

## RISK FACTORS

*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.

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### **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.

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### **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.

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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,

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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.

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### **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.

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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.

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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.

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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.

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### **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

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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.

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### **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

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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.

## RISK FACTORS

### **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.