 33.0% of our Company's enlarged issued share capital following completion of the Share Offer. In the event that the Over-allotment Option is exercised, a press announcement will be made by our Company.

THE CORNERSTONE PLACING

As part of the International Placing, we and the Global Coordinator have entered into placing agreements (collectively the "**Cornerstone Placing Agreements**") with the Cornerstone Investors, all of which are Independent Third Parties immediately before and after the Listing, for the subscription by the Cornerstone Investors at the final Offer Price for an aggregate of 96,000,000 Offer Shares, representing 9.6% of the issued share capital of our Company immediately after completion of the Share Offer, assuming that the Over-allotment Option is not exercised. Details of the Cornerstone Investors are set forth below:

Cheung Kong (Holdings) Limited ("Cheung Kong")

Prosky Limited has agreed to subscribe for 32,000,000 Offer Shares at the Offer Price, representing 3.2% of the issued share capital of our Company immediately after completion of the Share Offer and the Capitalisation Issue, assuming that the Over-allotment Option is not exercised.

Prosky Limited is a company incorporated in the BVI with limited liability and is an indirect wholly-owned subsidiary of Cheung Kong. Cheung Kong is a company listed on the Main Board, and its principal activities are investment holding, property development and investment, hotel and serviced suite operation, property and project management and investments in securities.

Chow Tai Fook Nominee Limited

Chow Tai Fook Nominee Limited has agreed to subscribe for 32,000,000 Offer Shares at the Offer Price representing 3.2% of the issued share capital of our Company immediately after completion of the Share Offer and the Capitalisation Issue, assuming that the Over-allotment Option is not exercised.

Chow Tai Fook Nominee Limited, a company incorporated in Hong Kong, is principally engaged in investment holding business and is wholly and beneficially owned by Dato Dr. Cheng Yu-Tung.

Kerry Holdings Limited

Solar Sky International Limited ("**Solar Sky**") has agreed to subscribe for 11,200,000 Offer Shares at the Offer Price, representing 1.12% of the issued share capital of our Company immediately after completion of the Share Offer and the Capitalisation Issue, assuming that the Over-allotment Option is not exercised.

Total Upgrade Limited ("**Total Upgrade**") has agreed to subscribe for 11,200,000 Offer Shares at the Offer Price, representing 1.12% of the issued share capital of our Company immediately after completion of the Share Offer and the Capitalisation Issue, assuming that the Over-allotment Option is not exercised.

Joyous Win Limited ("**Joyous Win**") has agreed to subscribe for 9,600,000 Offer Shares at the final Offer Price, representing 0.96% of the issued share capital of our Company immediately after completion of the Share Offer and the Capitalisation Issue, assuming that the Over-allotment Option is not exercised.

Each of Solar Sky, Total Upgrade and Joyous Win is a private company limited by shares incorporated in Hong Kong and is a wholly-owned subsidiary of Kerry Holdings Limited. Kerry Holdings Limited is a member of the Kuok Group, being the group of companies owned and/or controlled by Mr. Kuok Hock Nien and/or interests associated with him.

Conditions precedent under the Cornerstone Placing Agreements

The subscription obligation of each of the Cornerstone Investors is conditional upon, among other conditions, (i) the Hong Kong Public Offer Underwriting Agreement and International Placing Underwriting Agreement having been entered into and having become unconditional by no later than the respective dates and times as specified in those agreements; (ii) none of the Underwriting Agreements having been terminated; and (iii) the Offer Price having been agreed upon between our Company and the Global Coordinator (for itself and on behalf of the Hong Kong Pubic Offer Underwriters).

Restrictions on disposal by the Cornerstone Investors

Each of the Cornerstone Investors has agreed that without the prior written consent of us and the Global Coordinator, it will not, whether directly or indirectly, at any time during the period of six months after the Listing Date dispose of any of the Offer Shares subscribed pursuant to the Cornerstone Placing Agreement or any interest in any company or entity holding any of the Offer Shares subscribed pursuant to the Cornerstone Placing Agreement.

The placing of the Offer Shares to the Cornerstone Investors will not be subject to reallocation of Offer Shares between the International Placing and the Hong Kong Public Offer in the event of any over-subscription under the Hong Kong Public Offer.

The Offer Shares to be held by the Cornerstone Investors pursuant to the Cornerstone Placing Agreements will be counted towards the public float of our Company.

THE HONG KONG PUBLIC OFFER

Our Company is initially offering 30,000,000 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 public offer in Hong Kong, subject to the reallocation as mentioned below. The Hong Kong Public Offer is lead managed by the Lead Manager and is fully underwritten by the Hong Kong Public Offer Underwriters (subject to our Company (for ourselves and on behalf of the Selling Shareholder) and the Lead Manager (on behalf of the Underwriters) agreeing to the Offer Price). Applicants for the Hong Kong Public Offer Shares are required to pay on application the maximum indicative Offer Price plus 1% brokerage, 0.004% 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 related 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 the paragraph headed "Conditions of the Share Offer" above.

If the Hong Kong Public Offer Shares are not fully subscribed, the Global Coordinator will have an absolute discretion to reallocate all or any of the 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 reallocation 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 initially available for subscription by the public under the Hong Kong Public Offer (after taking into account any reallocation 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 a fair basis to successful applicants who have applied for the Hong Kong Public Offer Shares with a total subscription amount of HK$5 million or below (excluding transaction levy imposed by the SFC, the Stock Exchange trading fee and the brokerage payable thereon). The Hong Kong Public Offer Shares in pool B will be allocated on a fair basis to successful applicants who have applied for the Hong Kong Public Offer Shares with a total subscription amount of more than HK$5 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 undersubscribed, 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.

REALLOCATION 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 reallocated to the Hong Kong Public Offer from the International Placing will increase to 90,000,000 Shares, representing 30% of the total number of the Offer Shares initially available under the Share Offer (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 reallocated 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 120,000,000 Shares, representing 40% of total number of the Offer Shares initially available under the Share Offer (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 reallocated 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 150,000,000 Shares, representing 50% of the total number of the Offer Shares initially available under the Share Offer (assuming the Over-allotment Option is not exercised).

In each such case, the additional Shares reallocated 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 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 Share Offer, the Lead Manager as stabilising manager (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, rules and regulatory requirements in place in Hong Kong on stabilisation. 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.

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 45,000,000 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 (Chapter 571W of the Laws of Hong Kong).

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.

Any stabilising action taken 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 the Applications Forms. The stabilising period is expected to expire on Saturday, 20 October 2007 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 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 Share Offer becomes unconditional, it is expected that dealings in our Shares on the Main Board will commence at 9:30 a.m. (Hong Kong time) on Tuesday, 2 October 2007.

*There are two ways to apply for the Hong Kong Public Offer Shares. You may either use an Application Form or you may give **Electronic Application Instructions** to cause HKSCC Nominees to apply on your behalf for the Hong Kong Public Offer Shares. Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on any Application Form or by giving **Electronic Application Instructions** to HKSCC.*

WHICH APPLICATION FORM TO USE

Use **WHITE** Application Form if you want the Hong Kong Public Offer Shares to be issued in your own name.

Use **YELLOW** Application Form if you want the Hong Kong Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant.

Instead of using **YELLOW** Application Form, you may electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for the Hong Kong Public Offer Shares on your behalf. 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 the stock account of your designated CCASS Participant.

WHERE TO COLLECT THE PROSPECTUSES AND THE APPLICATION FORMS

You can collect **WHITE** Application Form and this prospectus from:

ICEA Securities Limited
26th Floor, ICBC Tower
3 Garden Road
Central
Hong Kong

or

Access Capital Limited
Suite 606, 6th Floor
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

or

UOB Asia (Hong Kong) Limited
Suite 601, 6th Floor, Aon China Building
29 Queen's Road Central
Hong Kong

or

Kim Eng Securities (Hong Kong) Ltd.
Level 30, Three Pacific Place
1 Queen's Road East
Hong Kong

or

Mega Capital (Asia) Company Limited
Units 2213-2214, 22/F.
Cosco Tower
183 Queen's Road Central
Hong Kong

or

Taifook Securities Company Limited
25/F, New World Tower
16-18 Queen's Road Central
Hong Kong

or

First Shanghai Securities Limited
19/F., Wing On House
71 Des Voeux Road Central
Hong Kong

or any of the following branches of Industrial and Commercial Bank of China (Asia) Limited:

District	Branch name	Address
Hong Kong Island	Queen's Road Central Branch	122-126 Queen's Road Central
	Sheung Wan Branch	Shop F, G/F., Kai Tak Commercial Building, 317-319 Des Voeux Road Central, Sheung Wan
	Hennessy Road Branch	Shop 2A, G/F. & Basement, Cameron Commercial Centre, 468 Hennessy Road, Causeway Bay

District	Branch name	Address
Kowloon	Tsim Sha Tsui Branch	Shop 6-7, G/F., Hankow Centre, 5-15 Hankow Road, Tsimshatsui
	Mongkok Branch	G/F., Belgian Bank Building, 721-725 Nathan Road, Mongkok
	Kwun Tong Branch	G/F., Lemmi Centre, 50 Hoi Yuen Road, Kwun Tong
	Mei Foo Branch	Shop N95A, 1/F., Mount Sterling Mall, Mei Foo Sun Chuen
New Territories	Tseung Kwan O Branch	Shop Nos. 2011-2012, Level 2, Metro City, Plaza II, 8 Yan King Road, Tseung Kwan O
	Sha Tsui Road Branch	Shop 4, G/F., Chung On Building, 297-313 Sha Tsui Road, Tsuen Wan
	Yuen Long Branch	G/F., 197-199 Castle Peak Road, Yuen Long

or any of the following branches of The Bank of East Asia, Limited:

District	Branch name	Address
Hong Kong Island	Main Branch	10 Des Voeux Road Central
	Wanchai Branch	Shop Nos A-C, G/F., Easey Commercial Building, 253-261 Hennessy Road, Wanchai
	Chai Wan Branch	345 Chai Wan Road
	Kennedy Town Centre Branch	Shop D, G/F., Kennedy Town Centre, 23 Belcher's Street
Kowloon	Mongkok Branch	638-640 Nathan Road
	Tsim Sha Tsui Branch	Shop A & B, Milton Mansion, No.96 Nathan Road
	Hoi Yuen Road Branch	Unit 1, G/F., Hewlett Centre, 54 Hoi Yuen Road
New Territories	Tai Wai Branch	16-18 Tai Wai Road, Cheung Fung Mansion, Shatin
	Tai Po Branch	62-66 Po Heung Street, Tai Po Market
	Tsuen Wan Branch	239-243 Sha Tsui Road

or any of the following branches of Bank of Communications Co., Ltd. Hong Kong Branch:

District	Branch name	Address
Hong Kong Island	Hong Kong Branch	20 Pedder Street, Central, Hong Kong
	North Point Sub-Branch	442-448 King's Road, North Point
	Taikoo Shing Sub-Branch	Shop 38, G/F., City Plaza 2, 18 Taikoo Shing Road
Kowloon	Hunghom Sub-Branch	1-3A Tak Man Street, Whampoa Estate, Hunghom, Kowloon
	Jordan Road Sub-Branch	37U Jordan Road, Jordan Road, Kowloon
	Wong Tai Sin Sub-Branch	Shops 127-129, 1/F., Lung Cheung Mall, 136 Lung Cheung Road, Wong Tai Sin
New Territories	Fanling Sub-Branch	No. 84A-84B, G/F., Flora Plaza, Fanling
	Tuen Mun Sub-Branch	Blk.7, Nin Wong Building, 4 Yan Ching Circuit, Tuen Mun
	Shatin Sub-Branch	Shop No.193, Level 3, Lucky Plaza, 1-15 Wang Pok Street, Shatin
	Market Street Sub-Branch	53 Market Street, Tsuen Wan

You can collect **YELLOW** Application Form and this prospectus during normal business hours from 9:00 a.m. on Monday, 17 September 2007 until 12:00 noon on Thursday, 20 September 2007 from **the Depository Counter of HKSCC** at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road, Central, Hong Kong

or Your stockbrokers may also have the Application Forms and this prospectus available.

HOW TO COMPLETE THE APPLICATION FORMS

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions your application may be rejected and returned to you (or the first-named applicant in case of joint applicant(s)) by ordinary post together with the accompanying cheque(s) or banker's cashier order(s) at your own risk at the address stated in the relevant Application Form.

If your application is made through a duly authorised attorney, our Company, the Global Coordinator (acting on behalf of all the Hong Kong Public Offer Underwriters) and the Joint Sponsors, or their respective agents or nominees, each acting as an agent of our Company, may accept the application at their discretion, and subject to any conditions they consider appropriate, including evidence of the authority of your attorney. The Global Coordinator and the Joint Sponsors, acting as agents of our Company, shall have full discretion to reject or accept any application, in full or in part, without assigning any reason.

APPLICATIONS BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS

General

CCASS Participants may give **Electronic Application Instructions** to HKSCC to apply for the Hong Kong Public Offer Shares and to arrange payment of the money 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.

If you are a CCASS Investor Participant, you may give **Electronic Application Instructions** through the CCASS Phone System by calling 2979-7888 or the CCASS Internet System at https://ip.ccass.com (using the procedures contained in "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
2nd Floor
Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

Copies of this prospectus are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant, respectively, to give **Electronic Application Instructions** via CCASS terminals to apply on your behalf for the Hong Kong Public Offer Shares.

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 broker or custodian, to our Company and our Company's Hong Kong branch share registrar and transfer office. The subscription for the Hong Kong Public Offer Shares by giving **Electronic Application Instructions** is only a facility provided to CCASS Participants. The Company, the Joint Sponsors, the Global Coordinator and the Hong Kong Public Offer Underwriters take no responsibility for the application and provide no assurance that any CCASS Participants will be allotted any Hong Kong Public Offer Shares.

To ensure that CCASS Investor Participants can give their **Electronic Application Instructions** through the CCASS Phone System or CCASS Internet System, CCASS Investor Participants are advised not to wait until the last moment to input instructions. In the event that CCASS Investor Participants have problems in connecting to the CCASS Phone System or CCASS Internet System for submission of **Electronic Application Instructions**, they should either (i) submit the **WHITE** or **YELLOW** Application Form or (ii) go to HKSCC's Customer Service Centre to complete an application instruction input request form before 12:00 noon on Thursday, 20 September 2007.

Giving Electronic Application Instructions to HKSCC to apply for the Hong Kong Public Offer Shares by HKSCC Nominees on your behalf

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,

- HKSCC Nominees is only acting as a 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;

- HKSCC Nominees does the following things on behalf of each of the persons:

  (a) agrees 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 credit to that person's CCASS Investor Participant stock account or the stock account of the CCASS Participant who has inputted **Electronic Application Instructions** on that person's behalf;

  (b) undertakes and agrees to accept the Hong Kong Public Offer Shares in respect of which that person has given **Electronic Application Instructions** or any lesser number;

  (c) undertakes and confirms that the person has not applied for or taken up any International Placing Shares nor otherwise participated in the International Placing;

  (d) if the **Electronic Application Instructions** are given for that person's own benefit, declares that only one set of **Electronic Application Instructions** has been given for that person's benefit;

(e) if that person is an agent for another person, declares that he or she or it has given only one set of **Electronic Application Instructions** for the benefit of that other person and that he or she or it is duly authorised to give those instructions as that other person's agent;

(f) understands that the above declaration will be relied upon by our Company, the Directors, the Global Coordinator and the Joint Sponsors in deciding whether to make any allotment of Hong Kong Public Offer Shares in respect of the **Electronic Application Instructions** given by that person and that person may be prosecuted if he or she or it makes a false declaration;

(g) authorises 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 cheque(s) in accordance with the arrangements separately agreed between our Company and HKSCC;

(h) confirms that that person has read the terms and conditions and application procedures set forth in this prospectus and agrees to be bound by them;

(i) confirms 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 broker to give **Electronic Application Instructions** on that person's behalf;

(j) agrees that our Company, the Global Coordinator, the Joint Sponsors, the Hong Kong Public Offer Underwriters, their respective directors and any other parties involved in the Hong Kong Public Offer are not liable for the information and representations not contained in this prospectus;

(k) without prejudice to any other rights which may have, agrees that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentations;

(l) agrees to disclose to our Company and its agents and the Global Coordinator, the Joint Sponsors and the Hong Kong Public Offer Underwriters any information which they require about that person;

(m) agrees that any application make by HKSCC Nominees on behalf of that person pursuant to the **Electronic Application Instructions** given by that person is irrevocable before the expiration of the fifth day after the closing of the Application Lists or such later date as the Application Lists may close as described under "Effect of bad weather on the opening of the Application Lists" below. This agreement will take effect as a collateral contract with our Company and will become binding when that person gives the instructions and such collateral contract will be in consideration of our Company agreeing that it will not offer any Hong Kong Public Offer Shares to any person before the expiration of the fifth day after the closing of the Application Lists except by means of one of the procedures referred to in this prospectus. However, that person may revoke the instructions before the closing of the Application Lists if a person responsible for this prospectus under Section 40 of the Companies Ordinance (as applied by Section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;

(n) agrees that once the application of 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 press announcement on results of the Hong Kong Public Offer published by our Company; and

(o) agrees to the arrangement, undertakings and warranties specified in the participant agreement between that person and HKSCC, together with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **Electronic Application Instructions** relating to the Hong Kong Public Offer Shares.

Effect of giving Electronic Application Instructions

By giving Electronic Application Instructions or instructing your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant, respectively, to give such instructions, you (and if you are joint applicants, each jointly and severally) are deemed to do the following things. Neither HKSCC nor HKSCC Nominees will be liable to our Company or any other person in respect of the things mentioned below:

- instruct and authorise HKSCC to cause HKSCC Nominees (acting as nominee for the CCASS Participants) to apply for the Hong Kong Public Offer Shares on your behalf;

- instruct and authorise HKSCC to arrange payment of the maximum indicative Offer Price, brokerage, transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of wholly or partly unsuccessful applications and/or the Offer Price is less than the maximum indicative Offer Price, refund of the application money by crediting your designated bank account; or

- instruct and authorise HKSCC to cause HKSCC Nominees to do on your behalf all the things which are stated in the **WHITE** Application Form to do on your behalf.

Minimum application amount and permitted multiples

You may give **Electronic Application Instructions** in respect of a minimum of 1,000 Hong Kong Public Offer Shares. Such instructions in respect of more than 1,000 Hong Kong Public Offer Shares must be in one of the multiples set forth in the table on the Application Forms.

Multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of the Hong Kong Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of the 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 Application Instructions** to make an application for the 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. Further information in this regard is set forth under "How many applications you may make for the Hong Kong Public Offer Shares" below.

Allocation of the Hong Kong Public Offer Shares

For the purpose of allocating the 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.

Personal data

Information set forth under the section headed "Personal data" in the Application Forms applies to all personal data held by our Company and our Company's Hong Kong branch share registrar and transfer office about you in the same way as it applies to personal data about all applicants other than HKSCC Nominees.

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, 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.

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 this is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or through giving **Electronic Application Instructions** to HKSCC;

- if you are an agent for another person, warrant that reasonable enquiries have been made of that other person 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 through giving **Electronic Application Instructions** to HKSCC, and that you are duly authorised to sign the relevant 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;

- 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;

- 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 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.

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 maximum indicative Offer Price is HK$5.35 per Share. You must also pay the brokerage of 1%, the transaction levy of 0.004% imposed by the SFC and the Stock Exchange trading fee of 0.005%. This means that for every 1,000 Hong Kong Public Offer Shares, you will need to pay HK$5,403.98. The Application Forms have tables showing the exact amount payable for certain multiples of the Hong Kong Public Offer Shares up to 15,000,000 Hong Kong Public Offer Shares.

You must pay the maximum indicative 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.

If the Offer Price as finally determined is less than HK$5.35 per Share, appropriate refund (including the brokerage, the transaction levy and the Stock Exchange trading fee attributable to the excessive application money) will be made to applicants, **without interest**. Particulars of the procedures for refund are set forth below under "Despatch/collection of share certificates and refund of application money" below.

TIME FOR APPLYING FOR THE HONG KONG PUBLIC OFFER SHARES

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 Thursday, 20 September 2007, 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 Industrial and Commercial Bank of China (Asia) Limited, The Bank of East Asia, Limited and Bank of Communications Co., Ltd. Hong Kong Branch listed under "Where to collect the prospectuses and the Application Forms" above at the following times:

Monday, 17 September 2007 — 9:00 a.m. to 5:00 p.m.
Tuesday, 18 September 2007 — 9:00 a.m. to 5:00 p.m.
Wednesday, 19 September 2007 — 9:00 a.m. to 5:00 p.m.
Thursday, 20 September 2007 — 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 Thursday, 20 September 2007.

Electronic Application Instructions

CCASS Broker/Custodian Participants should input **Electronic Application Instructions** at the following times on the following dates:

Monday, 17 September 2007 — 9:00 a.m. to 8:30 p.m.(1)
Tuesday, 18 September 2007 — 8:00 a.m. to 8:30 p.m.(1)
Wednesday, 19 September 2007 — 8:00 a.m. to 8:30 p.m.(1)
Thursday, 20 September 2007 — 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 Broker/Custodian Participants.

CCASS Investor Participants can input **Electronic Application Instructions** from 9:00 a.m. on Monday, 17 September 2007 until 12:00 noon on Thursday, 20 September 2007 (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 Thursday, 20 September 2007 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.

Application Lists

The Application Lists will open from 11:45 a.m. to 12:00 noon on Thursday, 20 September 2007.

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. No allocation of any of the Hong Kong Public Offer Shares will be made after Friday, 28 September 2007.

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 Thursday, 20 September 2007 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 Thursday, 20 September 2007, the dates mentioned in the section headed "Expected timetable of the Hong Kong Public Offer" 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).

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**, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the expiration of the 5th day after Thursday, 20 September 2007 or such later date as the Application Lists may close as described under "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**. 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 closing of the Application Lists except by means of one of the procedures referred to in 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.

For the avoidance of doubt, our Company and all other parties involved in Share Offer 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 (as applied by Section 342E of the Companies Ordinance). If your application 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.

If your application is rejected

Your application will be rejected if:

- it is a multiple application or a suspected multiple application; or
- 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.

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; or
- no agreement has been reached on the Offer Price on the Price Determination Date.

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** 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.

ANNOUNCEMENT OF RESULTS OF THE HONG KONG PUBLIC OFFER

Our Company expects to announce the final Offer Price, level of indication of interest in the International Placing, results of applications under the Hong Kong Public Offer and the basis of allotment of the Hong Kong Public Offer Shares on Friday, 28 September 2007 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

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.

DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND OF APPLICATION MONEY

No temporary documents of title will be issued in respect of the Offer Shares. No receipt will be issued for sums paid on application.

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 Public Offer 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 Offer Price as finally determined is less than the maximum indicative Offer Price;
- the conditions of the Share Offer are not fulfilled in accordance with the section headed “Structure and conditions of the Share Offer” in this prospectus;
- any application is revoked or any allocation pursuant thereto has become void; or
- any of the reasons set forth under “Circumstances in which you will not be allotted the Hong Kong Public Offer Shares”.

It is intended that special efforts will be made to avoid any undue delay in refunding application money where appropriate.

If you have given **Electronic Application Instructions**, your refund (if any) will be credited to your designated bank account or the designated bank account of the designated CCASS Participant through which you are applying on Friday, 28 September 2007. If you have instructed your designated CCASS Participant (other than CCASS Investor Participant) to give **Electronic Application Instructions** on your behalf, you can check the amount of refund (if any) payable to you with that designated CCASS Participant. If you have applied as CCASS Investor Participant, you can check the amount of refund (if any) payable to you 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 Friday, 28 September 2007 or in the activity statement made available to you by HKSCC after the credit of refund money to your bank account.

You will receive one share certificate for all the Hong Kong Public Offer Shares issued to you (except pursuant to applications made on **YELLOW** Application Forms or by **Electronic Application Instructions** where the share certificate will be deposited into CCASS as described below under "Deposit of share certificates into CCASS" below).

Subject to the provisions mentioned below, in due course there will be sent to you by ordinary post, at your own risk to the address specified on your Application Form:

- for applicants on **WHITE** Application Forms: (i) share certificate for all the Hong Kong Public Offer Shares applied for, if your application is wholly successful; or (ii) share certificate for the number of Hong Kong Public Offer Shares successfully applied for, if your application is partially successful; and/or

- for applicants on **WHITE** and **YELLOW** Application Forms, a refund cheque crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for: (i) the excessive application money for the Hong Kong Public Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application money, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price as determined and the maximum indicative Offer Price, payable upon application, in the event that the Offer Price is lower than the maximum indicative Offer Price, in each case including related brokerage of 1%, the Stock Exchange trading fee of 0.005% and the transaction levy of 0.004% imposed by the SFC, **without interest**. 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 firstnamed applicant, provided by you may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of the 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.

In a contingency situation involving a very high level of over-subscription, at the discretion of our Company and the Global Coordinator and the Joint Sponsors, applications for certain small denominations of the Hong Kong Public Offer Shares may be eliminated in a pre-balloting. In such circumstances, the cheques or banker's cashier orders accompanying such applications on the Application Forms will not be presented for clearing.

Subject as mentioned below, refund cheques (if any) and share certificates for successful applicants under **WHITE** Application Forms are expected to be despatched on Friday, 28 September 2007. We reserve the right to retain any share certificates and any excessive application money pending clearance of cheque(s) or banker's cashier order(s).

If you have applied for 1,000,000 Hong Kong Public Offer Shares or more on a **WHITE** or **YELLOW** Application Form and have indicated your intention on your Application Form to collect your refund cheque (where applicable) and/or (for applicants using **WHITE** Application Forms) share certificate (where applicable) from our Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, and have provided all information required by your Application Form, you may collect (where applicable) your refund cheque and/or (where applicable) share certificate from our Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong on Friday, 28 September 2007 from 9:00 a.m. to 1:00 p.m. or any other date notified by us in the newspapers as the date of despatch of share certificates/refund cheques.

If you are an individual who opts for collection in person, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant which opts for collection in person, the authorised representative bearing a letter of authorization from the corporation stamped with the corporation's chop must be presented for collection. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Company's Hong Kong branch share registrar and transfer office. If you do not collect your share certificate and/or refund cheque, they will be despatched promptly to you by ordinary post to the address as specified in your Application Form at your own risk.

If you have applied for less than 1,000,000 Hong Kong Public Offer Shares or if you have applied for 1,000,000 Hong Kong Public Offer Shares or more on a **WHITE** or **YELLOW** Application Form but have not indicated in your Application Form that you wish to collect your share certificate (where applicable) and/or refund cheque in person, the share certificate and/or refund cheque (if applicable) will be sent to the address on your Application Form on Friday, 28 September 2007 or any other date notified by us in the newspapers as the date of despatch of share certificates/refund cheques by ordinary post and at your own risk.

Deposit of share certificates into CCASS

If you apply for the Hong Kong Public Offer Shares using a **YELLOW** Application Form or by giving **Electronic Application Instructions**, 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 at the close of business on Friday, 28 September 2007, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

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 with that CCASS Participant.

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** (and where the CCASS Participants is a broker or custodian, we shall include information relating to the beneficial owner, the Hong Kong identity card numbers, passport numbers or other identification code (Hong Kong business registration number for corporations), if supplied) on Friday, 28 September 2007. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Friday, 28 September 2007 or such other date as shall be determined by HKSCC or HKSCC Nominees. Applicants applying by giving Electronic Application Instructions 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 Friday, 28 September 2007.

If you are applying as a CCASS Investor Participant, you can check your new account balance 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.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange is expected to commence on Tuesday, 2 October 2007. Shares will be traded on the Stock Exchange in board lots of 1,000 each. The Stock Exchange stock code for the Shares is 3868.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from our Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

17 September 2007

The Board of Directors
Qunxing Paper Holdings Company Limited
ICEA Capital Limited
Access Capital Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Qunxing Paper Holdings Company Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**"), including the combined income statements, combined statements of changes in equity and combined cash flow statements of the Group for each of the years ended 31 December 2004, 2005 and 2006 and the four months ended 30 April 2007 (the "relevant period") and the combined balance sheets of the Group as at 31 December 2004, 2005 and 2006 and 30 April 2007 and the notes thereto (the "**Financial Information**") for inclusion in the prospectus of the Company dated 17 September 2007 (the "**Prospectus**").

The Company was incorporated in the Cayman Islands on 5 September 2006 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation (the "Reorganisation") as detailed in the section "Corporate reorganisation" in Appendix VI to the Prospectus, which was completed on 29 January 2007, the Company became the holding company of the subsidiaries now comprising the Group, details of which are set out in Section A below. The Company has not carried on any business since the date of its incorporation save for the aforementioned Reorganisation.

As at the date of this report, no audited financial statements have been prepared for the Company and the companies comprising the Group, except for Best Known Group Limited (慧富集團有限公司) and Shandong Qunxing Paper Limited (山東群星紙業有限公司), as they are either recently incorporated or are investment holding companies and have not carried on any business since their respective dates of incorporation or are not subject to statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation. We have, however, reviewed all significant transactions of these companies from their respective dates of incorporation to 30 April 2007 for the purpose of this report.

The statutory financial statements for Best Known Group Limited and Shandong Qunxing Paper Limited which were prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") or the relevant accounting rules and regulations applicable to enterprises in the People's Republic of China ("PRC"), were audited during the relevant period by the respective statutory auditors as indicated below:

Name of company	Financial period	Auditors
Best Known Group Limited	Period from 21 April 2006 (date of incorporation) to 31 December 2006	KPMG
Shandong Qunxing Paper Limited	Years ended 31 December 2004, 2005 and 2006	鄒平鑒鑫有限責任會計師事務所

BASIS OF PREPARATION

The Financial Information has been prepared by the directors of the Company based on the audited financial statements or, where appropriate, unaudited management accounts of the companies now comprising the Group, on the basis set out in Section A below, after making such adjustments as are appropriate (the "Underlying Financial Information"). Adjustments have been made, for the purpose of this report, to restate the Underlying Financial Information to conform with IFRSs promulgated by IASB and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). IFRSs include International Accounting Standards and Interpretations.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation and true and fair presentation of the Financial Information in accordance with IFRSs. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to form an opinion on the Financial Information based on our audit.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have audited the Financial Information for the relevant period in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and we have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline "Prospectuses and the reporting accountant" (Statement 3.340) issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

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

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

OPINION

In our opinion, for the purpose of this report and on the basis of presentation set out in Section A below, all adjustments considered necessary have been made and the Financial Information gives a true and fair view of the Group's combined results, combined statements of changes in equity and combined cash flows for the relevant period and of the Group's combined state of affairs as at 31 December 2004, 2005 and 2006 and 30 April 2007 and the Company's state of affairs as at 31 December 2006 and 30 April 2007.

COMPARATIVE FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited financial information of the Group including the combined income statement, combined statement of changes in equity and combined statement of cash flows for the four months ended 30 April 2006, together with the notes thereon (the "30 April 2006 Corresponding Information"), for which the directors are responsible, in accordance with Statement of Auditing Standard 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquiries of group management and applying analytical procedures to the 30 April 2006 Corresponding Information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and, therefore, provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the 30 April 2006 Corresponding Information.

On the basis of our review of the 30 April 2006 Corresponding Information, which does not constitute an audit, for the purpose of this report, we are not aware of any material modifications that should be made to the unaudited financial information presented for the four months ended 30 April 2006.

A BASIS OF PRESENTATION

The combined income statements, combined statements of changes in equity and combined cash flow statements of the Group as set out in Section B include the results of operations of the companies comprising the Group for the relevant period (or where the companies were incorporated at a date later than 1 January 2004, for the period from their respective dates of incorporation to 30 April 2007) as if the current group structure had been in existence throughout the relevant period. The combined balance sheets of the Group as at 31 December 2004, 2005 and 2006 and 30 April 2007 as set out in Section B have been prepared to present the state of affairs of the companies comprising the Group as at the respective dates as if the current group structure had been in existence as at the respective dates.

All material intra-group transactions and balances have been eliminated on combination.

At the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

Name of company	Place and date of incorporation/ establishment	Issued and fully paid up/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Double Nation Limited ("Double Nation")	British Virgin Islands ("BVI") 18 May 2006	USD100/ USD50,000	100%	–	Investment holding
Best Known Group Limited ("Best Known")	Hong Kong 21 April 2006	HKD100/ HKD10,000	–	100%	Investment holding
Shandong Qunxing Paper Limited ("Shandong Qunxing")*	PRC 16 June 1999	RMB190,000,000/ RMB190,000,000	–	100%	Manufacture and sale of decorative base paper products and printing paper product

* This entity established in the PRC is a wholly foreign owned enterprise.

B FINANCIAL INFORMATION

1 Combined income statements

	Section C Note	Years ended 31 December 2004 RMB'000	2005 RMB'000	2006 RMB'000	Four months ended 30 April 2006 RMB'000 (unaudited)	2007 RMB'000
Turnover	*2*	467,158	696,425	950,844	260,132	338,018
Cost of sales		(382,497)	(563,115)	(766,727)	(207,915)	(255,547)
Gross profit		84,661	133,310	184,117	52,217	82,471
Other revenue	*3*	370	662	726	179	163
Selling expenses		(5,084)	(7,008)	(9,597)	(2,723)	(2,357)
Administrative expenses		(6,287)	(9,377)	(11,929)	(3,447)	(5,330)
Profit from operations		73,660	117,587	163,317	46,226	74,947
Finance costs	*4(a)*	(5,281)	(13,793)	(20,625)	(5,860)	(7,310)
Profit before taxation	*4*	68,379	103,794	142,692	40,366	67,637
Income tax	*5(a)*	(24,023)	(35,460)	(48,755)	(14,542)	–
Profit for the year/period		44,356	68,334	93,937	25,824	67,637
Earnings per share (RMB)						
– basic	*9*	0.06	0.09	0.13	0.03	0.09

The accompanying notes form part of the Financial Information.

2 Combined balance sheets

	Section C Note	As at 31 December 2004 RMB'000	2005 RMB'000	2006 RMB'000	As at 30 April 2007 RMB'000
Non-current assets					
Property, plant and equipment	10	297,857	268,228	499,776	497,608
Construction in progress	11	–	132,411	16,000	–
Lease prepayments	12	–	–	–	10,960
Prepayment for the acquisition of plant and equipment		–	–	–	16,678
		297,857	400,639	515,776	525,246
Current assets					
Inventories	13	33,124	38,365	50,989	34,870
Trade and other receivables	14	39,490	64,257	81,785	66,347
Amounts due from controlling shareholders of the Company	19	26	47	15	–
Amounts due from related parties	19	–	–	183	296
Tax recoverable	20	–	–	–	4,365
Restricted bank balance	15	–	–	–	20,000
Cash and cash equivalents	16	51,983	65,568	67,265	58,224
		124,623	168,237	200,237	184,102
Current liabilities					
Bank loans	17	127,200	250,200	332,000	204,000
Trade and other payables	18	39,700	111,885	79,013	66,156
Amounts due to controlling shareholders of the Company	19	119,986	–	194,491	140
Amounts due to related parties	19	–	–	–	5,270
Tax payable	20	14,686	17,549	21,671	–
		301,572	379,634	627,175	275,566
Net current liabilities		(176,949)	(211,397)	(426,938)	(91,464)
Total assets less current liabilities		120,908	189,242	88,838	433,782
Non-current liabilities					
Bank loans	17	–	–	–	83,000
NET ASSETS		120,908	189,242	88,838	350,782
Capital and reserves					
Share capital	21	30,000	30,000	102	9,894
Reserves	22	90,908	159,242	88,736	340,888
TOTAL EQUITY		120,908	189,242	88,838	350,782

The accompanying notes form part of the Financial Information.

3 Combined statements of changes in equity

		Attributable to equity shareholders of the Company							
	Section C Note	Share capital RMB'000 (Note 21)	Share premium RMB'000 (Note 22)	Capital reserve RMB'000 (Note 22)	Other reserve RMB'000	Statutory reserve RMB'000 (Note 22)	Exchange reserve RMB'000 (Note 22)	Retained profits/ (accumulated losses) RMB'000 (Note 22)	Total equity RMB'000
At 1 January 2004		30,000	–	17,023	–	8,787	–	20,742	76,552
Net profit for the year		–	–	–	–	–	–	44,356	44,356
Appropriation to statutory reserve		–	–	–	–	11,453	–	(11,453)	–
At 31 December 2004		30,000	–	17,023	–	20,240	–	53,645	120,908
Net profit for the year		–	–	–	–	–	–	68,334	68,334
Transfer to capital reserve	*22(b)*	–	–	112,877	–	–	–	(112,877)	–
Appropriation to statutory reserve		–	–	–	–	17,385	–	(17,385)	–
At 31 December 2005		30,000	–	129,900	–	37,625	–	(8,283)	189,242
Exchange differences on translation of financial statements of operations outside the PRC		–	–	–	–	–	4,884	–	4,884
Capital injection	*21(a)*	102	–	–	–	–	–	–	102
Arising on Reorganisation *(Note (i))*		(30,000)	–	–	(169,327)	–	–	–	(199,327)
Net profit for the year		–	–	–	–	–	–	93,937	93,937
Appropriation to statutory reserve		–	–	–	–	14,259	–	(14,259)	–
At 31 December 2006		102	–	129,900	(169,327)	51,884	4,884	71,395	88,838
Exchange differences on translation of financial statements of operations outside the PRC		–	–	–	–	–	3,148	–	3,148
Arising on Reorganisation *(Note (ii))*	*21(b)*	897	–	–	(996)	–	–	–	(99)
Capitalisation issue	*21(c)*	8,895	182,363	–	–	–	–	–	191,258
Capitalisation of reserves *(Note (iii))*		–	–	(129,900)	160,000	(30,100)	–	–	–
Net profit for the period		–	–	–	–	–	–	67,637	67,637
At 30 April 2007		9,894	182,363	–	(10,323)	21,784	8,032	139,032	350,782
Unaudited									
At 1 January 2006		30,000	–	129,900	–	37,625	–	(8,283)	189,242
Net profit for the period		–	–	–	–	–	–	25,824	25,824
At 30 April 2006		30,000	–	129,900	–	37,625	–	17,541	215,066

Notes:

(i) On 16 August 2006, Best Known acquired the entire share capital of Shandong Qunxing from the controlling shareholders of the Company for cash consideration of HKD193,521,000 (equivalent to RMB199,327,000 at the date of transaction). The acquisition was satisfied by setting up unsecured and interest free advances of RMB199,327,000 from the controlling shareholders to Best Known. The difference between the historical carrying value of the shares acquired and the acquisition consideration is treated as an equity movement and recorded in "Other reserve". As a result of the acquisition, Shandong Qunxing became a wholly-owned subsidiary of Best Known.

(ii) On 29 January 2007, the Company acquired the entire share capital of Double Nation from the holding company, Boom Instant Limited ("Boom Instant") for a consideration of RMB996,000. The acquisition was satisfied by a waiver of an amount due from Boom Instant of RMB99,000 and the allotment of 9,000,000 shares of HKD0.1 each. The difference between the nominal value of the shares acquired and the acquisition consideration is treated as an equity movement and recorded in "Other reserve". As a result of the acquisition, Double Nation became a wholly-owned subsidiary of the Company. The Company became the holding company on 29 January 2007.

(iii) Upon completion of capital verification on 13 February 2007, the registered capital of Shandong Qunxing was increased from RMB30,000,000 to RMB190,000,000 by capitalisation of the capital and statutory reserves of RMB129,900,000 and RMB30,100,000 respectively pursuant to a board resolution dated 12 February 2007. The increase in registered capital of Shandong Qunxing is treated as an equity movement and recorded in "Other reserve".

The accompanying notes form part of the Financial Information.

4 Combined cash flow statements

	Section C Note	Years ended 31 December 2004 RMB'000	2005 RMB'000	2006 RMB'000	Four months ended 30 April 2006 RMB'000 (unaudited)	2007 RMB'000
Operating activities						
Profit before taxation		68,379	103,794	142,692	40,366	67,637
Adjustments for:						
– Loss on disposal of property, plant and equipment	4(c)	–	–	–	–	6
– Depreciation	4(c)	19,856	29,737	47,983	11,855	18,838
– Amortisation of lease prepayments	4(c)	–	–	–	–	20
– Finance costs	4(a)	5,281	13,793	20,625	5,860	7,310
– Interest income	3	(370)	(662)	(726)	(179)	(163)
– Foreign exchange loss		–	–	48	–	2,336
Operating profit before changes in working capital		93,146	146,662	210,622	57,902	95,984
(Increase)/decrease in inventories		(16,646)	(5,241)	(12,624)	(20,377)	16,119
(Increase)/decrease in trade and other receivables		(4,830)	(24,767)	(17,528)	(3,467)	15,438
Increase in amounts due from related parties		–	–	(81)	–	(212)
Increase in trade and other payables		14,140	8,554	22,559	42,393	2,343
Increase in amounts due to related parties		–	–	–	–	5,270
Cash generated from operations		85,810	125,208	202,948	76,451	134,942
PRC income tax paid	20(a)	(18,328)	(32,597)	(44,633)	(17,988)	(26,036)
Net cash generated from operating activities		67,482	92,611	158,315	58,463	108,906

	Section C Note	Years ended 31 December 2004 RMB'000	2005 RMB'000	2006 RMB'000	Four months ended 30 April 2006 RMB'000 (unaudited)	2007 RMB'000
Investing activities						
Payment for the purchase of property, plant and equipment	*10*	(148)	(108)	(5,126)	(696)	(776)
Payment for construction in progress		(142,787)	(68,780)	(213,425)	(112,210)	(15,200)
Payment for lease prepayments	*12*	–	–	–	–	(10,980)
Prepayment for the acquisition of plant and equipment		–	–	–	–	(16,678)
Proceeds from sales of property, plant and equipment		–	–	–	–	100
Interest received		370	662	726	179	163
Net cash used in investing activities		(142,565)	(68,226)	(217,825)	(112,727)	(43,371)
Financing activities						
Proceeds from loans from holding company		–	–	–	–	192,070
Proceeds from bank loans		133,200	250,200	342,047	228,000	183,000
Repayment of bank loans		(57,000)	(127,200)	(260,247)	(119,200)	(228,000)
Increase in restricted bank balance		–	–	–	–	(20,000)
Interest paid		(5,281)	(13,793)	(20,625)	(5,860)	(7,310)
(Increase)/decrease in amounts due from controlling shareholders of the Company		(26)	(21)	32	(545)	(194,476)
Increase/(decrease) in amounts due to controlling shareholders of the Company		19,986	(119,986)	–	333	140
Net cash generated from/(used in) financing activities		90,879	(10,800)	61,207	102,728	(74,576)
Net increase/(decrease) in cash and cash equivalents		15,796	13,585	1,697	48,464	(9,041)
Cash and cash equivalents at beginning of the year/period		36,187	51,983	65,568	65,568	67,265
Cash and cash equivalents at end of the year/period	*16*	51,983	65,568	67,265	114,032	58,224

Major non-cash transaction:

On 16 April 2007, the Board of Directors ("the Board") passed a resolution to capitalise an amount due to Boom Instant of RMB191,258,000 by the allotment of 90,000,000 shares of HKD0.1 each, credited as fully paid. Upon the issue of the said shares, the amount due to Boom Instant of RMB191,258,000 was extinguished and cancelled.

The accompanying notes form part of the Financial Information.

C NOTES TO THE FINANCIAL INFORMATION

1 Significant accounting policies

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual IFRSs, International Accounting Standards ("IASs") and Interpretations, issued by the International Accounting Standards Board ("IASB").

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The Group has not previously presented combined financial statements. This is the Group's first IFRS Financial Information and IFRS 1 has been applied.

The IASB has issued certain new and revised IFRSs that are not yet effective for the financial periods included in the relevant period. The Group has not early adopted these IFRSs in preparing the Financial Information for the relevant period (see note 29).

(b) Basis of preparation of the Financial Information

The Financial Information comprises the Company and its subsidiaries.

The Financial Information is presented in Renminbi ("RMB"), rounded to the nearest thousand. It is presented on the historical cost basis.

The Financial Information has been prepared in accordance with the going concern basis notwithstanding the net current liabilities of the Group at 31 December 2004, 2005 and 2006 and 30 April 2007. The directors are of the opinion that, based on a detailed review of the working capital forecast of the Group for the year ending 31 December 2008, the Group will have necessary liquid funds to finance its working capital and capital expenditure requirements up to 31 December 2008.

The preparation of the Financial Information in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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.

Judgements made by management in the application of IFRSs that have significant effect on the Financial Information and estimates with a significant risk of material adjustment in the next year are discussed in note 28.

The accounting policies set out below have been applied consistently to all periods presented.

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the Financial Information from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

(d) Lease prepayments

Lease prepayments represent payments made to acquire leasehold land. Leasehold land is carried at cost less accumulated amortisation and impairment losses (see note 1(h)). Amortisation is charged to the income statement on a straight-line basis over the remaining lease term.

(e) Property, plant and equipment

Property, plant and equipment is stated in the combined balance sheets at cost less accumulated depreciation and impairment losses (see note 1(h)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

–	Buildings	40 years
–	Plant and machinery	10 – 20 years
–	Motor vehicles	10 years
–	Furniture and fixtures	10 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(f) Construction in progress

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses (see note 1(h)). Cost comprises direct costs of construction. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are complete.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(g) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(h) Impairment of assets

(i) Impairment of trade and other receivables

Receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised 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 (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery of an amount receivable is remote, the amount considered irrecoverable is written off against trade receivables and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account or written off directly are reversed against the allowance account or directly respectively. Other changes in the allowance account are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- lease prepayments; and
- construction in progress.

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(i) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(h)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(h)).

(k) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(l) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(n) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(o) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from differences which arose on initial recognition of assets and liabilities, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(r) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of operations outside the PRC are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of an operation outside the PRC, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(s) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred.

(t) Repair and maintenance expenditure

Repair and maintenance expenditure, including cost of overhaul, is expensed as incurred.

(u) Related parties

For the purposes of the Financial Information, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making finance and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(v) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Group operates in a single business segment, the manufacturing and trading of decorative base paper products and printing paper product in the PRC. Accordingly, no segmental analysis is presented.

(w) Business combinations involving entities under common control

The combined financial statements incorporate the financial statements items of the combining entities or businesses as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling parties.

The net assets of the combining entities or businesses are recognised at the carrying values prior to the common control combination.

The combined income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the control of the controlling parties, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the combined financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under control of the controlling parties, whichever is shorter.

2 Turnover

The principal activities of the Group are the manufacturing and trading of decorative base paper products and printing paper product in the PRC. Turnover represents the sales value of goods sold less returns, discounts, and value added taxes and other sales taxes, which may be analysed as follows:

	Years ended 31 December			Four months ended 30 April	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Decorative base paper products	467,158	696,425	834,160	260,132	261,161
Printing paper product	–	–	116,684	–	76,857
	467,158	696,425	950,844	260,132	338,018

3 Other revenue

	Years ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interest income on financial assets not at fair value through profit or loss					
– Interest income from bank deposits	370	662	726	179	163

4 Profit before taxation

Profit before taxation is arrived at after charging:

	Years ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
(a) Finance costs:					
Interest on financial liabilities not at fair value through profit or loss					
– Interest on bank borrowings wholly repayable within five years	5,281	13,793	20,625	5,860	7,310
(b) Staff costs:					
Contributions to defined contribution retirement plans	1,366	1,612	2,058	520	1,056
Salaries, wages and other benefits	9,636	11,778	18,732	5,404	7,466
	11,002	13,390	20,790	5,924	8,522

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiary participates in a defined contribution retirement benefit scheme ("the Scheme") organised by the local authority whereby the PRC subsidiary is required to make contributions to the Scheme at a fixed amount announced annually by the municipal government. The municipal government is responsible for the entire pension obligations payable to the retired employees.

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees in Hong Kong under the jurisdiction of the Hong Kong Employment Ordinance. The assets of the MPF Scheme are held separately from those of the Group and administrated by an independent trustee. Under the MPF Scheme, both the Group and the employees are mandatory to make regular contributions into the MPF Scheme. The Group is required to contribute an amount equivalent to 5% of the employees' relevant income to the MPF scheme, subject to the maximum level of relevant income of HKD20,000 per month. Mandatory contributions to the MPF Scheme are vested immediately.

The Group has no other material obligation for the payment of pension benefits associated with the two schemes referred to above beyond the annual contributions described above.

	Years ended 31 December			Four months ended 30 April	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
(c) Other items:					
Loss on disposal of property, plant and equipment	–	–	–	–	6
Auditors' remuneration	5	5	6	2	45
Depreciation	19,856	29,737	47,983	11,855	18,838
Amortisation of lease prepayments	–	–	–	–	20
Operating lease charges in respect of leasehold land and properties	900	900	1,200	400	392

5 Income tax in the combined income statements

(a) Taxation in the combined income statements represents:

	Years ended 31 December			Four months ended 30 April	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Current tax					
– PRC income tax					
Provision for the year/period	24,023	35,460	48,755	14,542	–

(i) Pursuant to the rules and regulations of the Cayman Islands and BVI, the Group is not subject to any income tax in the Cayman Islands and BVI.

(ii) No provision has been made for Hong Kong Profits Tax as the Group did not have assessable profits subject to Hong Kong Profits Tax during the relevant period.

(iii) Pursuant to the income tax rules and regulations of the PRC, Shandong Qunxing is liable to PRC income tax at a rate of 33% for the years ended 31 December 2004, 2005 and 2006. As Shandong Qunxing became a foreign investment enterprise on 16 August 2006, it has been granted certain tax relief whereby it is fully exempted from PRC income tax for the two years starting from 1 January 2007 to 31 December 2008, followed by a reduced PRC income tax rate of 15% for the remaining three years from 1 January 2009 to 31 December 2011.

(iv) On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which will take effect on 1 January 2008. The PRC income tax rate is expected to gradually adjust to the standard rate of 25% over a five-year transition period. Production foreign investment enterprises which have not fully utilised their five-year tax holiday will be allowed to continue to receive the benefits of the full exemption or reduction in income tax rate during the five-year transition period. However, the new tax law has not set out the details as to how the existing preferential tax rate will gradually adjust to the standard rate of 25%. Consequently, the Group is not able to make an estimate of the expected financial effect of the new tax law. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Years ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Profit before taxation	68,379	103,794	142,692	40,366	67,637
Income tax on profit before taxation, calculated at the rates applicable in the countries concerned	22,565	34,252	47,131	13,321	22,413
Tax effect of tax concession period	–	–	–	–	(22,628)
Tax effect of non-deductible expenses	1,458	1,208	1,624	1,221	215
Income tax	24,023	35,460	48,755	14,542	–

6 Directors' remuneration

Details of directors' remuneration are set out below:

Year ended 31 December 2004

	Fees	Basic salaries, allowances and other benefits in kind	Contributions to retirement benefit scheme	Bonuses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Mr Zhu Mo Qun	–	85	3	–	88
Mr Zhu Yu Guo	–	97	3	–	100
Mr Sun Zhen Shui	–	–	–	–	–
Non-executive director					
Ms Sun Rui Fang	–	–	–	–	–
Independent non-executive directors					
Mr Zhao Wei	–	–	–	–	–
Mr Wang Lu	–	–	–	–	–
Mr Kwong Kwan Tong	–	–	–	–	–
Total	–	182	6	–	188

Year ended 31 December 2005

	Fees	Basic salaries, allowances and other benefits in kind	Contributions to retirement benefit scheme	Bonuses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Mr Zhu Mo Qun	–	85	3	–	88
Mr Zhu Yu Guo	–	97	3	–	100
Mr Sun Zhen Shui	–	–	–	–	–
Non-executive director					
Ms Sun Rui Fang	–	–	–	–	–
Independent non-executive directors					
Mr Zhao Wei	–	–	–	–	–
Mr Wang Lu	–	–	–	–	–
Mr Kwong Kwan Tong	–	–	–	–	–
Total	–	182	6	–	188

Year ended 31 December 2006

	Fees	Basic salaries, allowances and other benefits in kind	Contributions to retirement benefit scheme	Bonuses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Mr Zhu Mo Qun	–	97	3	–	100
Mr Zhu Yu Guo	–	121	3	–	124
Mr Sun Zhen Shui	–	–	–	–	–
Non-executive director					
Ms Sun Rui Fang	–	–	–	–	–
Independent non-executive directors					
Mr Zhao Wei	–	–	–	–	–
Mr Wang Lu	–	–	–	–	–
Mr Kwong Kwan Tong	–	–	–	–	–
Total	–	218	6	–	224

Four months ended 30 April 2006 *(unaudited)*

	Fees	Basic salaries, allowances and other benefits in kind	Contributions to retirement benefit scheme	Bonuses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Mr Zhu Mo Qun	–	32	1	–	33
Mr Zhu Yu Guo	–	40	1	–	41
Mr Sun Zhen Shui	–	–	–	–	–
Non-executive director					
Ms Sun Rui Fang	–	–	–	–	–
Independent non-executive directors					
Mr Zhao Wei	–	–	–	–	–
Mr Wang Lu	–	–	–	–	–
Mr Kwong Kwan Tong	–	–	–	–	–
Total	–	72	2	–	74

Four months ended 30 April 2007

	Fees	Basic salaries, allowances and other benefits in kind	Contributions to retirement benefit scheme	Bonuses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Mr Zhu Mo Qun	–	34	1	–	35
Mr Zhu Yu Guo	–	43	1	–	44
Mr Sun Zhen Shui	–	–	–	–	–
Non-executive director					
Ms Sun Rui Fang	–	–	–	–	–
Independent non-executive directors					
Mr Zhao Wei	–	–	–	–	–
Mr Wang Lu	–	–	–	–	–
Mr Kwong Kwan Tong	–	–	–	–	–
Total	–	77	2	–	79

During the relevant period, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 7 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the relevant period.

7 Individual with highest emoluments

Of the five individuals with the highest emoluments, two were also directors of the Company for the relevant period whose remuneration is disclosed in note 6 above. The remuneration in respect of the remaining individuals is as follows:

	Years ended 31 December			Four months ended 30 April	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Salaries and other emoluments	184	199	220	73	78
Contributions to retirement benefit scheme	8	8	8	3	3
	192	207	228	76	81

The emoluments of these individuals (pro-rated on a per annum basis for the four months ended 30 April) are within the following band:

	Number of individuals				
	Years ended 31 December			Four months ended 30 April	
	2004	**2005**	**2006**	**2006** *(unaudited)*	**2007**
RMB Nil to RMB1,000,000	3	3	3	3	3

8 Dividends

No dividend has been declared or paid by the Company since its incorporation.

Pursuant to an agreement on assignment of dividends dated 2 February 2007, all the dividends payable to Best Known, Double Nation and the Company from time to time with respect to their shares in their respective subsidiary are assigned and charged in favour of Industrial and Commercial Bank of China (Asia) Limited ("ICBC (Asia)") as security for the Bridging Loan Facilities granted by ICBC (Asia) to Boom Instant (see note 24 (c)(ii)).

9 Earnings per share

The calculation of basic earnings per share for the relevant period is based on the net profit attributable to the equity holders of the Company for each of the years ended 31 December 2004, 2005 and 2006 and the four months ended 30 April 2006 and 2007 and the 100,000,000 shares in issue as at the date of the Prospectus, and 650,000,000 shares to be issued pursuant to a capitalisation issue, as described under the section headed "Resolutions in writing of the sole Shareholder passed on 8 September 2007" in Appendix VI to the Prospectus, as if the shares had been outstanding throughout the entire relevant period.

There were no dilutive potential ordinary shares during the relevant period and, therefore, diluted earnings per share are not presented.

10 Property, plant and equipment

	Buildings	Plant and machinery	Motor vehicles	Furniture and fixtures	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:					
At 1 January 2004	26,126	147,896	825	2,442	177,289
Additions	–	–	110	38	148
Transfer from construction in progress *(note 11)*	10,325	153,163	–	–	163,488
At 31 December 2004	36,451	301,059	935	2,480	340,925
At 1 January 2005	36,451	301,059	935	2,480	340,925
Additions	–	–	–	108	108
At 31 December 2005	36,451	301,059	935	2,588	341,033
At 1 January 2006	36,451	301,059	935	2,588	341,033
Additions	–	4,170	499	457	5,126
Transfer from construction in progress *(note 11)*	12,410	261,995	–	–	274,405
At 31 December 2006	48,861	567,224	1,434	3,045	620,564
At 1 January 2007	48,861	567,224	1,434	3,045	620,564
Additions	–	192	485	99	776
Transfer from construction in progress *(note 11)*	–	16,000	–	–	16,000
Disposals	–	–	–	(140)	(140)
At 30 April 2007	48,861	583,416	1,919	3,004	637,200

	Buildings	Plant and machinery	Motor vehicles	Furniture and fixtures	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Accumulated depreciation:					
At 1 January 2004	1,274	20,779	229	930	23,212
Charge for the year	702	18,841	80	233	19,856
At 31 December 2004	1,976	39,620	309	1,163	43,068
At 1 January 2005	1,976	39,620	309	1,163	43,068
Charge for the year	866	28,541	89	241	29,737
At 31 December 2005	2,842	68,161	398	1,404	72,805
At 1 January 2006	2,842	68,161	398	1,404	72,805
Charge for the year	1,093	46,492	119	279	47,983
At 31 December 2006	3,935	114,653	517	1,683	120,788
At 1 January 2007	3,935	114,653	517	1,683	120,788
Charge for the period	387	18,305	45	101	18,838
Written back on disposal	–	–	–	(34)	(34)
At 30 April 2007	4,322	132,958	562	1,750	139,592
Net book value:					
At 31 December 2004	34,475	261,439	626	1,317	297,857
At 31 December 2005	33,609	232,898	537	1,184	268,228
At 31 December 2006	44,926	452,571	917	1,362	499,776
At 30 April 2007	44,539	450,458	1,357	1,254	497,608

All of the Group's buildings are situated in the PRC.

The following items of property, plant and equipment are pledged to secure certain bank loans (note 17) granted to the Group.

	As at 31 December			As at 30 April
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net book value of pledged assets:				
Plant and machinery	–	–	342,293	372,264

11 Construction in progress

	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	39,199	–	132,411	16,000
Additions	124,289	132,411	157,994	–
Transfer to property, plant and equipment *(note 10)*	(163,488)	–	(274,405)	(16,000)
At 31 December/ 30 April	–	132,411	16,000	–

Construction in progress comprises costs incurred on buildings and plant and machinery not yet completed at the respective balance sheet dates.

12 Lease prepayments

	2007
	RMB'000
Cost:	
Additions	10,980
At 30 April	10,980
Accumulated amortisation:	
Charge for the period	20
At 30 April	20
Net book value:	
At 30 April	10,960

Lease prepayments represent prepayments for land use rights in the PRC, which expire in 2053.

13 Inventories

(a) Inventories in the combined balance sheets comprise:

	As at 31 December			As at 30 April
	2004	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials and consumables	12,533	10,762	30,426	19,854
Finished goods	20,591	27,603	20,563	15,016
	33,124	38,365	50,989	34,870

(b) An analysis of the amount of inventories recognised as an expense is as follows:

	Years ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Cost of inventories sold	382,497	563,115	766,727	207,915	255,547

14 Trade and other receivables

	As at 31 December			As at 30 April
	2004	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	39,341	64,116	80,478	63,388
Prepayments, deposits and other receivables	149	141	1,307	2,959
	39,490	64,257	81,785	66,347

(a) Ageing analysis

All of the trade and other receivables are expected to be recovered within one year. The Group's credit policy is set out in note 23(a). The Group generally grants credit periods of 30 days from the date of billing to its trade customers. An ageing analysis of the gross trade receivables as of the balance sheet date is as follows:

	As at 31 December			As at 30 April
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current	39,341	62,917	79,226	63,388
Less than one month past due	–	1,199	1,252	–
	39,341	64,116	80,478	63,388

(b) Impairment of trade receivables

Based on past experience, the Group believes that no impairment allowance is necessary in respect of trade receivables that are aged within three months. The Group has made no impairment provisions for trade and other receivables for the years ended 31 December 2004, 2005 and 2006 and four months ended 30 April 2007.

15 Restricted bank balance

As part of the bridging loan arrangement (see note 24 (c)(ii)), Shandong Qunxing, Industrial and Commercial Bank of China Limited, Zouping sub-branch ("ICBC Zouping") and ICBC (Asia) have signed an account control agreement for the joint-control of the deposit of Shandong Qunxing in the account with ICBC Zouping by the parties thereto. The balance standing to the credit of the Shandong Qunxing account with ICBC Zouping shall not, without the prior written consent of ICBC (Asia) Limited, be less than RMB20,000,000 at any and all times during the loan period. The bank deposit of RMB20,000,000 placed in the aforementioned account as at 30 April 2007 is restrictive in usage. The restricted bank balance can only be released upon the receipt of written notice from ICBC (Asia) to Boom Instant.

16 Cash and cash equivalents

	As at 31 December			As at 30 April
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at bank and in hand	51,983	65,568	67,265	58,224
Cash and cash equivalent in the combined balance sheets and combined cash flow statements	51,983	65,568	67,265	58,224

As at 31 December 2004, 2005 and 2006 and 30 April 2007, cash in hand and cash placed with banks in the PRC and included in the cash and cash equivalent above amounted to RMB51,983,000, RMB65,568,000, RMB67,257,000 and RMB55,410,000 respectively. Remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

17 Bank loans

The bank loans were repayable as follows:

	As at 31 December			As at 30 April
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	127,200	250,200	332,000	204,000
After 1 year but within 2 years	–	–	–	83,000
	127,200	250,200	332,000	287,000
Representing:				
Secured bank loans:				
– secured by property, plant and equipment *(note 10)*	–	–	187,000	217,000
Unsecured bank loans:				
– guaranteed by a related party *(note 25)*	127,200	250,200	145,000	70,000
	127,200	250,200	332,000	287,000

The bank loans as at 31 December 2004, 2005 and 2006 and 30 April 2007 were interest bearing at rates ranging from 6.13% to 9.56%, 6.13% to 9.56%, 6.13% to 8.93% and 5.58% to 8.95% per annum respectively.

18 Trade and other payables

	As at 31 December			As at 30 April
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	26,626	31,698	53,979	49,683
Other payables and accruals	13,074	80,187	25,034	16,473
	39,700	111,885	79,013	66,156

Included in trade and other payables are trade payables with the following ageing analysis as of the balance sheet date. The credit periods granted by various suppliers generally range from 3 days to 30 days.

	As at 31 December			As at 30 April
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 30 days	26,626	31,698	53,979	49,683

All of the trade and other payables are expected to be settled within one year.

19 Amounts due from/(to) related parties and controlling shareholders of the Company

(i) The amounts due to controlling shareholders of the Company as at 31 December 2004 and 30 April 2007 were advances from the controlling shareholders of the Company which were unsecured, interest-free and had no fixed repayment terms.

(ii) The amounts due to controlling shareholders of the Company as at 31 December 2006 mainly represented the consideration for the acquisition of the entire share capital of Shandong Qunxing, as set out in Section B. The balances were unsecured, interest-free and had fixed repayment terms due within one year.

(iii) Amounts due from related parties and controlling shareholders of the Company represented operating expenses paid by the Group on their behalf. The balances were unsecured, interest-free and recoverable on demand.

(iv) Amounts due to related parties represented listing fees and operating expenses paid by the related parties on behalf of the Group. The balances were unsecured, interest-free and repayable on demand.

(v) The amounts due from/(to) related parties and controlling shareholders of the Company as at 30 April 2007 have been recovered/settled prior to the listing of the Company's shares on the Stock Exchange.

20 Income tax in the combined balance sheets

(a) Current taxation in the combined balance sheets represents:

	As at 31 December			As at 30 April
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Provision for PRC income tax for the year/period	24,023	35,460	48,755	–
Balance of PRC income tax relating to prior years	8,991	14,686	17,549	21,671
PRC income tax paid	(18,328)	(32,597)	(44,633)	(26,036)
	14,686	17,549	21,671	(4,365)
Representing:				
Tax payable	14,686	17,549	21,671	–
Tax recoverable	–	–	–	(4,365)
	14,686	17,549	21,671	(4,365)

(b) There were no significant unrecognised deferred tax assets or liabilities as at 31 December 2004, 2005 and 2006 and 30 April 2007.

21 Share capital

For the purpose of this report, share capital in the combined balance sheets as at 31 December 2004 and 2005 represents the paid-in capital of Shandong Qunxing.

Share capital in the combined balance sheets as at 31 December 2006 represents the aggregate amount of paid-in capital of the companies now comprising the Group and the nominal value of the share capital of the Company, after elimination of investments in subsidiaries.

Share capital in the combined balance sheets as at 30 April 2007 represents the nominal value of the share capital of the Company.

(a) Capital injection

Double Nation was incorporated on 18 May 2006 with issued share capital of USD100 comprising 100 shares of USD1 each, which were issued at par.

The Company was incorporated on 5 September 2006 with issued share capital of HKD100,000 comprising 1,000,000 shares of HKD0.1 each, which were issued at par.

(b) Capitalisation issue upon Reorganisation

On 29 January 2007, the Company acquired the entire share capital of Double Nation from the holding company, Boom Instant Limited ("Boom Instant") for a consideration of RMB996,000. The acquisition was satisfied by a waiver of an amount due from Boom Instant of RMB99,000 and the allotment of 9,000,000 shares of HKD0.1 each.

(c) Capitalisation issue

Pursuant to the written resolutions of the shareholders of the Company passed on 16 April 2007, the Board had passed a resolution to capitalise an amount due to Boom Instant of RMB191,258,000 by the allotment of 90,000,000 shares of HKD0.1 each, credited as fully paid. Upon the issue of the said shares, the amount due to Boom Instant of RMB191,258,000 was extinguished and cancelled.

22 Reserves

(a) Share premium

Share premium at 30 April 2007 represents the share premium of the Company.

(b) Capital reserve

The opening balance of capital reserve represents the advance from a controlling shareholder of the Company, Mr Zhu Yu Guo. Prior to 1 January 2004, Mr Zhu Yu Guo agreed to waive repayment of the advance by the PRC subsidiary and the balance was recognised as a deemed capital contribution.

On 28 December 2005, the shareholders of the PRC subsidiary passed a resolution to transfer the retained profits of the PRC subsidiary as of 31 December 2005 to capital reserve. On 12 March 2006, the shareholders of the PRC subsidiary passed a supplementary resolution to transfer RMB112,877,000 from retained profits to the capital reserve.

The capital reserve is not distributable.

(c) Statutory reserves

Transfers from retained profits to the statutory reserve were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiary incorporated in the PRC and were approved by its board of directors.

(i) Statutory surplus reserve

The PRC subsidiary is required to transfer 10% of its net profit, as determined in accordance with the PRC accounting rules and regulations, to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders.

The statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

(ii) Statutory public welfare fund

For the period from 1 January 2004 to 16 August 2006, the date on which the PRC subsidiary transformed into a wholly foreign owned enterprise, the PRC subsidiary was required to transfer 5% of its net profit, as determined in accordance with the PRC accounting rules and regulations, to the statutory public welfare fund. This fund can only be utilised for capital items for the collective benefit of the PRC subsidiary's employees such as the construction of dormitories or a canteen and other staff welfare facilities. This fund is non-distributable other than on liquidation. The transfer to this fund must be made before the distribution of a dividend to shareholders.

According to the revised Company Law of the PRC effective on 1 January 2006, appropriation to the statutory public welfare fund is no longer required.

(d) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the PRC which are dealt with in accordance with the accounting policies as set out in note 1(r).

(e) Distributable reserves

The Company was incorporated on 5 September 2006 and has not carried out any business since the date of its incorporation. Accordingly, there were no reserves available for distribution to shareholders as at 30 April 2007.

On the basis set out in Section A above, the aggregate amounts of distributable reserves at 31 December 2004, 2005 and 2006 and 30 April 2007 of the companies comprising the Group were RMB53,645,000, RMB Nil, RMB71,395,000 and RMB139,032,000 respectively.

23 Financial instruments

This note presents information about the Group's exposure to credit, liquidity, interest rate, commodity price and currency risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the Group's trade and other receivables and deposits with banks.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Board has established a credit policy under which credit evaluations are performed on all customers requiring credit. These receivables are due within 30 days from the date of billing. Debtors with balances that are more than one month from the date of billing are requested to settle all outstanding balances before any further credit is granted. The Group does not collect collateral in respect of trade and other receivables.

At the balance sheet date, the Group has a certain concentration of credit risk as 6.1%, 5.5%, 28.9% and 18.8% and 26.1%, 24.1%, 45.7% and 36.2% of the total trade receivables were due from the Group's largest trade debtors and the five largest trade debtors as at 31 December 2004, 2005 and 2006 and 30 April 2007 respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the combined balance sheets.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 14.

(ii) Deposits with bank

The Group limits its exposure to credit risk by placing deposits with financial institutions that meet the established credit rating or other criteria. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's net current liabilities amounted to RMB176,949,000, RMB211,397,000, RMB426,938,000 and RMB91,464,000 as at 31 December 2004, 2005 and 2006 and 30 April 2007 respectively. The Group recorded a net cash inflow from operating activities of approximately RMB67,482,000, RMB92,611,000, RMB158,315,000 and RMB108,906,000 for the years ended 31 December 2004, 2005 and 2006 and the four months ended 30 April 2007 respectively. For the same period, the Group had a net cash outflow in respect of investing activities of RMB142,565,000, RMB68,226,000, RMB217,825,000 and RMB43,371,000 respectively. The Group also recorded a net cash inflow/ (outflow) in respect of financing activities of RMB90,879,000, (RMB10,800,000), RMB61,207,000 and (RMB74,576,000) respectively. The Group had an increase in cash and cash equivalents of approximately RMB15,796,000, RMB13,585,000 and RMB1,697,000 for the years ended 31 December 2004, 2005 and 2006 respectively and a decrease in cash and cash equivalents of approximately RMB9,041,000 for the four months ended 30 April 2007.

The directors of the Company have carried out a detailed review of the cash flow forecast of the Group for the twenty-four months ending 31 December 2008. Based on such forecast, the directors have determined that adequate liquidity exists to finance the working capital and capital expenditure requirements of the Group during that period. The directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

The following table shows the time periods after the balance sheet date during which contractual payments, presented on an undiscounted basis, are due to be made. These payments include, among others, interest payments computed using contractual rates (for fixed rate instruments) under the Group's non-derivative financial liabilities which are due to be paid.

	As at 31 December									As at 30 April			
	2004			2005			2006			2007			
	Carrying amount	Total contracted undiscounted cash flow	Within 1 year or on demand	Carrying amount	Total contracted undiscounted cash flow	Within 1 year or on demand	Carrying amount	Total contracted undiscounted cash flow	Within 1 year or on demand	Carrying amount	Total contracted undiscounted cash flow	Within 1 year or on demand	More than 1 year but within 2 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other payables	39,700	(39,700)	(39,700)	111,885	(111,885)	(111,885)	79,013	(79,013)	(79,013)	66,156	(66,156)	(66,156)	–
Amounts due to controlling shareholders of the Company	119,986	(119,986)	(119,986)	–	–	–	194,491	(194,491)	(194,491)	140	(140)	(140)	–
Amounts due to related parties	–	–	–	–	–	–	–	–	–	5,270	(5,270)	(5,270)	–
Bank loans	127,200	(131,523)	(131,523)	250,200	(257,172)	(257,172)	332,000	(339,839)	(339,839)	287,000	(310,734)	(220,407)	(90,327)

(c) Interest rate risk

The interest rates and maturity information of the Group's bank loans are disclosed in note 17. The Group's policy is to manage its interest rate risk to ensure there are no undue exposures to significant interest rate movements and rates are approximately fixed. The Group does not account for any fixed rate financial liabilities at fair value through profit or loss, and the Group does not use derivative financial instruments to hedge its debt obligations. Therefore, a change in interest rates at the balance sheet date would not affect profit or loss.

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier:

	As at 31 December						As at 30 April			
	2004		2005		2006		2007			
	Effective interest rate	One year or less *RMB'000*	Effective interest rate	One year or less *RMB'000*	Effective interest rate	One year or less *RMB'000*	Effective interest rate	One year or less *RMB'000*	One to two years *RMB'000*	Total *RMB'000*
Repricing dates for assets which reprice before maturity										
Cash at bank	0.72%	51,817	0.72%	65,499	0.72%	67,190	0.60%	58,189	–	58,189
Restricted bank deposit	–	–	–	–	–	–	0.72%	20,000	–	20,000
		51,817		65,499		67,190		78,189	–	78,189
Maturity dates for liabilities which do not reprice before maturity										
Bank loans	6.59%	127,200	6.61%	250,200	6.42%	332,000	6.94%	204,000	83,000	287,000

(d) Business risk

The Group's sales of printing paper product are principally to one customer. Although the Group has entered into a co-operative agreement with this customer, there can be no assurance that this customer will continue to purchase from the Group as and when needed. In the event that this customer ceased to purchase printing paper product from the Group and the Group could not secure orders from other customers, the Group's turnover and profitability would be adversely affected.

The Group's purchases of raw materials are primarily from several major suppliers. The Group has a certain concentration of business risk as 58%, 58%, 63% and 80% of the total purchases were from the Group's five largest suppliers for the years ended 31 December 2004, 2005 and 2006 and the four months ended 30 April 2007 respectively. If the Group could not purchase adequate quantities of materials from these suppliers and failed to identify alternative sources, the Group's turnover and profitability could be adversely affected.

(e) Commodity price risk

The major raw materials used in the production of the Group's products include wood pulp and titanium dioxide powder. The Group is exposed to fluctuations in the prices of wood pulp and titanium dioxide powder which are influenced by global as well as regional supply and demand conditions. Fluctuations in the price of wood pulp and titanium dioxide powder could adversely affect the Group's financial performance. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

(f) Foreign currency risk

As most of the Group's monetary assets and liabilities are denominated in Renminbi and the Group conducts its business transactions principally in Renminbi, the exchange rate risk of the Group is not significant and the Group does not employ any financial instruments for hedging purposes.

(g) Fair values

As stated in note 19, the amounts due to controlling shareholders of the Company as at 31 December 2004 and 30 April 2007 are interest-free and have no fixed repayments terms. Given these terms it is not meaningful to disclose fair values. All other financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2004, 2005 and 2006 and 30 April 2007.

(h) Capital management

The Group's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business. The Group defines the capital of the Group as the total shareholders' equity.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

24 Commitments and contingent liabilities

(a) Operating leases

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December			As at 30 April
	2004	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	900	800	1,200	751
After 1 year but within 5 years	3,200	3,200	4,800	2,400
Over 5 years	3,122	2,322	3,522	4,850
	7,222	6,322	9,522	8,001

The Group is the lessee in respect of leasehold land and properties held under operating leases. The leases typically run for an initial period of 10 years, with an option to renew the leases upon expiry when all terms are renegotiated. None of the lease includes contingent rentals.

(b) Capital commitments

Capital commitments outstanding at 31 December 2004, 2005 and 2006 and 30 April 2007 not provided for in the Financial Information were as follows:

	As at 31 December			As at 30 April
	2004	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted for	–	118,589	–	150,102
Authorised but not contracted for	–	20,000	–	30,000
	–	138,589	–	180,102

(c) Contingent liabilities

(i) Environmental contingencies

To date, the Group has not incurred any significant expenditure for environmental remediation, is currently not involved in any environmental remediation and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that could have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved, and may move further towards more rigorous enforcement of applicable laws, and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include i) the exact nature and extent of the contamination, ii) the extent of required cleanup efforts, iii) varying costs of alternative remediation strategies, iv) changes in environmental remediation requirements, and v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed or future environmental legislation cannot reasonably be estimated at present and could be material.

(ii) Bridging loan facility granted to the holding company

As at 30 April 2007, the following items/assets of the Group were assigned and charged in favour of ICBC (Asia) as security for a bridging loan of RMB210,362,000 granted by ICBC (Asia) to Boom Instant;

– dividends payable to Best Known, Double Nation and the Company from time to time with respect to their shares in their respective subsidiary (note 8);

– all assets of the Company, Double Nation and Best Known;

– the Company's rights, title, and interest in all of the issued share capital of Double Nation registered in the name of the Company;

– Double Nation's rights, title, and interest in all of the issued share capital of Best Known registered in the name of Double Nation; and

– Best Known's rights, title, and interest in the registered capital of and equity interest in Shandong Qunxing in respect to the paid up capital of RMB190,000,000 registered in the name of Best Known.

As part of the above bridging loan arrangement, Shandong Qunxing, ICBC Zouping and ICBC (Asia) had signed an account control agreement for the joint-control of the deposit of Shandong Qunxing in the account with ICBC Zouping by the parties thereto. The balance standing to the credit of the Shandong Qunxing account with ICBC Zouping shall not, without the prior written consent of ICBC (Asia) Limited, be less than RMB20,000,000 at any and all times during the loan period. The restricted bank balance can only be released upon the receipt of written notice from ICBC to Boom Instant.

According to the ICBC Loan Agreement dated 2 February 2007 entered into between Boom Instant and ICBC (Asia), Boom Instant had undertaken that it will fully repay the bridging loan due to ICBC (Asia) upon the listing of the Company's shares on the Stock Exchange.

According to the letter dated 28 August 2007 issued by ICBC (Asia) to Boom Instant, the above assets/items assigned and charged in favour of ICBC (Asia) will be released on or before the listing of the Company's shares on the Stock Exchange.

25 Material related party transactions

In addition to the related party information disclosed in note 19, the Group entered into the following material related party transactions.

During the relevant period, the directors are of the view that the following companies are related parties of the Group:

Name of party	**Relationship**
Addinsight Limited ("Addinsight")	Effectively 87.5% owned by Mr Zhu Yu Guo and 12.5% by Ms Sun Rui Fang, controlling shareholders of the Company
Be Broad Limited ("Be Broad")	Effectively 100% owned by Mr Zhu Mo Qun, a controlling shareholder of the Company
Boom Instant Limited ("Boom Instant")	Effectively 70% owned by Mr Zhu Yu Guo, 20% by Mr Zhu Mo Qun, 10% by Ms Sun Rui Fang, controlling shareholders of the Company

Name of party	Relationship
Shandong Changxing Group Limited ("SD Changxing")* (山東長星集團有限公司)	Effectively 55% owned by Mr Zhu Yu Guo, 30% by Mr Zhu Mo Qun and 15% by Ms Sun Rui Fang, controlling shareholders of the Company
ZouPing GuangHua Veneer Company Limited ("Guang Hua")* (鄒平光華板材有限公司)	Effectively 50% owned by Mr Zhu Yu Guo, 33% by Mr Zhu Mo Qun and 17% by Ms Sun Rui Fang, controlling shareholders of the Company
Jumbo Bonus Investments Limited ("Jumbo Bonus")	Effectively 70% owned by Mr Zhu Yu Guo, 20% by Mr Zhu Mo Qun and 10% by Ms Sun Rui Fang, controlling shareholders of the Company

* The English translation of the company names is for reference only. The official names of these companies are in Chinese.

(a) Recurring transactions

Particulars of significant transactions between the Group and the above related parties during the relevant period and expected to continue after the listing of the Company's shares on the Stock Exchange are as follows:

	Years ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Sale of decorative base paper products					
– Guang Hua	7,827	8,956	6,172	1,852	2,266
Lease of leasehold land and properties					
– SD Changxing	–	–	400	133	133
– Guang Hua	–	–	–	–	17

The directors of the Company are of the opinion that the above related party transactions were conducted on normal commercial terms and in the ordinary course of business. The directors have confirmed that the above transactions will continue in the future after the listing of the Company's shares on the Stock Exchange.

(b) *Non-recurring transactions*

(i) Particulars of significant transactions between the Group and the above related parties during the relevant period and expected to discontinue after the listing of the Company's shares on the Stock Exchanges are as follows:

	Years ended 31 December			Four months ended 30 April	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Lease of leasehold land and properties – Guang Hua	900	900	800	267	200

(ii) On 2 April 2007, the Group entered into an agreement with Guang Hua to acquire leasehold land located in the PRC at the prevailing market value of RMB10,980,000.

(iii) Certain bank loans of the Group totalling RMB127,200,000, RMB250,200,000, RMB145,000,000 and RMB70,000,000 as at 31 December 2004, 2005 and 2006 and 30 April 2007 respectively were guaranteed by SD Changxing. The above guarantees provided by the related party have been released subsequent to 30 April 2007.

The directors of the Company are of the opinion that the above related party transactions, excluding item (iii), were conducted on normal commercial terms and in the ordinary course of business. The directors have confirmed that the above non-recurring transactions will not be continued in the future after the listing of the Company's share on the Stock Exchange.

(c) Balances with related parties

As at the balance sheet dates, the Group had the following balances with related parties:

	As at 31 December			As at 30 April
	2004	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due from controlling shareholders of the Company				
– Mr Zhu Mo Qun	26	15	15	–
– Mr Zhu Yu Guo	–	32	–	–
	26	47	15	–
Amounts due from related parties				
– Addinsight	–	–	22	27
– Be Broad	–	–	17	22
– Boom Instant	–	–	118	221
– Jumbo Bonus	–	–	26	26
	–	–	183	296
Amounts due to controlling shareholders of the Company				
– Mr Zhu Mo Qun	–	–	99,160	–
– Mr Zhu Yu Guo	119,986	–	95,331	140
	119,986	–	194,491	140
Amounts due to related parties				
– Boom Instant	–	–	–	4,920
– SD Changxing	–	–	–	133
– Guang Hua	–	–	–	217
	–	–	–	5,270

(i) The amounts due from controlling shareholders of the Company as at 31 December 2004, 2005 and 2006 were advances to controlling shareholders. The maximum balance of the advances to controlling shareholders were in aggregate RMB40,000, RMB47,000, RMB86,000 and RMB36,000 for the years ended 31 December 2004, 2005 and 2006 and the four months ended 30 April 2007 respectively.

(ii) The amounts due to controlling shareholders of the Company as at 31 December 2004 were unsecured, interest-free and had no fixed repayment terms; whilst the amounts due to controlling shareholders of the Company as at 31 December 2006 were unsecured, interest-free and had fixed repayment terms due within one year.

The amounts due from related parties were unsecured, interest-free and were expected to be recovered within one year. There was no provision made against these amounts as at 31 December 2004, 2005 and 2006 and 30 April 2007.

(iii) All balances with related parties and the controlling shareholders of the Company as at 30 April 2007 have been subsequently settled.

(d) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 6 and certain of the highest paid employees as disclosed in note 7, is as follows:

	Years ended 31 December			Four months ended 30 April	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Short-term employee benefits	415	437	499	166	178
Contribution to retirement benefit schemes	15	15	15	5	7
	430	452	514	171	185

Total remuneration is included in "staff costs" (see note 4(b)).

26 The Company's balance sheet

The balance sheets of the Company were as follows:

	Note	As at 31 December 2006 RMB'000	As at 30 April 2007 RMB'000
Non-current assets			
Investment in a subsidiary	*(a)*	–	997
Current assets			
Prepayments	*(b)*	1,279	5,811
Amount due from holding company	*(c)*	100	–
Amount due from a subsidiary	*(d)*	–	190,657
		1,379	196,468
Current liabilities			
Amount due to holding company	*(e)*	–	2,684
Amounts due to subsidiaries	*(e)*	1,363	3,232
		1,363	5,916
Net current assets		16	190,552
NET ASSETS		16	191,549
Equity			
Share capital	*(f)*	102	9,894
Share premium	*(f)*	–	182,363
Accumulated losses		(84)	(107)
Exchange reserve		(2)	(601)
		16	191,549

(a) Investment in a subsidiary is stated at cost and details of the subsidiary as at 30 April 2007 are set out in Section A.

(b) Prepayments represent listing expenses prepaid by the Company.

(c) Amount due from holding company represents the unpaid share capital due from Boom Instant.

(d) Amount due from a subsidiary represents advance to a subsidiary which is unsecured, interest-free and has no fixed repayment terms.

(e) Amounts due to holding company and subsidiaries represent listing expenses and other operating expenses paid by the holding company and subsidiary on behalf of the Company.

(f) Share capital and share premium

	Share capital		Share
	No. of shares		**premium**
	('000)	*RMB'000*	*RMB'000*
Shares issued upon incorporation	1,000	102	–
At 31 December 2006	1,000	102	–
At 1 January 2007	1,000	102	–
Issue of shares pursuant to Reorganisation	9,000	897	–
Capitalisation issue	90,000	8,895	182,363
At 30 April 2007	100,000	9,894	182,363

The Company was incorporated in the Cayman Islands on 5 September 2006 as an exempted company with limited liability with an authorised share capital of HKD100,000, comprising 1,000,000 ordinary shares of HKD0.1 each, all of which were allotted and issued at par on 5 September 2006.

Pursuant to resolutions in writing on 29 January 2007, the authorised share capital of the Company was increased from HKD100,000 to HKD1,000,000,000 by the creation of an additional 9,999,000,000 shares of HKD0.1 each.

On 29 January 2007, the Company allotted and issued 9,000,000 shares to Boom Instant pursuant to the Reorganisation.

On 16 April 2007, the Company allotted and issued 90,000,000 shares of HKD0.1 each to Boom Instant for the capitalisation of the amount due to Boom Instant of RMB191,258,000.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

27 Ultimate controlling company

The Directors consider the ultimate controlling company of the Company as at 30 April 2007 to be Boom Instant Limited, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

28 Significant accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements 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 the Financial Information. The principal accounting policies are set forth in note 1. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the Financial Information.

(a) Impairment

If circumstances indicate that the carrying value of an asset may not be recoverable, the asset may be considered "impaired" and an impairment loss may be recognised in profit or loss. The carrying amounts of assets are reviewed at least annually in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of sales volumes, sales revenue and the amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volumes, sales revenue and the amount of operating costs.

(b) Write-down of inventories

The Group determines the write-down for obsolescence of inventories. These estimates are made with reference to aged inventories analyses, projections of expected future saleability of goods and management experience and judgement. Based on this review, a write-down of inventories will be made when the carrying amounts of inventories decline below their estimated net realisable value. Due to changes in market conditions, actual saleability of goods may be different from estimations and profit or loss could be affected by differences in this estimation.

(c) Depreciation

Property, plant and equipment is depreciated on a straight-line basis over the estimated useful lives of the relevant assets, after taking into account their estimated residual value, if any. The Group reviews the estimated useful lives of the assets annually in order to determine the amount of depreciation expenses to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets taking into account anticipated technological changes. The depreciation expenses for future periods are adjusted if there are significant changes from previous estimates.

(d) Going concern basis

Management makes an assessment of the Group's ability to continue as a going concern when preparing the Financial Information. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the balance sheet date. The degree of consideration depends on the facts in each case.

The Group is dependent upon the ongoing support of its banks to ensure that adequate bank borrowing facilities are available to meet the Group's future working capital and financing requirements. Management believes the Group is able to continue as a going concern after taking into account the bank borrowing facilities granted by its banks. Accordingly, management has prepared the Financial Information on a going concern basis. An adverse change in any of the above conditions would require the Financial Information to be prepared on an alternative authoritative basis and such basis, together with the fact that the Financial Information is not prepared on a going concern basis, would need to be disclosed. If the Group were unable to continue as a going concern, adjustments relating to the recoverability and classification of recorded asset amounts or classification of liabilities may need to be incorporated in the Financial Information.

29 Possible impact of amendments, new standards and interpretations issued but not yet effective for the relevant period

Up to the date of issue of this Accountants' Report, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the relevant period and which have not been adopted in this Accountants' Report.

Of these developments, the following relate to matters that may be relevant to the Group's operations and the Financial Information:

		Effective for accounting periods beginning on or after
IFRS 8	Operating segments	1 January 2009
IAS 23 (March 2007)	Borrowing costs	1 January 2009
IFRIC 11	IFRS 2 – Group and treasury share transactions	1 March 2007
IFRIC 12	Service Concession Arrangements	1 January 2008

The directors have confirmed that the Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

D SUBSEQUENT EVENTS

The following significant events took place subsequent to 30 April 2007:

(a) Share option scheme

Pursuant to a resolution in writing passed by the sole shareholder of the Company on 8 September 2007, the Company has conditionally adopted a share option scheme, whereby the directors of the Company may, at their discretion, invite any full time employees and directors of the Group and consultants of and advisors to the Group (subject to eligibility requirements as set out therein) to take options which entitle them to subscribe for shares representing up to a maximum of 10 percent of the shares of the Company in issue from time to time. The principal terms of the share option scheme are set out in Appendix VI to the Prospectus.

(b) Valuation of properties

For the purpose of the listing of the Company's shares on the Stock Exchange, the Group's properties were revalued as at 30 June 2007 by LCH (Asia-Pacific) Surveyors Limited, an independent firm of surveyors.

The valuation gave rise to a revaluation surplus of approximately RMB4,094,000 over the carrying amount of the relevant assets at that date. Such revaluation surplus will not be incorporated in the financial statements subsequently prepared for the year ending 31 December 2007. Details of the valuation are set out in Appendix IV to the Prospectus.

(c) Reschedule of short-term bank loans

In May 2007, the Group rescheduled the repayment terms of certain short-term bank borrowings amounting to RMB124,000,000. The repayment date of these short-term bank borrowings has been extended to May 2009.

(d) Purchase of land use rights

On 8 May 2007, the Group entered into an agreement with Guang Hua to acquire a piece of leasehold land located in the PRC at the prevailing market value of RMB461,000.

E SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 April 2007.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

The information set forth in this appendix does not form part of the Accountants' Report prepared by KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, as set forth in Appendix I to this prospectus, and is included herein for illustrative purposes only.

The Unaudited Pro Forma Financial Information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set forth in Appendix I to this prospectus.

(A) UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

For illustrative purpose only, the following statement of unaudited pro forma adjusted net tangible assets of the 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 the Group as at 30 April 2007 as if the Share Offer had occurred on 30 April 2007 and is based on the combined net assets derived from the audited Financial Information of the Group as at 30 April 2007, as set out in Appendix I to this prospectus and adjusted as follows.

The unaudited pro forma adjusted net tangible assets of the Group has been prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the financial position of the Group.

	Audited combined net assets of the Group as at 30 April 2007 *(RMB'000)*	**Lease prepayments as at 30 April 2007** *(RMB'000)*	**Estimated net proceeds from the New Issue** *(RMB'000)*	**Unaudited pro forma adjusted net tangible assets** *(RMB'000)*	**Unaudited pro forma adjusted net tangible assets per share** *(RMB)*
Based on the maximum indicative Offer Price of HK$5.35 per Offer Share	350,782	(10,960)	1,281,918	1,621,740	1.62
Based on the minimum indicative Offer Price of HK$4.10 per Offer Share	350,782	(10,960)	977,259	1,317,081	1.32

Notes:

1. In accordance with the Group's accounting policies, leasehold land is up-front payments made to acquire the right of use of a long-term interest in land. These prepayments 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.

   As at 30 June 2007, LCH (Asia-Pacific) Surveyors Limited (the "Valuer"), an independent property valuer, performed an independent valuation for the Group's leasehold land and buildings and structures based on market value and depreciated replacement cost. The Valuer reported valuation of the land and buildings and structures at an amount of RMB59,820,000 as at 30 June 2007 and the revaluation surplus was RMB4,094,000. The Group will not account for these revaluation surpluses in its financial statements for the year ending 31 December 2007 according to its accounting policies. If they were accounted for, increases in amortisation and depreciation of approximately RMB5,000 and RMB50,000 respectively would have been recognised for the financial year ending 31 December 2007.

2. The estimated net proceeds from the New Issue are based on the maximum and minimum indicative Offer Price of HK$5.35 and HK$4.10 per Offer Share, respectively, after deduction of the underwriting fees and other related expenses payable by the Company 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.

3. The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to above and on the basis that 1,000,000,000 Shares (including the Shares in issue as at 30 April 2007, Shares under the Capitalisation Issue and the Share Offer) 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) UNAUDITED PRO FORMA FULLY DILUTED FORECAST EARNINGS PER SHARE

The following unaudited pro forma fully diluted forecast earnings per share for the financial year ending 31 December 2007 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Share Offer as if it had taken place on 30 April 2007. This unaudited pro forma fully diluted forecast earnings per share has been prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the financial results of the Group following the Share Offer.

Forecast combined profit attributable to the equity holders for the year ending 31 December 2007 [(1)]	not less than RMB210.0 million (equivalent to approximately HK$216.3 million)
Unaudited pro forma forecast earnings per Share – fully diluted[(2)]	not less than RMB0.210 (equivalent to approximately HK$0.216)

Notes:

1. The unaudited forecast combined profit attributable to equity holders of the Company for the financial year ending 31 December 2007 is extracted from the section headed "Financial information – Profit Forecast for the Financial Year Ending 31 December 2007" in this prospectus. The bases and assumptions on which the above profit forecast has been prepared are summarised in Appendix III to this prospectus.

   The forecast combined profit attributable to equity holders of the Company for the financial year ending 31 December 2007 is based on the audited combined results of the Group for the four months ended 30 April 2007, the unaudited management accounts of the Group for the three months ended 31 July 2007, and a forecast of the combined results of the Group for the remaining five months ending 31 December 2007.

2. The calculation of the unaudited forecast earnings per Share on a pro forma fully diluted basis is based on the forecast combined profit attributable to equity holders of the Company for the financial year ending 31 December 2007 assuming that the Company had been listed on the Main Board since 1 January 2007 and a total of 1,000,000,000 Shares (including the Shares in issue as at 30 April 2007, Shares under the Capitalisation Issue and the Share Offer) had been in issue during that financial year, but does not take into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme or which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of the Shares referred to under the paragraph headed "Resolutions in writing of the sole Shareholder passed on 8 September 2007" in Appendix VI to this prospectus.

(C) COMFORT LETTER ON UNAUDITED PRO FORMA FINANCIAL INFORMATION RELATING TO THE PRO FORMA ADJUSTED NET TANGIBLE ASSETS AND PRO FORMA FULLY DILUTED FORECAST EARNINGS PER SHARE

The following is the text of a report received from our reporting accountants, KPMG, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this prospectus, in respect of the additional unaudited pro forma financial information of our Group.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

17 September 2007

The Directors
Qunxing Paper Holdings Company Limited
ICEA Capital Limited
Access Capital Limited

Dear Sirs,

We report on the unaudited pro forma statement of adjusted net tangible assets and unaudited pro forma fully diluted forecast earnings per share ("the Unaudited Pro Forma Financial Information") of the Company and its subsidiaries (collectively referred to as the "Group") set out in Parts (A) and (B) of Appendix II to the prospectus dated 17 September 2007 ("the Prospectus"), which has been prepared by the directors of the Company solely for illustrative purposes to provide information about how the share offer might have affected the financial information presented. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Parts (A) and (B) of Appendix II to the Prospectus.

RESPONSIBILITIES

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Paragraph 4.29 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 ("HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29 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 work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements ("HKSIR") 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma 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 purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 30 April 2007 or any future date; or
- the earnings per share of the Group for the year ending 31 December 2007 or any future periods.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company's Shares, the application of those net proceeds, or whether such use will actually take place as described under "Use of Proceeds" set out in the section headed "Future Plans and Use of Proceeds" as set out in the Prospectus.

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 4.29(1) of the Listing Rules.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

The forecast of our combined profit attributable to equity holders of the Company for the financial year ending 31 December 2007 is set forth in the section headed "Financial information" in this prospectus.

(A) BASES AND ASSUMPTIONS

Our Directors have prepared the forecast of our combined profit attributable to equity holders of the Company for the financial year ending 31 December 2007 based on the audited combined results of the Group for the four months ended 30 April 2007, the unaudited combined results based on management accounts of the Group for the three months ended 31 July 2007 and a forecast of the combined results of the Group for the remaining five months ending 31 December 2007.

The profit forecast has been prepared on the basis of accounting policies consistent in all material respects with those currently adopted by our Group as summarised in the accountants' report, the text of which is set out in Appendix I to this prospectus.

Our Directors have made the following principal assumptions in the preparation of the profit forecast:–

– there will be no material change in the existing political, legal, fiscal or economic conditions in the PRC, Hong Kong or any of the countries in which we carry on our business;

– there will be no material changes in the bases or rates of taxation or duties in the PRC or any of the countries in which we operate or in which we are incorporated or registered;

– there will be no material changes in foreign currency exchanges rates, interest rates and inflation rates from those currently prevailing; and

– there will be no material changes in the legislation or regulations in the PRC and Hong Kong or any of the countries in which we operate or in which we are incorporated or registered, which will affect our business.

(B) LETTER FROM THE REPORTING ACCOUNTANTS

Set out below is the text of a letter from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong for the purpose of incorporation in this prospectus in connection with the profit forecast for the financial year ending 31 December 2007.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

The Directors
Qunxing Paper Holdings Company Limited
ICEA Capital Limited
Access Capital Limited

17 September 2007

Dear Sirs,

We have reviewed the accounting policies and calculations adopted in arriving at the forecast combined profit attributable to the equity holders of Qunxing Paper Holdings Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the financial year ending 31 December 2007 (the "Forecast"), for which the directors of the Company (the "Directors") are solely responsible, as set out under "Profit forecast for the financial year ending 31 December 2007" in the section headed "Financial Information" in the prospectus of the Company dated 17 September 2007 (the "Prospectus").

The Forecast has been prepared by the Directors based on the audited combined results of the Group for the four months ended 30 April 2007, the unaudited management accounts of the Group for the three months ended 31 July 2007 and a forecast of the combined results of the Group for the remaining five months ending 31 December 2007.

In our opinion, so far as the accounting policies and calculations are concerned, the Forecast has been properly compiled on the bases and assumptions adopted by the Directors as set out in Appendix III to the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our Accountants' Report dated 17 September 2007, the text of which is set out in Appendix I of the Prospectus.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

(ii) Letter from the Joint Sponsors

ICEA
A subsidiary of ICBC

ACCESS CAPITAL

17 September 2007

The Directors
Qunxing Paper Holdings Company Limited

Dear Sirs,

We refer to the forecast of the combined profit attributable to the equity holders of Qunxing Paper Holdings Company Limited (the "Company") for the financial year ending 31 December 2007 (the "Forecast") as set out in the paragraph headed "Profit forecast for the financial year ending 31 December 2007" under the section headed "Financial information" in the prospectus of the Company dated 17 September 2007 (the "Prospectus").

The Forecast, for which you as the directors of the Company (the "Directors") are solely responsible, has been prepared based on the audited combined accounts of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the four months ended 30 April 2007, the unaudited combined management accounts of the Group for the three months ended 31 July 2007 and a forecast of the combined results of the Group for the remaining five months ending 31 December 2007.

We have discussed with you the bases and assumptions, as set forth in part (A) of Appendix III to the Prospectus, upon which the Forecast has been made. We have also considered the letter dated 17 September 2007 addressed to yourselves and ourselves from KPMG regarding the accounting policies and calculations upon which the Forecast has been made.

On the basis of the foregoing, the bases and assumptions made by you and the accounting policies and calculations adopted by you and reviewed by KPMG, we are of the opinion that the Forecast, for which you as the Directors are solely responsible, has been made after due and careful enquiry and consideration.

Yours faithfully,
For and on behalf of
ICEA Capital Limited
Adrian Tsang
Executive Director

Yours faithfully,
For and on behalf of
Access Capital Limited
Ambrose Lam
Chairman

The following is the text of a letter, summary of values and valuation certificate, prepared for the purpose of incorporation in this prospectus received from LCH (Asia-Pacific) Surveyors Limited, an independent property valuer, in connection with its valuation on our property interests as at 30 June 2007.

利駿行測量師有限公司
LCH (Asia-Pacific) Surveyors Limited
CHARTERED SURVEYORS
PLANT AND MACHINERY VALUERS
BUSINESS & FINANCIAL SERVICES VALUERS

The readers are reminded that the report which follows has been prepared in accordance with the guidelines set by the HKIS Valuation Standards on Properties, First Edition, 2005 (the "HKIS Standards") published by the Hong Kong Institute of Surveyors (the "HKIS") and entitles the valuer to make assumptions which may on further investigation, for instance by the readers' legal representative, prove to be inaccurate. Any exception is clearly stated below. Headings are inserted for convenient reference only and have no effect in limiting or extending the language of the paragraphs to which they referred.

17th Floor
Champion Building
Nos. 287–291 Des Voeux Road
Central
Hong Kong

17 September 2007

The Directors
Qunxing Paper Holdings Company Limited
Unit 23, 7th Floor
Nan Fung Commercial Centre
No. 19 Lam Lok Street
Kowloon
Hong Kong

Dear Sirs,

In accordance with the instructions given by the management of Qunxing Paper Holdings Company Limited (hereinafter referred to as the "Company") to us to value the properties in which the Company and its subsidiaries (hereinafter together with the Company referred to as the "Group") have interests in Hong Kong and in the People's Republic of China (hereinafter referred to as the "PRC" or "China"), we confirm that we have made relevant enquiries and obtained such further information as we consider necessary to support our opinion of values of the properties as at 30 June 2007 (hereinafter referred to as the "Date of Valuation") for the purpose of incorporation in this prospectus and for the Company's shareholders' reference.

This summary report (including this letter, the attached summary of values and valuation certificate) forms part of our detailed valuation report of the properties as at today's date. We understand that the use of our work product (regardless of form of presentation) would form part of the Company's business due diligence to the properties and we have not been engaged to make specific sale or purchase recommendations. We further understand that the use of our work product will not supplant other due diligence which a rational investor should conduct in reaching business decisions regarding the properties.

BASIS OF VALUATION AND ASSUMPTIONS

According to the International Valuation Standards (hereinafter referred to as the "IVS"), Seventh Edition, 2005 published by the International Valuation Standards Committee, which the HKIS Standards also follows, there are two valuation bases, namely market value basis and valuation basis other than market value. In this engagement, we are instructed to have our opinion of values of the properties on the market value basis.

The term "Market Value" is defined as "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".

Our valuations have been made on the assumptions, that

1. the legally interested party in each of the properties of Group I sells the property in the market in its existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which would serve to increase the value of the property;

2. the legally interested party in each of the properties has free and uninterrupted rights to assign (for Group I properties) or to use (for Group II and Group III properties) the property interests for the whole of the unexpired terms as granted or rented and any premiums payable have already been fully paid; and

3. that each of the properties in Group I can be freely disposed and transferred free of all encumbrances at the Date of Valuation for its existing uses in the market to both local and overseas purchasers without payment of any premium to the government.

Should this not be the case, it will have an adverse impact to the values as reported.

Based on the purpose of this engagement and the market value basis of valuation, the management of the Group was requested to provide us the necessary documents to support that the Group is the legally interested party in the properties and has free and uninterrupted rights to assign, to mortgage or to let the property interests (in this instance, an absolute title) for the whole of the unexpired terms as granted and any premiums payable have already been paid in full. The copies of such documents were provided to us by the management of the Group.

There are three generally accepted asset appraisal approach to value in arriving at the market value of a property on an absolute title basis, namely the Market Approach, the Cost Approach and the Income Approach. Having considered the general and inherent characteristics of properties in Group I, we have adopted the depreciated replacement cost approach which is an application of the Cost Approach in valuing specialised properties like the properties. The use of this approach requires an estimate of the market value of the land use rights for its existing use, and an estimate of the new replacement cost of the buildings and other site works from which deductions are then made to allow for age, condition, and functional obsolescence taken into account of the site formation cost and those public utilities connection charges to the properties. The land use rights of these properties have been determined from market-based evidences by analysing similar sales or offerings of comparable properties. The valuations of these properties are on the assumption that the properties are subject to the test of adequate potential profitability of the business having due regard to the values of the total assets employed and the nature of the operation.

In valuing the properties in Group II and Group III, no commercial values were assigned to the properties due mainly to the short-term nature of the tenancy agreements or prohibition against assignment or sub-letting or lack of substantial profit rents.

MATTERS THAT MIGHT AFFECT THE VALUES REPORTED

No allowance has been made in our valuations for any charges, mortgages, outstanding premium or amounts owing on the properties. Unless otherwise stated, it is assumed that the properties are free from all encumbrances, restrictions, and outgoings of an onerous nature which could affect their values.

We are unable to identify any adverse news against the properties which may affect the reported values in our work product as at the Latest Practicable Date of this prospectus. Thus, we are not in the position to report and comment on its impact (if any) to the properties. Should it be established subsequently that such news did exist at the Date of Valuation, we reserve the right to adjust the values reported herein.

ESTABLISHMENT OF TITLES

Due to the purpose of this engagement, the management of the Group was requested to provide us the necessary title documents to support that the legally interested party in the properties was the Group as at the Date of Valuation, and we have been provided with copies of the title documents regarding the properties. However, we have not examined the original documents to verify the ownership and encumbrances or to ascertain the existence of any amendments, which may not appear on the copies handed to us. Due to inherent defects in the land registration system of China, we are unable to inspect the original documents from the relevant land registration departments to verify the existing titles of the properties or any material encumbrances that might be attached to the properties.

In the process of verifying the titles of properties in Group I and Group II, we have complied with the requirements as stated in Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and relied solely on the copy of the PRC legal opinion as provided by the Group with regard to the Group's titles on the properties as disclosed in the attached valuation certificate. We are given to understand that the PRC legal opinion was prepared by the Group's legal advisers as to PRC law, Jingtian & Gongcheng. No responsibility and liability is assumed in relation to the PRC legal opinion.

The current status of the properties in Group I regarding major approvals, consents or licences required in the PRC are set out as follows:

		Document/Approval	
Property No.	**Enterprise Legal Person Business Licence**	**Contract for the Grant/Transfer of State-owned Land Use Rights or equivalent**	**State-owned Land Use Rights Certificate or equivalent**
Property 1	Yes	Yes	Yes
Property 2	Yes	Yes	Yes
Property 3	Yes	Yes	Yes

INSPECTIONS AND INVESTIGATIONS OF THE PROPERTIES IN ACCORDANCE WITH VS 4 OF THE HKIS STANDARDS

As part of the agreed-upon procedures, we have inspected the exterior, and where possible, the interior of the properties in respect of which we have been provided with such information as we have requested for the purpose of our valuations. We have not inspected those parts of the properties which were covered, unexposed or inaccessible and such parts have been assumed to be in reasonable condition. We cannot express an opinion about or advice upon the condition of uninspected parts and the attached valuation certificate should not be taken as making any implied representation or statement about such parts. No structural survey, investigation or examination has been made, but in the course of our inspections we did not note any serious defects in the properties inspected. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out to the services (if any) and we are unable to identify those services either covered, unexposed or inaccessible.

Our valuations have been made on the assumption that no unauthorised alteration, extension or addition has been made in the properties, and that the inspection and the use of this work product do not purport to be a building survey of the properties. If the management of the Group wants to satisfy them as to the condition of the properties, then the management of the Group should obtain a third party surveyor's detailed inspection and report of their own.

We have not carried out on-site measurements to verify the correctness of the areas of the properties, but have assumed that the areas shown on the documents and handed to us are correct. All dimensions, measurements and areas are approximations.

Our engagement and the agreed procedures to value the properties did not include an independent land survey to verify the legal boundaries of the properties. We need to state that we are not in the land survey profession, therefore, we are not in the position to verify or ascertain the correctness of the representation of the Group's personnel with regard to the legal boundaries of the properties. No responsibility from our part is assumed. The management of the Group or interested party in such properties should conduct their own due diligence work.

We are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the properties and which may draw attention to any contamination or the possibility of any such contamination. In undertaking our work, we have been instructed to assume that no contaminative or potentially contaminative uses have ever been carried out in the properties. We have not carried out any investigation into past or present uses, either of the properties or of any neighbouring land, to establish whether there is any contamination or potential for contamination to the properties from these uses or sites, and have therefore assumed that none exists. However, should it be established subsequently that contamination, seepage or pollution exists at the properties or on any neighbouring land, or that the premises have been or are being put to a contaminative use, this might reduce the values now reported.

SOURCES OF INFORMATION AND ITS VERIFICATION IN ACCORDANCE WITH VS 5 OF THE HKIS STANDARDS

We have relied solely on the information provided by the management of the Group or its appointed personnel without further verification and have fully accepted advice given to us on such matters as planning approvals or statutory notices, locations, titles, easements, tenure, occupation, lettings, rental, site and floor areas and all other relevant matters.

The scope of valuation has been determined by reference to the property list provided by the management of the Group. All properties on the list have been included in our valuations. The management of the Group has confirmed to us that it has no property interest other than those specified on the list supplied to us.

Unless otherwise stated, we have not carried out any valuation on the study of possible alternative development options on the properties and the related economics do not come within the scope of our work product.

Information furnished by others, upon which all or portions of our work product are based, is believed to be reliable but has not been verified in all cases. Our procedures to value or work do not constitute an audit, review, or compilation of the information provided.

Thus, no warranty is made nor liability assumed for the accuracy of any data, advice, opinions, or estimates identified as being furnished by others which have been used in formulating our work product.

Unless otherwise stated, all monetary amounts are in Renminbi Yuan ("RMB").

LIMITING CONDITIONS OF THIS SUMMARY REPORT

Our opinion of values of the properties in this summary report are valid only for the stated purpose and only for the Date of Valuation, and for the sole use of the named Company. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this summary report, and the valuer accepts no responsibility whatsoever to any other person.

No responsibility is taken for changes in market conditions and local government policy and no obligation is assumed to revise this summary report to reflect events or conditions, which occur or make known to us subsequent to the date hereof.

Neither the whole nor any part of this summary report or any reference made hereto may be included in any published documents, circular or statement, or published in any way, without our written approval of the form and context in which it may appear. Nonetheless, we consent to the publication of this summary report in this prospectus to the Company's shareholders.

Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the charges paid to us for the portion of its services or work product giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

The Company is required to indemnify and hold us and our personnel harmless from any claims, liabilities, costs and expenses (including, without limitation, attorney's fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our report except to the extent that any such loses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

STATEMENTS

Our report is prepared in line with the requirements contained in Chapter 5 and Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (hereinafter referred to as the "Listing Rules") as well as the guidelines contained in the HKIS Standards. The valuation has been undertaken by valuers, acting as independent valuers as required by the Listing Rules, qualified for the purpose of the valuation.

We retain a copy of this summary report and the detailed valuation report together with the data from which it was prepared, and these data and documents will, according to the Laws of Hong Kong, keep for a period of 6 years from the date of this report and to be destroyed thereafter. We considered these records confidential, and we do not permit access to them by anyone, with the exception for law enforcement authorities or court order, without the Company's authorisation and prior arrangement made with us. Moreover, we will add the Company's information into our client list for our future reference.

We hereby certify that the fee for this service is not contingent upon our conclusion of values and we have no significant interest in the properties, the Group or the values reported.

Our valuations are summarised below and the valuation certificate is attached.

Yours faithfully,
For and on behalf of
LCH (Asia-Pacific) Surveyors Limited

Joseph Ho Chin Choi	**Elsa Ng Hung Mui**
B.Sc. PgD RPS (GP)	*B.Sc. M.Sc. RPS (GP)*
Managing Director	*Associate Director*

Contributing Valuers:
Leslie Wong Tak Chiu *B.Sc.*
Terry Fung Chi Hang *B.Sc.*

Notes:

1. Mr. Joseph Ho Chin Choi has been conducting assets valuation (including real estate properties) and advisory work in Hong Kong, Macau, Taiwan, mainland China, Japan, South East Asia, Australia, Finland, Scotland, Germany, Guyana, Canada and the United States of America for various purposes since 1988. He has more than 18 years of experience in valuing real estate properties in mainland China.

2. Ms. Elsa Ng Hung Mui is a Registered Professional Surveyor who has been conducting valuation of real estate properties in Hong Kong since 1994 and has more than 8 years of experience in valuing properties in mainland China.

3. Both Mr. Joseph Ho Chin Choi and Ms. Elsa Ng Hung Mui are valuers on the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers published by the HKIS.

SUMMARY OF VALUES

Group I – Properties held and occupied by the Group under long-term title certificates in the PRC and valued on the basis of Market Value

	Property	Amount of valuations in existing state attributable to the Group as at 30 June 2007
1.	A parcel of land together with various buildings and structures erected thereon and located at the eastern side of Zhu Jia Village, Chang Shan Town Zouping County, Binzhou City Shandong Province The People's Republic of China	RMB39,560,000 (100% interest)
2.	A parcel of land together with various buildings and structures erected thereon and located at the eastern side of Zhu Jia Village (also adjacent to Property 3 mentioned below) Chang Shan Town Zouping County, Binzhou City Shandong Province The People's Republic of China	RMB16,830,000 (100% interest)
3.	A parcel of land together with various buildings and structures erected thereon and located at the eastern side of Zhu Jia Village (also adjacent to Property 2 mentioned above) Chang Shan Town, Zouping County, Binzhou City Shandong Province The People's Republic of China	RMB3,430,000 (100% interest)
	Sub-total:	**RMB59,820,000**

Group II – Properties rented by the Group in the PRC

	Property	Amount of valuations in existing state attributable to the Group as at 30 June 2007
4.	A parcel of land together with various buildings and structures being erected thereon and located at San Li He, Chang Shan Town Zouping County, Binzhou City Shandong Province The People's Republic of China	No Commercial Value
5.	A warehouse located at the southern side of Changxing Road Chang Shan Town, Zouping County Binzhou City Shandong Province The People's Republic of China	No Commercial Value
	Sub-total:	**Nil**

Group III – Property rented by the Group in Hong Kong

	Property	Amount of valuations in existing state attributable to the Group as at 30 June 2007
6.	Unit 23 on 7th Floor Nan Fung Commercial Centre No. 19 Lam Lok Street Kowloon Hong Kong	No Commercial Value
	Sub-total:	**Nil**
	Grand Total:	**RMB59,820,000**

VALUATION CERTIFICATE

Group I – Properties held and occupied by the Group under long-term title certificates in the PRC and valued on the basis of Market Value

	Property	Description and tenure	Particulars of occupancy	Amount of valuations in existing state attributable to the Group as at 30 June 2007 *RMB*
1.	A parcel of land together with various buildings and structures erected thereon and located at the eastern side of Zhu Jia Village Chang Shan Town Zouping County Binzhou City Shandong Province The People's Republic of China	The property comprises a parcel of land having a site area of approximately 36,185 sq. m. and there were 26 various buildings and structures erected thereon. The buildings and structures are of single to 3-storeys in height and were completed between 1999 and 2006. Together, they have a total gross floor area of approximately 25,783.46 sq. m. (See Notes 2 and 3 below) The property is subject to a right to use the land for a term of 46 years till 25 November 2053 for industrial purpose.	We have inspected the property and confirmed by the Group that the property as at the Date of Valuation was occupied by the Group for manufacturing, storage, ancillary office and staff quarters purposes.	39,560,000 (100 per cent. interest)

Notes:

1. The right to possess the land is held by the State and the rights to use the land has been transferred to Shandong Qunxing Paper Limited (hereinafter referred to as "Shandong Qunxing") via the following ways:

   (i) pursuant to a Contract for the Transfer of State-owned Land Use Rights made between Zouping Guang Hua Veneer Company Limited and Shandong Qunxing dated 2 April 2007, the land use rights of two parcels of land, including the property and Property 2 mentioned at Page IV-12, having a total site area of approximately 60,000 sq. m. were transferred to Shandong Qunxing at a consideration of RMB10,980,000. The land was located at San Li He, Chang Shan Town, Zouping County and transferred to Shandong Qunxing for a term of 46 years for industrial usage; and

   (ii) pursuant to a State-owned Land Use Rights Certificate – Zou Guo Yong (2007) Di 020190 Hao 鄒國用(2007) 第020190號 dated 3 April 2007 and issued by the People's Government of Zouping County, the property is a transferable land and has a site area of approximately 36,185 sq. m. The land use of the property is restricted to industrial usage and for a term of 46 years till 25 November 2053.

2. Pursuant to three various Building Ownership Certificates – Zouping County Fang Quan Zheng Chang Shan Gong Zi Di CSG00032(1) Hao 鄒平縣房權證長山公字第CSG00032(1)號, Zouping County Fang Quan Zheng Chang Shan Gong Zi Di CSG00032(2) Hao 鄒平縣房權證長山公字第CSG00032(2)號 and Zouping County Fang Quan Zheng Chang Shan Gong Zi Di CSG00032(3) Hao 鄒平縣房權證長山公字第CSG00032(3)號 all dated 14 April 2007 and issued by the Housing Management Bureau of Zouping County 鄒平縣房產管理局 regarding the major buildings and structure mentioned in Note 3 below, the legally interested party in the buildings erected on the land was Shandong Qunxing.

3. A detailed breakdown of the gross floor area of the various buildings and structures is as follows:

Building Ownership Certificate no.	Buildings (no. of storey excluding roof)	Gross Floor Area *(sq. m.)*
CSG00032(1) Hao	Storage (Single Storey)	45.72
CSG00032(1) Hao	Storage (Single Storey)	49.40
CSG00032(1) Hao	Storage (Single Storey)	898.98
CSG00032(1) Hao	Workshop (2-Storey)	3,151.00
CSG00032(1) Hao	Workshop (2-Storey)	1,362.06
CSG00032(2) Hao	Workshop (Single Storey)	2,794.20
CSG00032(2) Hao	Office (Single Storey)	101.56
CSG00032(2) Hao	Dormitory (3-Storey)	1,717.50
CSG00032(2) Hao	Workshop (Single Storey)	1,413.13
CSG00032(2) Hao	Storage (Single Storey)	1,607.04
CSG00032(3) Hao	Workshop (2-Storey)	5,128.57
	Sub-total:	**18,269.16**
	Structures	
Not applicable to structures in China	Sedimentation Tower	384.65
	Filtration Pool	90.00
	Water Pool	1,080.00
	Sedimentation Pool	96.00
	Water Pool	64.00
	Regulating Pool	418.00
	Sludge Treatment Pool	704.00
	Sedimentation Pool	484.00
	Laboratory House (Single Storey)	90.00
	Sedimentation Tower	1,235.00
	Sedimentation Tower	648.00
	Workshop (Single Storey)	400.00
	Water Pool	1,100.00
	Carport (Single Storey)	710.65
	Guard House (Single Storey)	10.00
	Sub-total:	**7,514.30**
	Grand Total:	**25,783.46**

4. Pursuant to a copy of the Enterprise Legal Person Business Licence dated 14 February 2007, Shandong Qunxing is a limited liability company for an operational period commencing from 15 August 2006 to 14 August 2026. Shandong Qunxing was 100 per cent. owned by Best Known Group Limited, a wholly-owned subsidiary of Qunxing Paper Holdings Company Limited.

5. According to the legal opinion as prepared by the Group's legal advisers as to PRC law, Jingtian & Gongcheng, the following opinions are noted:

   (i) Shandong Qunxing is a limited liability company incorporated in China with a valid Enterprise Legal Person Business Licence; and

   (ii) Shandong Qunxing has obtained the right to use the property legally by way of transfer and is the only legally interested party in the property. Based on that and subject to the relevant rules and regulations as well as the terms and conditions as stipulated in the relevant land grant contract and its subsequent supplementary and certificates, Shandong Qunxing has the right to use and assign the property.

	Property	Description and tenure	Particulars of occupancy	Amount of valuations in existing state attributable to the Group as at 30 June 2007 *RMB*
2.	A parcel of land together with various buildings and structures erected thereon and located at the eastern side of Zhu Jia Village (also adjacent to Property 3 mentioned on Page IV-14) Chang Shan Town Zouping County Binzhou City Shandong Province The People's Republic of China	The property comprises a parcel of land having a site area of approximately 23,815 sq. m. and there were 17 various buildings and structures erected thereon. The buildings and structures are of single to 2-storeys in height and were completed between 1999 and 2002. Together, they have a total gross floor area of approximately 10,662.59 sq. m. (See Notes 2 and 3 below) The property is subject to a right to use the land for a term of 46 years till 25 November 2053 for industrial purpose.	We have inspected the property and confirmed by the Group that the property as at the Date of Valuation was occupied by the Group for manufacturing, storage and ancillary office purposes.	16,830,000 (100 per cent. interest)

Notes:

1. The right to possess the land is held by the State and the rights to use the land has been transferred to Shandong Qunxing Paper Limited (hereinafter referred to as "Shandong Qunxing") via the following ways:

   (i) pursuant to a Contract for the Transfer of State-owned Land Use Rights made between Zouping Guang Hua Veneer Company Limited and Shandong Qunxing dated 2 April 2007, the land use rights of two parcels of land, including Property 1 mentioned at Page IV-10 and the property, having a total site area of approximately 60,000 sq. m. were transferred to Shandong Qunxing at a consideration of RMB10,980,000. The land was located at San Li He, Chang Shan Town, Zouping County and transferred to Shandong Qunxing for a term of 46 years for industrial usage; and

   (ii) pursuant to a State-owned Land Use Rights Certificate – Zou Guo Yong (2007) Di 020192 Hao 鄒國用(2007)第020192號 dated 3 April 2007 and issued by the People's Government of Zouping County, the property is a transferable land and has a site area of approximately 23,815 sq. m. The land use of the property is restricted to industrial usage and for a term of 46 years till 25 November 2053.

2. Pursuant to two various Building Ownership Certificates – Zouping County Fang Quan Zheng Chang Shan Gong Zi Di CSG00033(1) Hao 鄒平縣房權證長山公字第CSG00033(1)號 and Zouping County Fang Quan Zheng Chang Shan Gong Zi Di CSG00033(2) Hao 鄒平縣房權證長山公字第CSG00033(2)號 both dated 14 April 2007 and issued by the Housing Management Bureau of Zouping County 鄒平縣房產管理局 regarding the major buildings and structures mentioned in Note 3 below, the legally interested party in the buildings was Shandong Qunxing.

3. A detailed breakdown of the gross floor area of the various buildings and structures is as follows:

Building Ownership Certificate no.	**Buildings (no. of storey excluding roof)**		**Gross Floor Area** *(sq.m.)*
CSG00033(1) Hao	Office (Single Storey)		125.00
CSG00033(1) Hao	Storage (Single Storey)		689.40
CSG00033(1) Hao	Workshop (2-Storey)		2,472.50
CSG00033(1) Hao	Storage (Single Storey)		256.75
CSG00033(1) Hao	Storage Single Storey)		1,668.92
CSG00033(2) Hao	Switch Room (Single Storey)		184.60
CSG00033(2) Hao	Workshop (Single Storey)		1,517.55
CSG00033(2) Hao	Lavatory (Single Storey)		61.22
CSG00033(2) Hao	Storage (Single Storey)		903.00
		Sub-total:	**7,878.94**
	Structures		
Not applicable to structures in China	Water Pool		504.00
	Sedimentation Tower		384.65
	Storage (Single Storey)		200.00
	Storage (Single Storey)		480.00
	Sedimentation Tower		255.00
	Water Pool		800.00
	Workshop (Single Storey)		90.00
	Workshop (Single Storey)		70.00
		Sub-total:	**2,783.65**
		Grand Total	**10,662.59**

4. Pursuant to a copy of the Enterprise Legal Person Business Licence dated 14 February 2007, Shandong Qunxing is a limited liability company for an operational period commencing from 15 August 2006 to 14 August 2026. Shandong Qunxing was 100 per cent. owned by Best Known Group Limited, a wholly-owned subsidiary of Qunxing Paper Holdings Company Limited.

5. According to the legal opinion as prepared by the Group's legal advisers as to PRC law, Jingtian & Gongcheng, the following opinions are noted:

   (i) Shandong Qunxing is a limited liability company incorporated in China with a valid Enterprise Legal Person Business Licence; and

   (ii) Shandong Qunxing has obtained the right to use the property legally by way of transfer and is the only legally interested party in the property. Based on that and subject to the relevant rules and regulations as well as the terms and conditions as stipulated in the relevant land grant contract and its subsequent supplementary and certificates, Shandong Qunxing has the right to use and assign the property.

	Property	Description and tenure	Particulars of occupancy	Amount of valuations in existing state attributable to the Group as at 30 June 2007 *RMB*
3.	A parcel of land together with various buildings and structures erected thereon and located at the eastern side of Zhu Jia Village (also adjacent to Property 2 mentioned on Page IV-12) Chang Shan Town Zouping County Binzhou City Shandong Province The People's Republic of China	The property comprises a parcel of land having a site area of approximately 2,520 sq. m. with 3 various buildings and structures erected thereon. The buildings and structures include a single storey office, a single storey carport and a single storey lavatory which were completed in 2000. Together, they have a total gross floor area of approximately 1,780.35 sq. m. (See Note 2 below) The property is subject to a right to use the land for a term of 46 years till 25 November 2053 for industrial purpose.	We have inspected the property and confirmed by the Group that the property as at the Date of Valuation was occupied by the Group for office, and ancillary supporting purposes.	3,430,000 (100% interest)

Notes:

1. The right to possess the land is held by the State and the rights to use the land has been transferred to Shandong Qunxing Paper Limited (hereinafter referred to as "Shandong Qunxing") via the following ways:

   (i) pursuant to a Contract for the Transfer of State-owned Land Use Rights made between Zouping Guang Hua Veneer Company Limited and Shandong Qunxing dated 8 May 2007, the land use rights of a parcel of land having a site area of approximately 2,520 sq. m. was transferred to Shandong Qunxing at a consideration of RMB461,160 for a term of 46 years for industrial usage; and

   (ii) pursuant to a State-owned Land Use Rights Certificate – Zou Guo Yong (2007) Di 020194 Hao 鄒國用(2007)第020194號 dated 8 May 2007 and issued by the People's Government of Zouping County, the property is a transferable land and has a site area of approximately 2,520 sq. m. The land use of the property is restricted to industrial usage and for a term of 46 years till 25 November 2053.

2. Pursuant to a Building Ownership Certificate – Zouping County Fang Quan Zheng Chang Shan Gong Zi Di CSG00034 Hao 鄒平縣房權證長山公字第CSG00034號 dated 10 May 2007 and issued by the Housing Management Bureau of Zouping County 鄒平縣房產管理局 regarding a two storey office building having a total gross floor area of approximately 1,515.35 sq. m., the legally interested party in the buildings was Shandong Qunxing.

3. Pursuant to a copy of the Enterprise Legal Person Business Licence dated 14 February 2007, Shandong Qunxing is a limited liability company for an operational period commencing from 15 August 2006 to 14 August 2026. Shandong Qunxing was 100 per cent. owned by Best Known Group Limited, a wholly-owned subsidiary of Qunxing Paper Holdings Company Limited.

4. According to the legal opinion as prepared by the Group's legal advisers as to PRC law, Jingtian & Gongcheng, the following opinions are noted:

   (i) Shandong Qunxing is a limited liability company incorporated in China with a valid Enterprise Legal Person Business Licence; and

   (ii) Shandong Qunxing has obtained the right to use the property legally by way of transfer and is the only legally interested party in the property. Based on that and subject to the relevant rules and regulations as well as the terms and conditions as stipulated in the relevant land grant contract, Shandong Qunxing has the right to use and assign the property.

Group II – Properties rented by the Group in the PRC

	Property	Description and occupancy	Amount of valuation in existing state attributable to the Group as at 30 June 2007 *RMB*
4.	A parcel of land together with various buildings and structures being erected thereon and located at San Li He Chang Shan Town Zouping County Binzhou City Shandong Province The People's Republic of China	The property comprises a parcel of land having a site area of approximately 10,070.6 sq.m. (See Note 1 below) During our inspection, we noticed that there were one single storey workshop building and a single storey supporting workshop being constructed on the land. Upon completion, these two buildings will have a total gross floor area of approximately 5,916 sq.m. There were also 3 various ancillary supporting pools being constructed on the land. The scheduled completion date of the construction is in early 2008. The property was leased to the Group at an annual rental of RMB160,000 from 1 April 2007 to 31 March 2027. We have inspected and confirmed by the Group that the property was under construction for its 7th production line workshop as at the Date of Valuation.	No Commercial Value

Notes:

1. According to a Tenancy Agreement made between Zouping Guang Hua Veneer Company Limited (hereinafter referred to as "Guang Hua") and Shandong Qunxing Paper Limited (hereinafter referred to as "Shandong Qunxing") dated 1 April 2007, a parcel of land having a site area of approximately 10,070.6 sq.m. was leased by Guang Hua to Shandong Qunxing for the construction of its 7th production line workshop at an annual rental of RMB160,000. The effective date of the Tenancy Agreement is for the period from 1 April 2007 to 31 March 2027.

2. According to a Supplementary Agreement made between Guang Hua and Shandong Qunxing dated 1 April 2007, Guang Hua agreed to transfer the land use right of the property to Shandong Qunxing before 31 December 2008.

3. The Lessor of the property is an associate of the ultimate holding company of Qunxing Paper Holdings Company Limited.

4. According to an Encumbrance Certificate – Zou Ta Xiang (2007) Zi Di 18094 Hao 鄒他項(2007)字第18094號 dated April 2007, Shandong Qunxing has the rights to use the land of the property for a terms of 20 years from 1 April 2007 to 31 March 2027 at an annual rental of RMB160,000 according to a tenancy agreement.

5. According to a Planning Permit for Using Construction Usage Land dated 29 April 2007, a Construction Planning Permit dated 29 April 2007 and a Permit to Commence Construction dated 30 April 2007, all issued by the Development Bureau of the Zouping County, Shandong Qunxing has obtained the right for the development on the subject land of its 7th production line workshop and will have a total gross floor area of approximately 5,916 sq.m. upon completion.

6. According to the legal opinion as prepared by the Group's legal advisers as to PRC law, Jingtian & Gongcheng, the following opinions are noted:

   (i) Guang Hua held the land use rights of the property via a State-owned Land Use Rights Certificate – Zou Guo Yong (2007) Di 020191 Hao 鄒國用(2007)第020191號, in which the subject land forms part, and has the right to lease the property. The Tenancy Agreement was registered with the relevant local authorities, thus, the Tenancy Agreement is legal, valid and enforceable;

   (ii) Shandong Qunxing has obtained the relevant permits to construct its building on the land and is the legally interested party in the property upon completion of the construction work and obtaining the relevant title certificate; and

   (iii) there is no legal impediment for Shandong Qunxing to obtain the land use rights of the property upon Guang Hua transferred the land use rights to Shandong Qunxing in accordance with the terms and conditions stipulated in the Supplementary Agreement mentioned in Note 2 above.

	Property	Description and occupancy	Amount of valuation in existing state attributable to the Group as at 30 June 2007 *RMB*
5.	A warehouse located at the southern side of Changxing Road Chang Shan Town Zouping County Binzhou City Shandong Province The People's Republic of China	The property comprises a single storey warehouse which was completed in 2005. The property has a total gross floor area of approximately 12,158 sq. m. The property was leased to the Group at an annual rental of RMB400,000 from 10 May 2007 to 10 May 2008. We have inspected the property and confirmed by the Group that the property was occupied for storage purpose as at the Date of Valuation.	No Commercial Value

Notes:

1. According to a Tenancy Agreement dated 10 May 2007 and a Supplementary Agreement dated 11 May 2007 and made between Shandong Changxing Group Limited (hereinafter referred to as "SD Changxing") and Shandong Qunxing Paper Limited (hereinafter referred to as "Shandong Qunxing"). The property was leased by SD Changxing to Shandong Qunxing at an annual rental of RMB400,000. The effective date of the tenancy agreement is for the period from 10 May 2007 to 10 May 2008.

2. The Lessor of the property is an associate of the ultimate holding company of Qunxing Paper Holdings Company Limited.

3. According to the legal opinion as prepared by the Group's legal advisers as to PRC law, Jingtian & Gongcheng, the following opinions are noted:

   (i) SD Changxing obtained a Building Ownership Certificate for the property and has the right to lease the property. The Tenancy Agreement was registered with the relevant local authorities, thus, the Tenancy Agreement is legal, valid and enforceable; and

   (ii) the property is used for the intended industrial purpose.

Group III – Property rented by the Group in Hong Kong

	Property	Description and occupancy	Amount of valuation in existing state attributable to the Group as at 30 June 2007 *RMB*
6.	Unit 23 on 7th Floor Nan Fung Commercial Centre No. 19 Lam Lok Street Kowloon Hong Kong	The property comprises an office unit on the 7th Floor of a 19-storey commercial building which was completed in 1993. The gross floor area and saleable area of the property is approximately 95.60 sq. m. (1,029 sq. ft.) and 70.88 sq. m. (763 sq. ft.), respectively. The property is rented to a member of the Group for a term of 2 years from 16 February 2007 to 15 February 2009 at a monthly rental of HK$17,000 inclusive of rates, Government rent and management fees but exclusive of water and electricity bills and all other outgoings. We have inspected the property and have been confirmed by the Group that the property was occupied for office purpose as at the Date of Valuation.	No Commercial Value

Notes:

1. The registered owner of the property is Chun Kwok Industrial Company Limited, an independent third party of the Group.

2. According to a Tenancy Agreement made between Chun Kwok Industrial Company Limited (hereinafter referred to as "Chun Kwok") and Best Known Group Limited (hereinafter referred to as "Best Known") dated 9 February 2007, the property was leased to Best Known.

3. According to the legal opinion prepared by the Company's Hong Kong legal adviser, Chiu & Partners, the following opinions are noted:

   (i) The Tenancy Agreement has been duly stamped.

   (ii) The property is not subject to any legal charge/mortgage.

   (iii) Best Known has confirmed that there has been no breach of the alienation restriction provision contained in the Tenancy Agreement which prohibits Best Known to sublet or transfer the tenancy created under the Tenancy Agreement to any party.

   (iv) Best Known has confirmed that there are no notices affecting the property or its use whether given or served by Chun Kwok, any government department or other competent authority or any person or body which have not been complied with.

   (v) The Tenancy Agreement is valid and enforceable in accordance with the terms thereof and Best Known is entitled to enjoy exclusive possession of the property in accordance with the terms of the Tenancy Agreement.

Set out below is a summary of certain provisions of the memorandum and articles of association of the Company and of certain aspects of Cayman Islands company law.

1. MEMORANDUM OF ASSOCIATION

The memorandum of association provides that the Company's objects are unrestricted. The objects of the Company are set out in Clause 3 of the memorandum of association which is available for inspection at the address and during the period specified in the paragraph headed "Documents delivered and available for inspection" specified in Appendix VII to this prospectus. As an exempted company, the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

2. ARTICLES OF ASSOCIATION

The articles of association of the Company (the "Articles") were adopted on 8 September 2007. The following is a summary of certain provisions of the Articles.

(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 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 at the option of the holder. The Directors may 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 Articles 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 Articles or relevant statutes of the Cayman Islands 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

Where the shares of the Company remain listed on the Stock Exchange or on a stock exchange in such other territory as the Directors may from time to time decide, the Company may not make, without the approval of, or ratification by, the Company in general meeting, any loans to, or provide any guarantee, indemnity or security in respect of any loan to a Director or any of his associates, provided that the Articles do not prohibit the granting of any loan or the provision of any guarantee, indemnity or security (i) to be applied for, or in respect of a liability incurred for any business of the Company, (ii) for the purchase by a Director (or the repayment of a loan for his purchase) of a residence where the amount of the loan, the liability under the guarantee or indemnity or the value of the security does not exceed 80 per cent. of the fair market value of such residence nor 5 per cent. of the consolidated net asset value of the Company as shown in its latest audited accounts; provided that any such loan is on normal commercial terms and is secured by a legal charge over the residence; or, (iii) of any amount to, or in respect of a liability of, a company in which the Company has an equity interest, and the amount of such loan, or the liability assumed by the Company under such guarantee, indemnity or security, does not exceed its proportional interest in such company.

(v) Financial assistance to purchase shares of the Company or its holdings company

There are no provisions in the Articles relating to the giving by the Company of financial assistance for the purchase, subscription or other acquisition of shares of the Company or of its holding company. The law on this area is summarised in paragraph 4(b) below.

(vi) Disclosure of interests in contracts with the Company or any of its subsidiaries

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 Articles, 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 associate(s)' 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 associate(s) is or has become so interested.

Save as otherwise provided by the Articles, 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 associate(s) 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 associate(s) 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 associate(s) 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 associate(s) 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 associate(s) 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 associate(s) is/are interested 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 company in which he or his associate(s) is/are interested directly or indirectly whether as an officer or an executive or a member, other than a company in which the Director or his associates owns five per cent. 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, and excluding shares held directly or indirectly through the Company;

(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, his associate(s) 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 to Directors, associate(s) of Directors and employees of the Company or any of its subsidiaries and does not give the Director or his associate(s) 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 associate(s) 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 associate(s), officer or employee pursuant to the Articles.

(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 the 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 or a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. 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 one. 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). Subject to the statutes and the provisions of the Articles, 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 so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting.

The Directors may from time to time entrust to and confer upon the chairman, deputy 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

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 Law, 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 Articles 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 Articles to hold any qualification shares.

(xi) Indemnity to Directors

The Articles 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. The Articles may also be amended by the Company in general meeting. As more fully described in paragraph 3 below, the Articles provide that, subject to certain exceptions, a special resolution is required to alter the memorandum of association, to approve any alteration to the Articles 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 Law, 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 issued share capital, any capital redemption reserve fund 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 Law, 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 Articles 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

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, 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 by proxy, at a general meeting of which not less than 21 days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. However, at all times while any part of the issued capital of the Company remains listed on the Stock Exchange, 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 95 per cent. in nominal value of the shares giving that right, (or, in the case of an annual general meeting, by all members) a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 days' notice has been given.

(f) Voting rights and right to demand a poll

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 show of hands every member who is 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 and 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). So long as the shares are listed on the Stock Exchange, where any member is, under the Listing Rules (as defined in the Articles), 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 (whether by way of proxy or, as the case may be, corporate representative) in contravention of such requirement or restriction shall not be counted. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a shareholder which is a clearing house (as defined in the Articles) (or its nominees), each such proxy shall have one vote on a show of hands. 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 any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless voting by way of a poll is required by the Listing Rules (as defined in the Articles) or a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded by (i) the Chairman of the meeting; or (ii) by at least three members present in person or by proxy (or, in the case of a member being a corporation, by its duly authorised representative) for the time being entitled to vote at the meeting;

or (iii) by any member or members present in person or by proxy (or, in the case of a member being a corporation, by its duly authorised representative) and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or (iv) by a member or members present in person or by proxy (or, in the case of a member being a corporation, by its duly authorised representative) and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right; or (v) if required by the Listing Rules (as defined in the Articles), by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.

Where a shareholder is a clearing house (as defined in the Articles) or a nominee of a clearing house, 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 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 Articles 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 nominees) in respect of the number and class of shares specified in the relevant authorisation.

(g) Requirements for annual general meetings

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, an annual general meeting must be held once in every year and within not more than 15 months after the last preceding annual general meeting or such longer period as is permissible or not prohibited under the rules of the Stock Exchange on which any securities of the Company are listed with the permission of the Company.

(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 law 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. 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 the Companies Law 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 and so long as any shares in the Company are listed on the Stock Exchange, the accounts of the Company shall be prepared and audited based on the generally accepted accounting principles of Hong Kong or the International Financial Reporting Standards or such other standards as the Stock Exchange may permit. Every balance sheet of the Company shall be signed on behalf of the Directors by two 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 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 Law or of the Articles. Subject to due compliance with the Companies Law and the rules of the Stock Exchange, and to obtaining all necessary consents, if any, required thereunder and such consents being in full force and effect, such requirements shall be deemed satisfied in relation to any person by sending to the person in any manner not prohibited by the Companies Law and instead of such copies, a summary financial statement derived from the Company's annual financial statements and the directors' report thereon, which shall be in the form and containing the information required by applicable laws and regulation, provided that any person who is otherwise entitled to the annual financial statements of the Company and the directors' report thereon may, if he so requires 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. 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.

Auditors shall be appointed and their duties regulated in accordance with the Articles. 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

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, an annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution must be called by giving at least 21 days' notice in writing and any other extraordinary general meeting shall be called by giving at least 14 days' notice in writing (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the place, the day and the hour of meeting and, 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 requirement for the production of a transfer in writing before registering a transfer of a share, and may accept mechanically executed transfers in any case.

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 for that register.

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 persons jointly or any share issued under any share option scheme for employees upon which a restriction on transfer imposed thereby shall subsist, 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 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 reason(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).

The registration of transfers may, on giving notice by advertisement 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 30 days in any year.

(k) Power for the Company to purchase its own shares

The Articles provide that the power of the Company to purchase or otherwise acquire its shares is exercisable by the Directors upon such terms and conditions as they think fit subject to the conditions prescribed by the Companies Law.

(l) Power of any subsidiary to own securities in the Company

There are no provisions in the Articles 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 share premium account subject to the provisions of the Companies Law.

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 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 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 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 a show of hands or 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 shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member.

(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 or persons 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 show of hands and 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 20 per cent. 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 20 per cent. 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 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 20 per cent. per annum as the Board may prescribe.

(q) Inspection of register of members

For so long as any part of the share capital is listed on the Stock Exchange, any member may inspect the principal or branch register of the Company maintained in Hong Kong without charge and require the provision to him of copies or extracts thereof in all respect as if the Company were incorporated under and is subject to the Companies Ordinance (Cap. 32) of the laws of Hong Kong.

(r) Inspection of register of Directors

There are no provisions in the Articles relating to the inspection of the register of Directors and Officers of the Company, since the register is not open to inspection (as to which see paragraph 4(k) below).

(s) Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two 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 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 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 Articles relating to rights of minority members in relation to fraud or oppression. However, certain remedies are available to members of the Company under Cayman Islands 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 occasions during a period of 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 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 12 years and three 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

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 Articles as are applicable to paid up shares shall apply to stock, and the words "share" and "shareholder" and "member" therein shall include "stock" and "stockholder".

(x) Other provisions

The Articles provide that, to the extent that it is not prohibited by and is in compliance with the Companies 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 AND ARTICLES OF ASSOCIATION

Subject to the rights of the Company set out in paragraph 2(c) above to amend its capital by ordinary resolution, the memorandum of association of the Company may be altered by the Company by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the memorandum of association (subject as provided above) or the Articles 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 not less than 21 clear 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 21 clear 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 95 per cent. in nominal value of the shares giving that right.

4. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of the Cayman Islands company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman Islands 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 Law 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". The share premium account may be applied by a company subject to the provisions of its memorandum and articles of association in such manner as the company may from time to time determine including, but without limitation:

(i) in paying distributions or dividends to members;

(ii) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;

(iii) in redeeming or purchasing its shares as provided in the Companies Law;

(iv) 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

(v) in providing for the premium payable on redemption of any shares or of any debentures of the company.

No dividend or distribution may be paid to members out of the share premium account unless immediately following the date of the proposed payment, the company is able to pay its debts as they fall due in the ordinary course of business.

A company may issue preference shares and redeemable preference shares.

The Companies Law does not contain any express provisions dealing with the variation of rights of holders of different classes of shares.

(b) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands against the provision of financial assistance for the purchase, subscription or other acquisition of its shares, though on English common law principles, the directors have a duty to act in good faith for a proper purpose in the best interests of the company, and moreover, there are restrictions on any act which amounts to a reduction of capital. Accordingly, it may, depending on the circumstances be legitimate for the directors to authorise the provision by a company of financial assistance for the purchase, subscription or other acquisition of its own shares, or the shares of its holding company.

(c) Redemption and Purchase of shares and warrants by a company and its subsidiaries

A company may, if authorised by its articles of associations issue redeemable shares and, purchase its own shares, including any redeemable shares. Purchases and redemptions may only be effected out of the profits of the company or out of the proceeds of a fresh issue of shares made for the purpose, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the shares to be purchased must be provided for out of profits of the company or out of the company's share premium account, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any purchase by a company of its own shares may be authorised by its directors or otherwise by or in accordance with the provisions of its articles. A payment out of capital for a redemption or purchase of a company's own shares is not lawful unless immediately following the date of the proposed payment the company is able to pay its debts as they fall due in the ordinary course of business. The shares so purchased or redeemed will be treated as cancelled and the company's issued, but not its authorised, capital will be diminished accordingly.

A company is not prohibited from purchasing and may purchase its own subscription warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. A company, whether a subsidiary or a holding company, may only purchase its own shares for cancellation if it is authorised to do so in its articles of association.

(d) Dividends and distributions

A company may not pay a dividend, or make a distribution out of share premium account unless immediately following the date on which the payment is proposed to be made, the company is able to pay its debts as they fall due in the ordinary course of business.

(e) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of a company to challenge (a) an act which is ultra vires the company or illegal (b) an act which constitutes a fraud against the minority and the wrong doers are themselves in control of the company, or (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company shall be wound up.

Generally, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the memorandum and articles of association of the company.

(f) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary is required, 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.

(g) Accounting and auditing requirements

The Companies Law 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. A company is required to keep such books of account as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(h) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(i) Taxation

There are no income, corporation, capital gains or other taxes in effect in the Cayman Islands on the basis of the present legislation. As an exempted company, the Company has received from the Governor-in-Counsel of the Cayman Islands pursuant to the Tax Concessions Law (1999 Revision) of the Cayman Islands, an undertaking that in the event of any change to the foregoing, the Company, for a period of 20 years from the date of the grant of the undertaking, will not be chargeable to tax in the Cayman Islands on its income or its capital gains arising in the Caymans Islands or elsewhere and that dividends of the Company will be payable without deductions of Cayman Islands tax. No capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Shares.

(j) Stamp duty

Certain documents (which do not include contract, notes for the sale and purchase of, or instruments of transfer of, shares in Cayman Islands companies) are subject to stamp duty which is generally calculated on an ad valorem basis.

(k) Inspection of corporate records

Neither the members of a company nor the general public have the right to inspect the register of directors and officers, the minutes, accounts or, in the case of any exempted company, the register of members. The register of mortgages and charges must be kept at the registered office of the company and must be open to inspection by any creditor or member at all reasonable times.

Members of the public have no right to inspect the constitutive documents of a company but the memorandum and articles of association must be forwarded to any member of the company upon request. If no articles of association have been registered with the Registrar of Companies, each member has the right to receive copies of special resolutions of members upon request upon payment of a nominal fee.

The location of the registered office of a company is available to the general public upon request to the Registrar of Companies.

(l) Winding up

A company may be wound up by the Cayman Islands court on application presented by the company itself, its creditors or its contributors. The Cayman Islands court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Cayman Islands 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 of association expires, or the event occurs on the occurrence of which the memorandum of association 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 a resolution has been passed for the voluntary winding up of a company, the court may make an order that the winding up should continue subject to the supervision of the court with such liberty to creditors, contributors or others to apply to the court as the court may think fit.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators 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 month's notice called by Public Notice in the Cayman Islands or otherwise as the Registrar of Companies may direct.

FURTHER INFORMATION ABOUT THE COMPANY AND ITS SUBSIDIARIES

1. Incorporation of the Company

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 5 September 2006 with an authorised share capital of HK$100,000 divided into 1,000,000 Shares. On 5 September 2006, one Share was allotted and issued, nil paid, to Codan Trust Company (Cayman) Limited, which was transferred to Boom Instant on the same date. Additional 999,999 Shares were allotted and issued, nil paid, to Boom Instant on the same date. The said 1,000,000 nil paid Shares were subsequently paid up in the manner described in paragraph 4 below.

The Company was incorporated in the Cayman Islands and is subject to the relevant laws and regulations of the Cayman Islands. Its constitution comprises a memorandum of association and the Articles of Association. A summary of certain relevant parts of its constitution and certain relevant aspects of the Companies Law is set out in Appendix V to this prospectus.

2. Changes in share capital of the Company

(a) Increase in authorised share capital

Pursuant to a resolution in writing passed by the then sole Shareholder of the Company (namely, Boom Instant) on 29 January 2007, the authorised share capital of the Company was increased to HK$1,000,000,000 by the creation of a further 9,999,000,000 Shares.

Immediately following completion of the Share Offer and the Capitalisation Issue but without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or the options which may be granted under the Share Option Scheme, 1,000 million Shares will be in issue, fully paid or credited as fully paid, and 9,000 million Shares will remain unissued. In the event that the Over-allotment Option is exercised in full, 1,045 million Shares will be issued fully paid or credited as fully paid, and 8,955 million Shares will remain unissued. Other than pursuant to the exercise of the Over-allotment Option or the options which may be granted under the Share Option Scheme, the Directors do not have any present intention to issue any of the authorised but unissued share capital of the 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 the Company.

Save as disclosed herein and in paragraphs 1, 3 and 4 of this Appendix, there has been no alteration in the share capital of the Company since its incorporation.

(b) Founder shares

The Company has no founder shares, management shares or deferred shares.

3. Resolutions in writing of the sole Shareholder passed on 8 September 2007

On 8 September 2007 pursuant to resolutions in writing passed by Boom Instant, the then sole Shareholder of the Company:

(a) the Company adopted its existing Articles of Association;

(b) conditional on the Listing Committee of the Stock Exchange granting listing of, and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus on the Main Board and on the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the respective terms of those agreements or otherwise, in each case on or before the day falling 30 days after the date of this prospectus:

(i) the Share Offer and the Over-allotment Option were approved and the Directors were authorised to approve the allotment and issue of the Offer Shares and such number of Shares as may be allotted and issued upon the exercise of the Over-allotment Option and to approve the transfer of the Sale Shares;

(ii) the rules of the Share Option Scheme, the principal terms of which are set out in paragraph 15 of this Appendix, were approved and adopted and the Directors were authorised to grant options to subscribe for Shares thereunder, to allot, issue and deal with Shares pursuant to the exercise of options granted under the Share Option Scheme and to take all such steps as may be necessary or desirable to implement the Share Option Scheme;

(iii) conditional on the share premium account being credited as a result of the issue of the New Shares under the Share Offer, the Directors were authorised to capitalise HK$65 million standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 650 million Shares for allotment and issue to Shareholder(s) whose name(s) appear(s) on the register of members of the Company at the close of business on 18 August 2007 (or as it/they may direct) in proportion (as nearly as possible without involving fractions) to it/their then existing shareholdings in the Company;

(iv) a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements in accordance with the Articles of Association of the Company, or pursuant to the grant of options under the Share Option Scheme or which may be granted under the Share Option Scheme or under the Share Offer 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 the Company in issue immediately following completion of the Share Offer and the Capitalisation Issue (excluding the Shares which may be issued pursuant to the exercise of the Over-allotment Option or exercise of options that may be granted under the Share Option Scheme); and (bb) the aggregate nominal amount of the share capital of the Company which may be purchased by the Company pursuant to the authority granted to the Directors as referred to in paragraph (v) below, until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable Cayman Islands law to be held, or the passing of an ordinary resolution by Shareholders of the Company revoking or varying the authority given to the Directors, whichever occurs first;

(v) a general unconditional mandate ("**Repurchase Mandate**") was given to the Directors to exercise all powers of the Company to purchase Shares with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued immediately following completion of Share Offer and the Capitalisation Issue (excluding the Shares which may be issued pursuant to the exercise of the Over-allotment Option or exercise of options that may be granted under the Share Option Scheme), until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable Cayman Islands law to be held, or the passing of an ordinary resolution by Shareholders of the Company revoking or varying the authority given to the 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. Corporate reorganisation

The companies comprising the Group underwent the Reorganisation to rationalise the Group's structure in preparation for the Listing of the Shares on the Stock Exchange and the Company became the holding company of the Group.

The Reorganisation involved the transfer on 29 January 2007 to the Company by Boom Instant of an aggregate of 100 shares of US$1 each, being the entire issued share capital of Double Nation, the intermediate holding company of the Group, in consideration and in exchange for which the Company (i) allotted and issued, credited as fully paid, 9,000,000 new Shares to Boom Instant, and (ii) credited as fully paid at par the 1,000,000 nil-paid Shares then held by Boom Instant. On 16 April 2007, 90 million Shares were allotted and issued to Boom Instant as consideration for the capitalisation of the shareholder's ICBC Loan in the principal amount of HK$193,522,000 owing by the Company to Boom Instant.

In addition to the transfer of shares in Double Nation referred to above, the Group also underwent the following corporate restructuring:–

(a) on 21 April 2006, Best Known was incorporated in Hong Kong. One subscriber share of Best Known of HK$1 held by Harefield Limited was transferred to Double Nation on 17 July 2006 at consideration of HK$1. On the same date, 99 shares of Best Known were allotted and issued to Double Nation for cash at par. Following such transfer and allotment, Double Nation has become the sole shareholder of the entire equity interest of Best Known;

(b) on 17 July 2006, Mr. Zhu and Mr. Zhu Mo Qun as transferors on the one part entered into a share transfer agreement with Best Known as transferee on the other part, pursuant to which their entire equity interest in the registered capital of Shandong Qunxing, being its entire registered capital, was agreed to be transferred to Best Known at cash consideration of HK$193,521,070.70. The said transfer of equity interest and the conversion of Shandong Qunxing into a wholly foreign owned enterprise were approved by the Foreign Trade and Economic Cooperation Office of Shandong Province on 28 July 2006.

5. Changes in share capital of subsidiaries

The subsidiaries of the Company are listed in the accountants' report set out in Appendix I to this prospectus.

In addition to the Reorganisation described in paragraph 4 of this Appendix, the following alteration in the share capital of the Company's subsidiaries took place within the two years immediately preceding the date of this prospectus:

(a) On 28 July 2006, the Foreign Trade and Economic Cooperation Office of Shandong Province approved the increase of the registered capital of Shandong Qunxing from RMB30,000,000 to RMB190,000,000 by way of capitalisation of accumulated capital surplus and common reserve of Shandong Qunxing. The aforesaid increase of the registered capital was completed on 12 February 2007 by the passing of a board resolution of Shandong Qunxing approving such capitalisation on the same date.

(b) On 17 July 2006, 99 shares of HK$1 each in Best Known were allotted and issued at par to Double Nation, as a result of which the total number of shares of HK$1 each in issue in Best Known became 100.

(c) On 17 July 2006, 100 shares of US$1 each in Double Nation were allotted and issued at par to Boom Instant, as a result of which the total number of shares of US$1 each in issue in Double Nation became 100. The entire issued shares of Double Nation were transferred to the Company on 29 January 2007 at such consideration as set out in paragraph 4 of this Appendix VI.

Save as disclosed herein and in paragraph 4 of this Appendix, there has been no alteration in the share capital of any of the subsidiaries of the Company within the two years immediately preceding the date of this prospectus.

6. Repurchase by the Company of its own securities

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its 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 the sole Shareholder of the Company on 8 September 2007, the Repurchase Mandate was given to the Directors authorising any repurchase by the Company of Shares on the Stock Exchange or any other stock exchange on which the securities of the 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 the Company immediately following completion of Share Offer and the Capitalisation Issue (excluding the Shares which may be issued pursuant to the exercise of the Over-allotment Option or exercise of options that may be granted under the Share Option Scheme), such mandate will expire at the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the Articles of Association or applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders in general meeting revoking or varying the same, whichever occurs first.

(b) Source of funds

Repurchases must be paid out of funds legally available for the purpose in accordance with the Company's Articles of Association and the Companies Law. A listed company may not repurchase its own securities on the Main Board for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Under Cayman Islands laws, any repurchases by the Company may be made out of profits of the Company or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorised by its Articles of Association and subject to the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the Shares to be repurchased must be provided for out of profits or the share premium account of the Company or, if authorised by its Articles of Association and subject to the Companies Law, out of capital.

(c) Reasons for repurchases

The Directors believe that it is in the best interests of the Company and its Shareholders for the Directors to have general authority from the Shareholders to enable the 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 the Directors believe that such repurchases will benefit the Company and its Shareholders.

(d) Funding of repurchases

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with its Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position of the Group as disclosed in this prospectus and taking into account the current working capital position of the Group, the 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 the gearing position of the Group as compared with the position disclosed in this prospectus. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Group or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Group.

Assuming that the Over-allotment Option is not exercised, the exercise in full of the Repurchase Mandate, on the basis of 1,000 million Shares in issue immediately after the listing of the Shares on the Main Board, would result in up to 100 million Shares being repurchased by the Company during the period in which the Repurchase Mandate remains in force.

Assuming that the Over-allotment Option is exercised in full and on the basis of 1,045 million Shares in issue immediately after the exercise of the Over-allotment Option, the exercise in full of the Repurchase Mandate, would result in up to 104.5 million Shares being repurchased by the Company during the period in which the Repurchase Mandate remains in force.

(e) General

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to the Company or its subsidiaries.

The 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 the Cayman Islands.

If, as a result of a securities repurchase, a Shareholder's proportionate interest in the voting rights of the 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 the Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, the 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.

No connected person (as defined in the Listing Rules) of the Company has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

7. Registration under Part XI of the Companies Ordinance

The Company has established its head office and a principal place of business in Hong Kong for the purpose of registration under Part XI of the Companies Ordinance at Room 723, Nan Fung Commercial Centre, 19 Lam Lok Street, Kowloon Bay, Hong Kong. The Company has been registered as an oversea company under Part XI of the Companies Ordinance since 16 August 2007. Mr. Au-Yeung Kwong Wah, the company secretary of the Company, is currently the agent of the Company for the acceptance of service of process in Hong Kong.

FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP

8. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this prospectus and are or may be material:

(a) a share transfer agreement (in Chinese) dated 17 July 2006 and made between Mr. Zhu and Mr. Zhu Mo Qun as transferors on one part and Best Known as transferee on the other part for the acquisition by Best Known of the entire equity interest in the registered capital of Shandong Qunxing at cash consideration of HK$193,521,070.70;

(b) a share purchase agreement in relation to Double Nation Limited dated 29 January 2007 and made between Boom Instant as vendor, Mr. Zhu as warrantor and the Company as purchaser for the acquisition by the Company of the entire issued share capital of Double Nation in consideration of (i) the allotment and issue, credited as fully paid, of 9,000,000 new Shares to Boom Instant, and (ii) crediting as fully paid at par the 1,000,000 nil-paid Shares then held by Boom Instant;

(c) five several placing agreements entered into by the Company and the Global Coordinator with each of the following Cornerstone Investors (whose name is set out in the first column below) respectively dated the date set out in the second column below opposite their respective names in respect of the agreement by the relevant Cornerstone Investor to subscribe for such number of Offer Shares as set out in the third column below opposite their respective names, at the final Offer Price for each Offer Share so agreed to be subscribed, on and subject to the terms and conditions as summarised in the paragraph headed "The cornerstone placing" in the section headed "Structure and conditions of the Share Offer" in this prospectus:

Name of Cornerstone Investor	Date of agreement	No. of Offer Shares agreed to be subscribed for
Prosky Limited	31 August 2007	32,000,000
Chow Tai Fook Nominee Limited	28 August 2007	32,000,000
Solar Sky International Limited	29 August 2007	11,200,000
Total Upgrade Limited	29 August 2007	11,200,000
Joyous Win Limited	29 August 2007	9,600,000

(d) a deed of indemnity dated 8 September 2007 executed by Boom Instant, Addinsight, Be Broad, Mr. Zhu, Mr. Zhu Mo Qun and Mrs. Zhu, in favour of the Company for itself and as trustee for its current subsidiaries, containing the indemnities in respect of estate duty and taxation liabilities more particularly referred to in paragraph 16 of this Appendix;

(e) a deed of non-competition dated 8 September 2007 executed by Boom Instant, Addinsight, Be Broad, Mr. Zhu, Mr. Zhu Mo Qun and Mrs. Zhu, in favour of the Company, in relation to certain non-competition undertakings given by the Controlling Shareholders, whose terms and summarised in the section headed "Non-competition undertakings given by our Controlling Shareholders"; and

(f) the Hong Kong Public Offer Underwriting Agreement.

9. Intellectual Property Rights of the Group

Trademarks

As at the Latest Practicable Date, the Group was the registered proprietor and beneficial owner of the following trademarks, which are material to the Group's business:

Trademark	Place of registration	Class	Registration number	Date of validity
	PRC	16 *(Note)*	3478167	From 7 April 2005 to 6 April 2015
	PRC	16 *(Note)*	3683884	From 14 November 2005 to 13 November 2015

As at the Latest Practicable Date, the Group applied for registration of the following trademarks, the registration of which has not yet been granted:

Trademark	Place of application	Class	Application number	Date of application
	PRC	16 *(Note)*	5587021	5 September 2006
	PRC	16 *(Note)*	5587020	5 September 2006
	Hong Kong	16 *(Note)*	300920952	26 July 2007
	Hong Kong	16 *(Note)*	300920961	26 July 2007
	Hong Kong	16 *(Note)*	300920970	26 July 2007

Note: The products covered under class 16 generally include paper, cardboard and goods made from these materials, not included in other classes; printed matter; bookbinding material; photographs; stationery; adhesives for stationery or household purposes; artists' materials; paint brushes; typewriters and office requisites (except furniture); instructional and teaching material (except apparatus); plastic materials for packaging (not included in other classes); printers' type; printing blocks.

As at the Latest Practicable Date, the Group applied for registration of the following patents, the registration of which has not yet been granted:

Nature of the patent for utility model	Place of application	Application number	Date of application
Drying equipment installed in the paper making machines	PRC	200620009158.6	3 November 2006

Nature of the patent for invention	Place of application	Application number	Date of application
A method to add titanium dioxide powder during the production of white decorative base paper products	PRC	200610070025.4	3 November 2006

Domain Name

As at the Latest Practicable Date, the Group had registered the following domain name:

Domain name	Registration Date	Expiry Date
www.qxzy.com.cn	8 September 2006	8 September 2011

10. Further information about the Group's PRC subsidiary

The Group has interests in the registered capital in a wholly foreign-owned enterprise established in the PRC, namely, Shandong Qunxing. A summary of the corporate information of this enterprise is set out as follows:

(i)	Name of the enterprise:	山東群星紙業有限公司 (Shandong Qunxing Paper Limited*)
(ii)	Economic nature:	wholly foreign-owned enterprise
(iii)	Registered Owner:	Best Known (100%)
(iv)	Total investment:	RMB570,000,000
(v)	Registered capital:	RMB190,000,000 (fully paid-up)
(vi)	Attributable interest to the Group:	100%
(vii)	Term:	20 years, from 15 August 2006 to 14 August 2026
(viii)	Scope of business:	Paper making, manufacturing of paper products, sale of its own products

FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND STAFF AND EXPERTS

11. Directors

(a) Disclosure of interests

(i) Mr. Zhu, Mr. Zhu Mo Qun and Mrs. Zhu are interested in the Reorganisation referred to in paragraph 4 of this Appendix.

(ii) Save as disclosed in this prospectus, none of the Directors or their associates was engaged in any dealings with the Group during the two years preceding the date of this prospectus.

(b) Particulars of service contracts

Each of the executive Directors, has entered into a service contract with the Company pursuant to which each of them agreed to act as an executive Director for a term of 36 months commencing from 1 October 2007.

Each of these executive Directors is entitled to a basic salary subject to an annual increment after 1 January 2009 at the discretion of the Directors (or the remuneration committee) of not more than 15% of the annual salary immediately prior to such increase. In addition, each of the executive Directors is also entitled to a discretionary management bonus provided that the aggregate amount of the bonuses payable to all the executive Directors for any financial year of the Company may not exceed 5% of the audited combined or consolidated audited net profit of the Group (after taxation and minority interests and payment of such bonuses but before extraordinary or exceptional items) in respect of that financial year of the Company. An executive Director may not vote on any resolution of the Directors regarding the amount of the management bonus payable to him. Upon the commencement of their respective service contracts, the basic annual salaries of the executive Directors will be as follows:

Name		**Annual salary** *(HK$)*
ZHU Yu Guo		720,000
ZHU Mo Qun		720,000
SUN Zhen Shui		360,000
	Total:	1,800,000

Each of the non-executive Directors and independent non-executive Directors has been appointed for an initial term of two years commencing from 1 October 2007. The Company intends to pay Directors' fees of an aggregate amount of approximately HK$492,000 per annum to the non-executive Director and independent non-executive Directors, and the annual Director's fees payable to such Directors are as follows:

Name	**Annual Director's fees** *(HK$)*
SUN Rui Fang	72,000
ZHAO Wei	120,000
WANG Lu	120,000
KWONG Kwan Tong	180,000
	492,000

Save for the abovementioned Directors' fees, none of the non-executive Director and independent non-executive Directors is expected to receive any other remuneration for holding their office as a non-executive Director or an independent non-executive Director.

Save as aforesaid, none of the Directors has or is proposed to have a service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

(c) Directors' remuneration

(i) During the year ended 31 December 2006, the aggregate emoluments paid by the Group to the Directors was approximately RMB224,000.

(ii) Under the arrangements currently in force, the aggregate emoluments payable by the Group to the Directors for the year ending 31 December 2007 are estimated to be approximately HK$750,000.

(iii) None of the Directors or any past directors of any member of the Group has been paid any sum of money for each of the three years ended 31 December 2006 as (i) an inducement to join or upon joining the Company; or (ii) for loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group.

(iv) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three years ended 31 December 2006.

(d) Interests and short positions of Directors in the Shares, underlying Shares or debentures of the Company and its associated corporations

So far as the Directors are aware, immediately following the completion of the Share Offer and the Capitalisation Issue (and taking no account of any Shares which may be allotted and issued pursuant to the Share Option Scheme or the exercise of the Over-allotment Option), the interests and short positions of the Directors in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) once the Shares are listed, 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 notify the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by

Directors of Listed Issuers in the Listing Rules once the Shares are listed, will be as follows:

Name of Director	The Company/ name of associated corporation	Capacity	Number of securities/ or underlying shares *(note 1)*	Approximate percentage of shareholding in the relevant company
Mr. Zhu	Company	Interest of controlled corporation	700,000,000 Shares (L) *(Note 2)*	70% of the Company
	Boom Instant	Interest of controlled corporation	80 shares of Boom Instant of US$1 each (L) *(Note 3)*	80% of Boom Instant
	Addinsight	Beneficial owner *(Note 3)*	87.5 shares of Addinsight of US$1 each (L)	87.5% of Addinsight
		Interest of spouse *(Note 3)*	12.5 shares of Addinsight of US$1 each (L)	12.5% of Addinsight
Mrs. Zhu	Company	Interest of spouse	700,000,000 Shares (L) *(Note 4)*	70% of the Company
	Boom Instant	Interest of spouse	80 shares of Boom Instant of US$1 each (L) *(Note 5)*	80% of Boom Instant
	Addinsight	Beneficial owner *(Note 5)*	12.5 shares of Addinsight of US$1 each (L)	12.5% of Addinsight
		Interest of spouse *(Note 5)*	87.5 shares of Addinsight of US$1 each (L)	87.5% of Addinsight
Mr. Zhu Mo Qun	Boom Instant	Interest in controlled corporation	20 shares of Boom Instant of US$1 each (L) *(Note 6)*	20% of Boom Instant
	Be Broad	Beneficial owner *(Note 6)*	100 shares of Be Broad of US$1 each (L)	100% of Be Broad

Notes:

1. The letter "L" denotes the Director's long position in the Shares.

2. Subject to any borrowing arrangement which may be effected under the Stock Borrowing Agreement, the 700,000,000 Shares will on the Listing Date be owned by Boom Instant, 80% of the issued share capital of which is beneficially owned by Addinsight. 87.5% of the issued share capital of Addinsight is beneficially owned by Mr. Zhu. Under the SFO, Mr. Zhu is deemed to be interested in the said Shares held by Boom Instant.

3. The 80 shares of Boom Instant are registered in the name of Addinsight, 87.5% of the issued share capital of which is beneficially owned by Mr. Zhu, while the remaining 12.5% is beneficially owned by Mrs. Zhu, a non-executive Director and spouse of Mr. Zhu. Under the SFO, Mr. Zhu is deemed to be interested in the 80 shares of Boom Instant held by Addinsight.

4. Subject to any borrowing arrangement which may be effected under the Stock Borrowing Agreement, the 700,000,000 Shares will on the Listing Date be owned by Boom Instant, 80% of the issued share capital of which is beneficially owned by Addinsight. 87.5% of the issued share capital of Addinsight is beneficially owned by Mr. Zhu. Mr. Zhu is deemed to be interested in the said Shares in which Boom Instant is interested by virtue of the SFO. Mrs. Zhu is the spouse of Mr. Zhu and is therefore deemed to be interested in the said Shares in which Mr. Zhu is deemed to be interested.

5. The 80 shares of Boom Instant are registered in the name of Addinsight, 87.5% of the issued share capital of which is beneficially owned by Mr. Zhu, while the remaining 12.5% is beneficially owned by Mrs. Zhu. Under the SFO, Mr. Zhu is deemed to be interested in the 80 shares of Boom Instant held by Addinsight. Mrs. Zhu is the spouse of Mr. Zhu and is therefore deemed to be interested in the said 80 shares of Boom Instant in which Mr. Zhu is deemed to be interested.

6. The 20 shares of Boom Instant are registered in the name of Be Broad, the entire issued share capital of which is beneficially owned by Mr. Zhu Mo Qun. Under the SFO, Mr. Zhu Mo Qun is deemed to be interested in the 20 shares of Boom Instant held by Be Broad.

12. Interest disclosable under the SFO and substantial Shareholders

So far as the Directors are aware, immediately following the completion of the Share Offer and the Capitalisation Issue (but without taking account of any Shares which may be taken up under the Share Offer and any Shares which may be allotted and issued upon the exercise of the Over-allotment Option), the following persons (other than the Directors or chief executive officer of the Company) will have an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and who will be expected, directly or indirectly, to be interested in 10% or more of the Shares:

Name	**Company/ name of Group member**	**Capacity** *(note 1)*	**Number of Shares**	**Approximate percentage of shareholding**
Boom Instant	Company	Beneficial owner	700,000,000 Shares (L)	70%
Addinsight *(Note 2)*	Company	Interest of controlled corporation	700,000,000 Shares (L)	70%
Mr. Zhu *(Note 3)*	Company	Interest of controlled corporation	700,000,000 Shares (L)	70%
Mrs. Zhu *(Note 4)*	Company	Interest of spouse	700,000,000 Shares (L)	70%

Notes:

1. The letter “L” denotes the entity/person’s long position in the Shares.

2. Subject to any borrowing arrangement which may be effected under the Stock Borrowing Agreement, the 700,000,000 Shares will on the Listing Date be owned by Boom Instant, 80% of the issued share capital of which is beneficially owned by Addinsight. Under the SFO, Addinsight is deemed to be interested in all the Shares held by Boom Instant. (87.5% of the issued share capital of Addinsight is beneficially owned by Mr. Zhu, while the remaining 12.5% in beneficially owned by Mrs. Zhu.) The remaining 20% of the issued share capital of Boom Instant is owned by Be Broad which is solely owned by Mr. Zhu Mo Qun, a Director.

3. Subject to any borrowing arrangement which may be effected under the Stock Borrowing Agreement, the 700,000,000 Shares will on the Listing Date be owned by Boom Instant. 87.5% of the issued share capital of Addinsight is beneficially owned by Mr. Zhu (an executive Director), and the remaining 12.5% is beneficially owned by Mrs. Zhu (a non-executive Director). Under the SFO, Mr. Zhu is deemed to be interested in the Shares held by Boom Instant.

4. Mrs. Zhu is the spouse of Mr. Zhu and is therefore deemed to be interested in the said shares in which Mr. Zhu is deemed to be interested.

13. Connected transactions and related party transactions

Save as disclosed in this prospectus and in note 25 of the accountants' reports of the Company set out in Appendix I to this prospectus, during the two years immediately preceding the date of this prospectus, the Group has not engaged in any other material connected transactions or related party transactions.

14. Disclaimers

Save as disclosed in this prospectus:

(i) and taking no account of any Shares which may be taken up or acquired under the Share Offer or upon the exercise of the Over-allotment Option or the options granted or which may be granted under the Share Option Scheme, the Directors are not aware of any person who will, immediately following the completion of the Share Offer and the Capitalisation Issue, have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, 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 the Company or any other member of the Group;

(ii) none of the Directors has for the purpose of Divisions 7 and 8 of Part XV of the SFO or the Listing Rules, nor is any of them taken to or deemed to have under such provisions of the SFO, any interests or short position in the Shares or underlying Shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) or any interests which will have to be entered in the register to be kept by the Company pursuant to section 352 of the SFO or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules once the Shares are listed on the Main Board;

(iii) none of the Directors nor the experts named in paragraph 21 of this Appendix has been interested in the promotion of, or has any direct or indirect interest in any assets acquired or disposed of by or leased to, any member of the Group within the two years immediately preceding the date of this prospectus, or which are proposed to be acquired or disposed of by or leased to any member of the Group nor will any Director apply for Shares either in his own name or in the name of a nominee;

(iv) save for the guarantee dated 2 February 2007 and made by Mr. Zhu, Mr. Zhu Mo Qun and Mrs. Zhu, all being Directors, in favour of ICBC (Asia) as security for the ICBC Loan, none of the Directors nor the experts named in paragraph 21 of this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole; and

(v) none of the experts named in paragraph 21 of this Appendix has any shareholding in any member in the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member in the 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 conditionally adopted by a resolution in writing passed by the sole Shareholder of the Company on 8 September 2007:

(i) Purposes of the scheme

The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. The Directors consider the Share Option Scheme, with its broadened basis of participation, will enable the Group to reward the employees, the Directors and other selected participants for their contributions to the Group. Given that the 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 the Directors, it is expected that grantees of an option will make an effort to contribute to the development of the Group 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

The Directors (which expression shall, for the purpose of this paragraph 15, include a duly authorised committee thereof) may, at its 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 the Company, any of its subsidiaries or any entity ("**Invested Entity**") in which the Group holds an equity interest ("**Eligible Employee**");

(bb) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;

(cc) any supplier of goods or services to any member of the Group or any Invested Entity;

(dd) any customer of the Group or any Invested Entity;

(ee) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;

(ff) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;

(gg) any adviser (professional or otherwise) or consultant to any area of business or business development of the Group or any Invested Entity; and

(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 and growth of the Group,

and, for the purposes of the Share Option Scheme, the options may be granted 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 the Company for the subscription of Shares or other securities of the Group to any person who falls within any of the above classes of participants shall not, by itself, unless the Directors otherwise determined, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the above class of participants to the grant of any option shall be determined by the Directors from time to time on the basis of the Directors' option as to his contribution to the development and growth of the Group.

(iii) Maximum number of 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 of the Group shall not in aggregate exceed 30% of the issued share capital of the Company from time to time.

(bb) The total number of Shares which may be issued upon 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 the Group) to be granted under the Share Option Scheme and any other share option scheme of the Group shall not in aggregate exceed 10% of the Shares in issue on the day on which trading of the Shares commence on the Main Board ("**General Scheme Limit**"), but excluding any Shares which may be issued upon the exercise of the Over-allotment Option.

(cc) Subject to (aa) above and without prejudice to (dd) below, the Company may issue a circular to its Shareholders and seek approval of its Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share options scheme of the Group shall not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit and for the purpose of calculating the refreshed limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of the Group) previously granted under the Share Option Scheme and any other share option scheme of the Group will not be counted. The circular sent by the Company to its 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, the Company may seek separate Shareholders' approval in general meeting to grant options beyond the General Scheme Limit or, if applicable, the refreshed limit referred to in (cc) above to participants specifically identified by the Company before such approval is sought. In such event, the Company must send a circular to its Shareholders containing a general 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 exercise of the options granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being ("**Individual Limit**"). Any further grant of options in aggregate in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to the Shareholders and the Shareholders' approval in general meeting of the Company with such participant and his associates abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before Shareholders' approval and the date of 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 connected persons

(aa) Any grant of options under the Share Option Scheme to a director, chief executive or substantial shareholder of the Company or any of their respective associates (as defined under the Listing Rules) must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options).

(bb) Where any grant of options to a substantial Shareholder of the Company 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 grant, in excess of HK$5 million;

such further grant of options must be approved by Shareholders of the Company in general meeting. The Company must send a circular to the Shareholders. All connected persons of the Company must abstain from voting 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 of the Company or any of their respective associates must be approved by the Shareholders of the Company 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 the Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by the Directors and stated in the offer of 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 the Directors otherwise determined and stated in the offer of 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 Shares and consideration for the option

The subscription price per Share under the Share Option Scheme will be a price determined by the 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 on the date of the offer of grant, which must be a Business Day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of 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 Shares

(aa) Shares allotted upon the exercise of an option will be subject to all the provisions of the Articles of Association of the Company 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 the Company is closed, the first day of the re-opening of the register of members ("**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 upon the exercise of an option shall not carry voting rights until the completion of the registration of the grantee on the register of members of the Company as the holder thereof.

(bb) Unless the context otherwise requires, references to "**Shares**" in this paragraph include references to shares in the ordinary equity share capital of the Company of such nominal amount as shall result from a subdivision, consolidation, re-classification or re-construction of the share capital of the Company from time to time.

(x) Restrictions on the time of 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 meeting of the Directors for the approval of the 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 last date on which the Company must publish its announcement of its results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and ending on the date of the announcement of the results, no option may be granted.

The Directors may not grant any 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 the 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 for serious misconduct or other 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 will not be exercisable unless the 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 the 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 the Group 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 the Company, any of its 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 which date shall be the last day on which the grantee was at work with the Group or the Invested Entity whether salary is paid in lieu of notice or not or such longer period as the 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 that he has been guilty of 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 the Directors does not bring the grantee or the Group or the Invested Entity into disrepute), his option will lapse automatically and will not be exercisable on or after the date of cessation to be an Eligible Employee.

(xv) Rights on breach of contract

If the 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 the Group 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 the Group by reason of the cessation of its relations with the Group 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 items (1), (2) or (3) above, his option will lapse automatically and will not be exercisable on or after the date on which the 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, the 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 of the Company. 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 the Company in exercise of his option at any time before 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.

(xvii) Rights on winding up

In the event of a resolution being proposed for the voluntary winding-up of the Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to the 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 the 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 resolution is to be considered and/or passed whereupon the grantee 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 the 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 the 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:

(i) 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

(ii) 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 the 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 the Company whilst an option remains exercisable, such corresponding adjustment (if any) certified by the auditors for the time being of or an independent financial adviser to the Company as fair and reasonable will be made to (aa) the number or nominal amount of Shares to which the Share Option Scheme or any option relates, so far as unexercised, (bb) the subscription price of the option concerned, and/or (cc) (unless the relevant grantee elects to waive such adjustment) the number of Shares comprised in the option or which remain comprised in the option provided that (i) any adjustments shall give a grantee the same proportion of the issued share capital to which he was entitled prior to such alteration; (ii) the issue of Shares or other securities of the Group as consideration in a transaction may not be regarded as a circumstance requiring adjustment; and (iii) no adjustment shall be made the effect of which would be to enable a Share to be issued at less than its nominal value. 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 the Directors in writing that the adjustments satisfy the requirements of the relevant provision of the Listing Rules and such other applicable guidance and/or interpretation of the Listing Rules from time to time issued by the Stock Exchange (including, but not limited to, the "Supplementary Guidance on Main Board Listing Rule 17.03(13) and the Note immediately after the Rule" attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to the share option scheme).

(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 the Directors.

When the 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 to sub-paragraphs (iii) (cc) and (dd) above.

(xxi) Termination of the Share Option Scheme

The 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 period referred to in paragraph (vi);

(bb) the expiry of the periods or dates referred to in paragraph (xii), (xiii), (xiv), (xv), (xvii) and (xviii); and

(cc) the date on which the Directors shall exercise the Company's right to cancel the option by reason of a breach of paragraph (xxii) by the grantee in respect of that or any other options.

(xxiv) Others

(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 issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number representing 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 of the Company 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 the 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 the 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 representing 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 and tax indemnities

Each of the Controlling Shareholders (collectively the "**Indemnifiers**") has entered into a deed of indemnity with and in favour of the Company (for itself and as trustee for each of its present subsidiaries) (being the material contract referred to in paragraph 8(d) of this Appendix) and all its present subsidiaries to provide indemnities on a joint and several basis in respect of, among other matters, any liability for Hong Kong estate duty which might be incurred by any member of the Group by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong)) to any member of the Group on or before the date on which the Share Offer becomes unconditional.

Under the deed of indemnity, the Indemnifiers have also given indemnities to the Group on a joint and several basis in relation to taxation which might be payable by any member of the Group in respect of among other matters any income, profits or gains earned, accrued or received on or before the date on which the Share Offer becomes unconditional.

The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries in the Cayman Islands, BVI and the PRC.

The deed of indemnity does not cover any claim and the Indemnifiers shall be under no liability under the deed of indemnity in respect of any taxation:

(a) to the extent that provision has been made for such taxation in the audited accounts of the Company or any of its subsidiaries up to 30 April 2007; or

(b) to the extent that such taxation or liability for such taxation falling on any member of the Group in respect of their accounting period commencing on 1 May 2007 and ending on the Listing Date, where such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily effected, by any member of the 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:

    (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after 1 May 2007; or

    (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before 30 April 2007;

(c) to the extent that such claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law or the interpretation or practice thereof by the Inland Revenue Department of Hong Kong or any other relevant authority coming into force after the date of the deed of indemnity or to the extent such claim arises or is increased by an increase in rates of taxation after the date of the deed of indemnity with retrospective effect; or

(d) to the extent of any provisions or reserve made for taxation in the audited accounts of any member of the Group up to 30 April 2007 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 item (d) to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

17. Litigation

The Directors confirm that neither the Company nor any of its subsidiaries is engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries, that would have a material adverse effect on the results of operations or financial condition of the Group.

18. Joint Sponsors

The listing of our Shares on the Stock Exchange is jointly sponsored by ICEA and Access Capital. The Joint Sponsors have made an application for and on behalf of the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares that may be issued upon the exercise of the Over-allotment Option or any 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 on the Main Board.

As part of the Reorganisation, ICBC (Asia) provided the ICBC Loan to Boom Instant for the purposes of financing the acquisition of the entire equity interest in the registered capital of Shandong Qunxing by Best Known. As indicated in the section headed "Financing arrangement in respect of the Reorganisation" under the section headed "Business" in this prospectus, the proceeds received by Boom Instant from the sale of Sale Shares will be used to repay the ICBC Loan. As this amount may represent more than 15% of the total proceeds to be raised from the Share Offer (assuming no exercise of the Over-allotment Option), ICEA may not be considered as an independent sponsor pursuant to Rule 3A.07 of the Listing Rules. Access Capital satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. Therefore, the requirement of having at least one independent sponsor in a listing application set out in Rule 3A.07 is satisfied.

19. Preliminary expenses

The estimated preliminary expenses of the Company are approximately US$3,500 and are payable by the Company.

20. Promoters

The promoters of the Company are Mr. Zhu and Mr. Zhu Mo Qun. Save as disclosed herein, within the two years immediately preceding the date of this prospectus, no cash, securities, amount or other benefit has been paid, allotted or given to any promoter in connection with the Share Offer of the related transactions described in this prospectus.

21. Qualifications of experts

The qualifications of the experts who have given opinions or advices in this prospectus are as follows:

Name	Qualification
ICEA Capital Limited	A corporation licensed under transitional arrangement to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) of the regulated activities under the SFO
Access Capital Limited	A licensed corporation under the SFO, which is permitted to conduct Type 1, (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
KPMG	Certified Public Accountants
Jingtian & Gongcheng	Licensed legal advisers on PRC laws
LCH (Asia-Pacific) Surveyors Limited	Chartered Surveyors

22. Consents of experts

Each of ICEA Capital Limited, Access Capital Limited, Conyers Dill & Pearman, KPMG, Jingtian & Gongcheng and LCH (Asia-Pacific) Surveyors Limited has given and has not withdrawn its written consents to the issue of this prospectus with copies of their reports, letters, valuation, opinions or summaries of opinions (as the case may be) and the references to their names or summaries of opinions included herein in the form and context in which they respectively appear.

23. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

24. Taxation of holders of Shares

Dealings in Shares registered on the 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 the Company, the Selling Shareholder, the Directors or the other parties involved in the Share Offer 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 Cayman Islands law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty.

25. Miscellaneous

(a) Save as disclosed herein:

(i) within two years immediately preceding the date of this prospectus:

(aa) no share or loan capital of the Company or of any of its 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; and (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 the Company or any of its subsidiaries;

(cc) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any Share in the Company or any of its subsidiaries; and

(dd) no amount or benefit has been paid or given or intended to be paid or given to the promoter of the Company;

(ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iii) there has been no material adverse change in the financial position or prospects of the Group since 30 April 2007 (being the date to which the latest audited combined financial statements of the Group were made up); and

(iv) there has not been any interruption in the business of the Group which may have or has had a material adverse effect on the financial position of the Group.

(b) Subject to the provisions of the Companies Law, the register of members of the Company will be maintained in the Cayman Islands by Butterfield Fund Services (Cayman) Limited and a branch register of members of the Company will be maintained in Hong Kong by Tricor Investor Services Limited. Unless the Directors otherwise agree, all transfers and other documents of title of Shares must be lodged for registration with and registered by, the Company's branch share registrar in Hong Kong and may not be lodged in the Cayman Islands.

(c) All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

26. 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 from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

27. Particulars of the Selling Shareholder

The Selling Shareholder of the Sale Shares is Boom Instant whose registered office is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, BVI. Its principal business is investment holding.

Boom Instant is owned as to 80% by Addinsight and 20% by Be Broad. Addinsight is, in turn, owned as to 87.5% by Mr. Zhu, an executive Director and 12.5% by Mrs. Zhu, a non-executive Director. Mr. Zhu Mo Qun, an executive Director, is the sole shareholder of Be Broad.

Save as disclosed above, none of the Directors are interested in the Sale Shares.

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE** and **YELLOW** Application Forms, the written consents referred to in the sub-paragraph 22 headed “Consents of experts” under the paragraph headed “Other information” in Appendix VI to this prospectus, a statement of particulars of the Selling Shareholder, statement of adjustments prepared by KPMG and copies of the material contracts referred to in the sub-paragraph 8 headed “Summary of material contracts” under the paragraph headed “Further information about the business of the Group” in Appendix VI to this prospectus.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Chiu & Partners at 41st Floor, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours up to and including Tuesday, 2 October 2007:

(a) the memorandum of association of the Company and the Articles of Association;

(b) the audited combined financial statements of the Group for each of the three years ended 31 December 2006 and the four months ended 30 April 2007 (or for the period since their respective dates of incorporation where it is shorter);

(c) the accountants’ report prepared by KPMG, the text of which is set out in Appendix I to this prospectus, together with the related statement of adjustments;

(d) the letter prepared by KPMG on the unaudited pro forma financial information of the Group, the text of which is set out in Appendix II to this prospectus;

(e) the letters prepared by the Joint Sponsors and KPMG on our profit forecast, the texts of which are set out in Appendix III to this prospectus;

(f) the letter, summary of values and valuation certificate relating to the property interests of the Group prepared by LCH (Asia-Pacific) Surveyors Limited, the texts of which are set out in Appendix IV to this prospectus;

(g) the letter of advice prepared by Conyers Dill & Pearman referred to in Appendix V to this prospectus, summarising certain aspects of the Cayman Islands law;

(h) the material contracts referred to in the sub-paragraph 8 headed “Summary of material contracts” under the paragraph headed “Further information about the business of the Group” in Appendix VI to this prospectus;

(i) the service contracts with Directors, referred to in the sub-paragraph 11(b) headed "Particulars of service contracts" under paragraph headed "Further information about Directors, management and staff and experts" in Appendix VI to this prospectus;

(j) the written consents referred to in sub-paragraph 22 headed "Consents of experts" under the paragraph headed "Other information" in Appendix VI to this prospectus;

(k) 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;

(l) the statement of particulars of the Selling Shareholder including its name, address and description;

(m) the rules of the Share Option Scheme; and

(n) the Companies Law.

Qunxing Paper Holdings Company Limited

群星紙業控股有限公司