

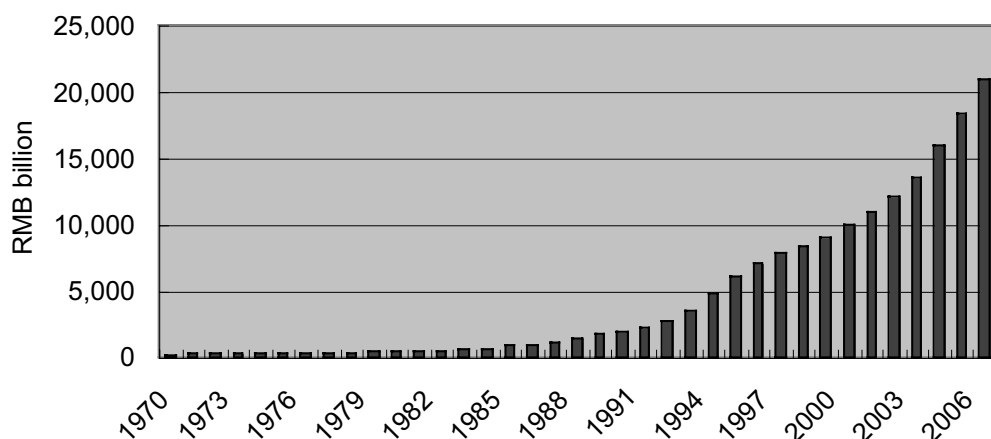
INDUSTRY OVERVIEW

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



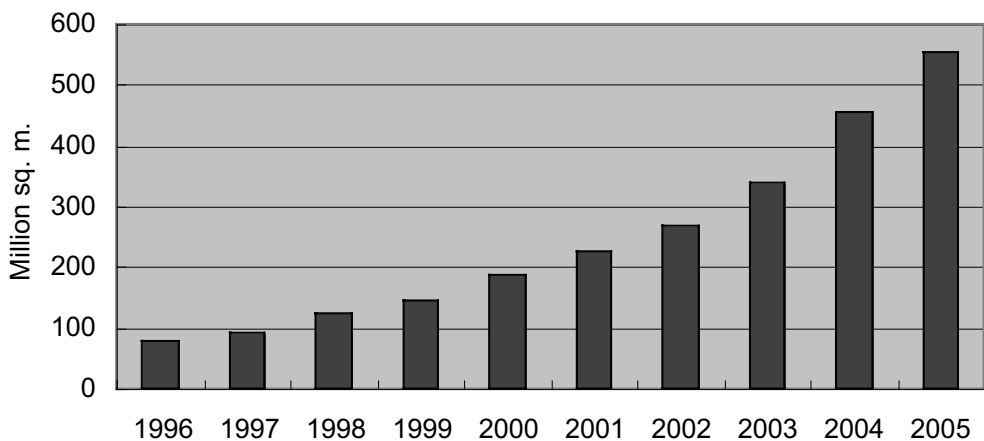
Source: National Bureau of Statistics of China

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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

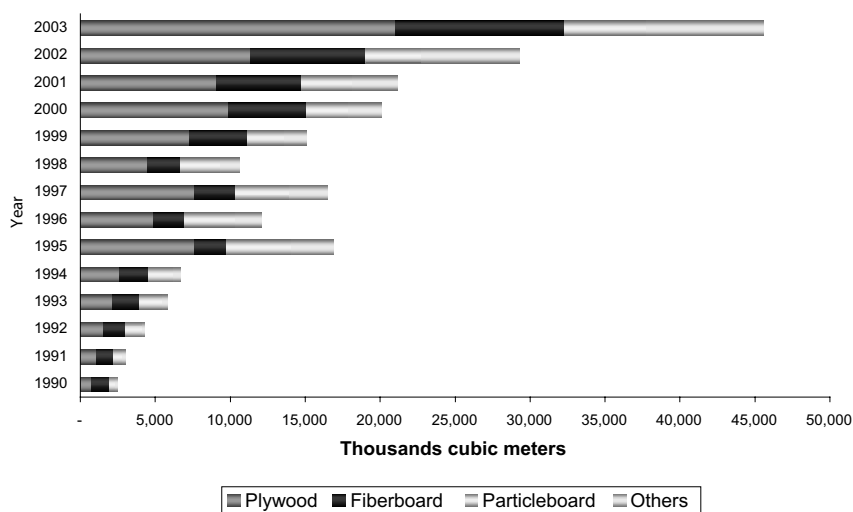
Based on the assumed GDP growth in the PRC at an annual growth rate of at least 7% for the next 20 years and coupled with the expected continuing urbanisation (projected population growth of city area from 520 million to 750-800 million), demand for housing is expected to grow even faster. As with other 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

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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.

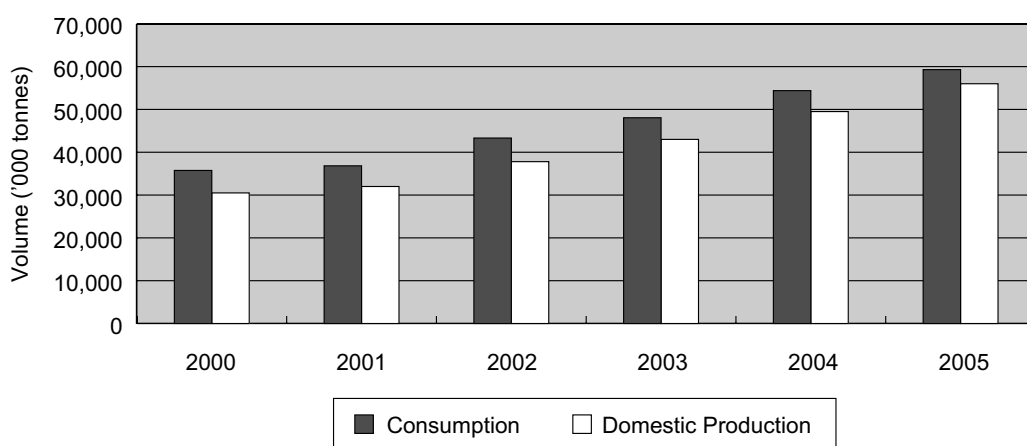
With the growing economy, the demand for paper products is expected to continue to increase in the PRC. However, the PRC's paper manufacturers are facing a number of issues, including shortage of domestically produced raw materials and stringent environmental protection measures imposed by the PRC government.

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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

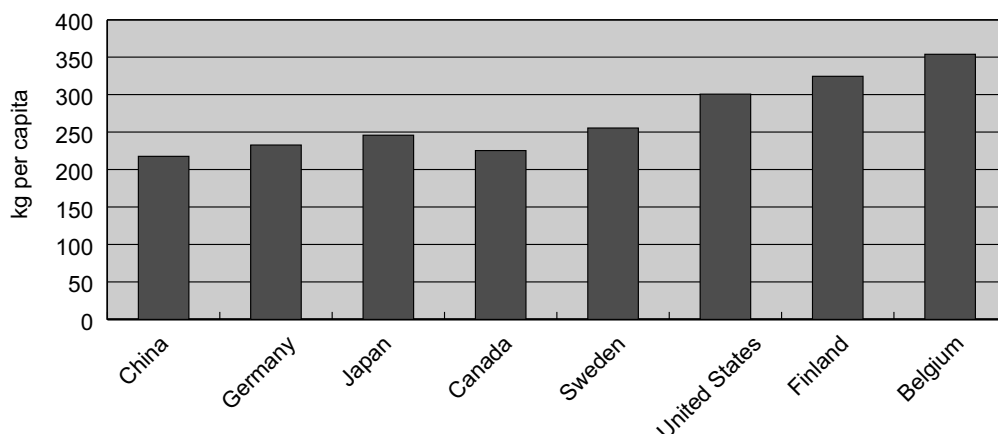


Source: China Paper Association

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

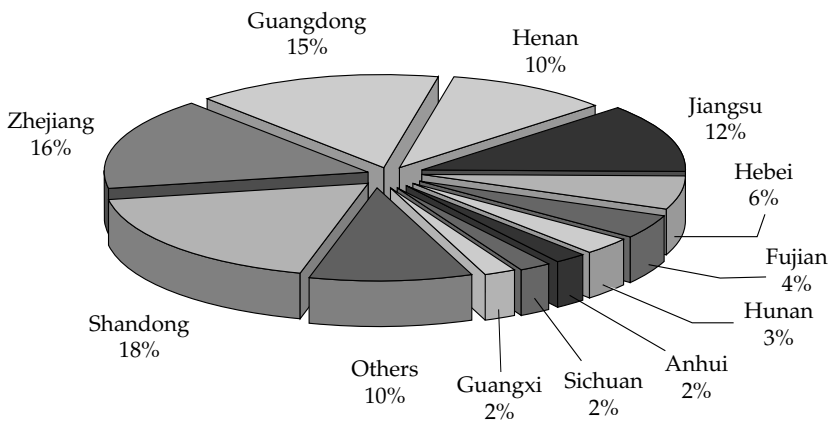


Source: China Paper Association

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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

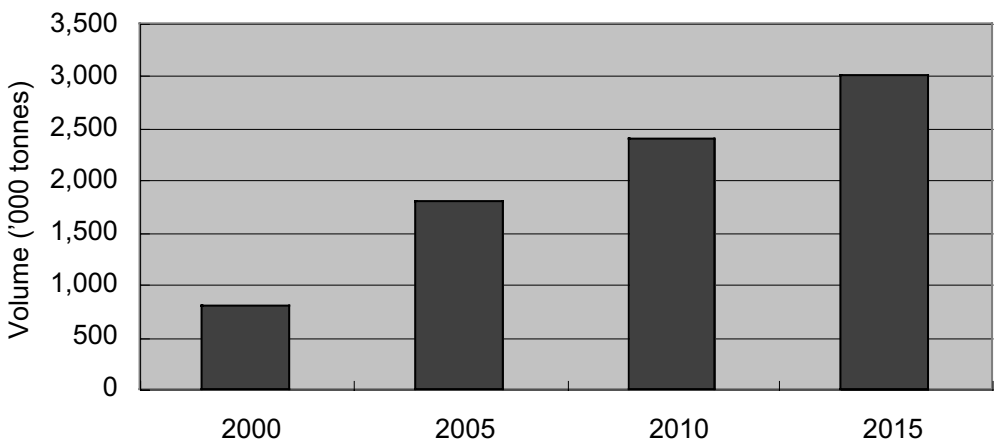


Source: China Paper Association

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

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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.

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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.

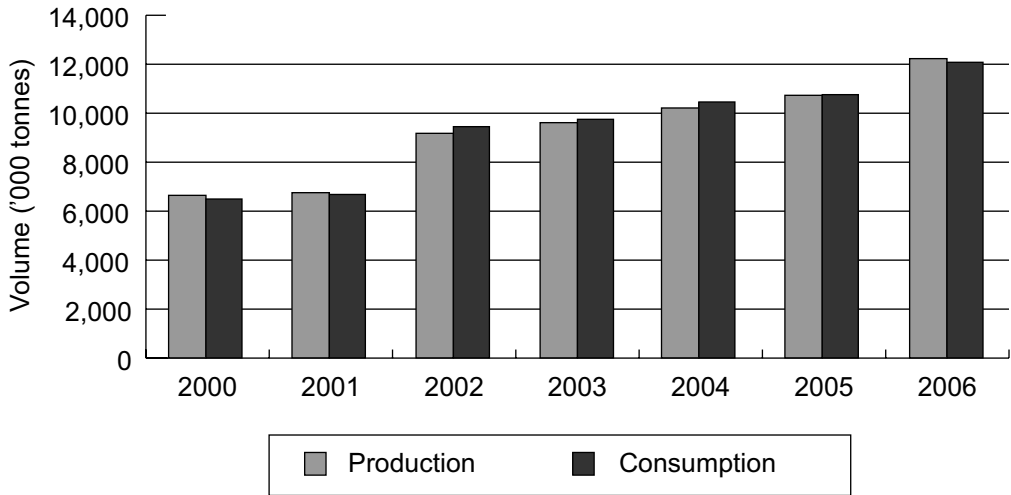
Printing and writing paper

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.

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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.

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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.

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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.

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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-

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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

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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.

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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.

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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.