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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.

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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 鄒平鑾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.

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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

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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 of 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

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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.

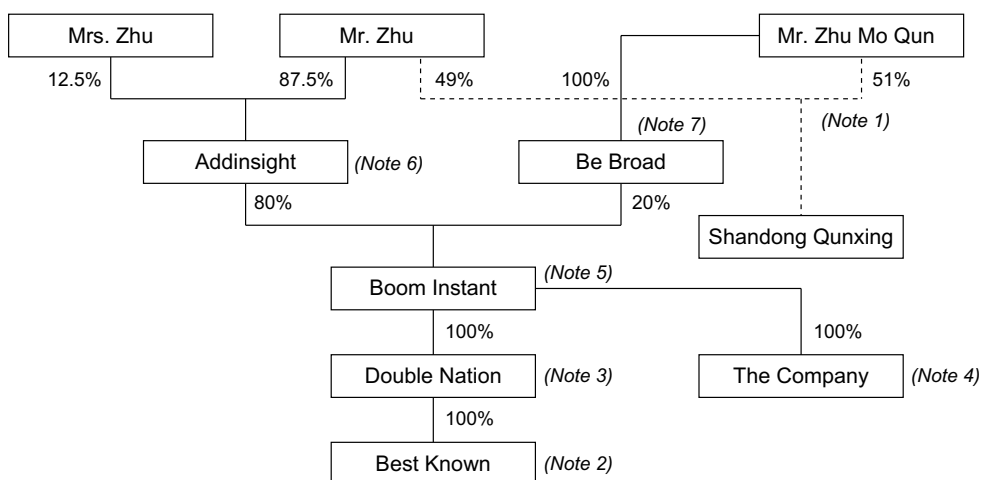
Pursuant to 關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知 (Notice of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration on Domestic Residents’ Fund-raising and Return Investment via Overseas Special Purpose Companies*) promulgated by SAFE on 21 October 2005 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.

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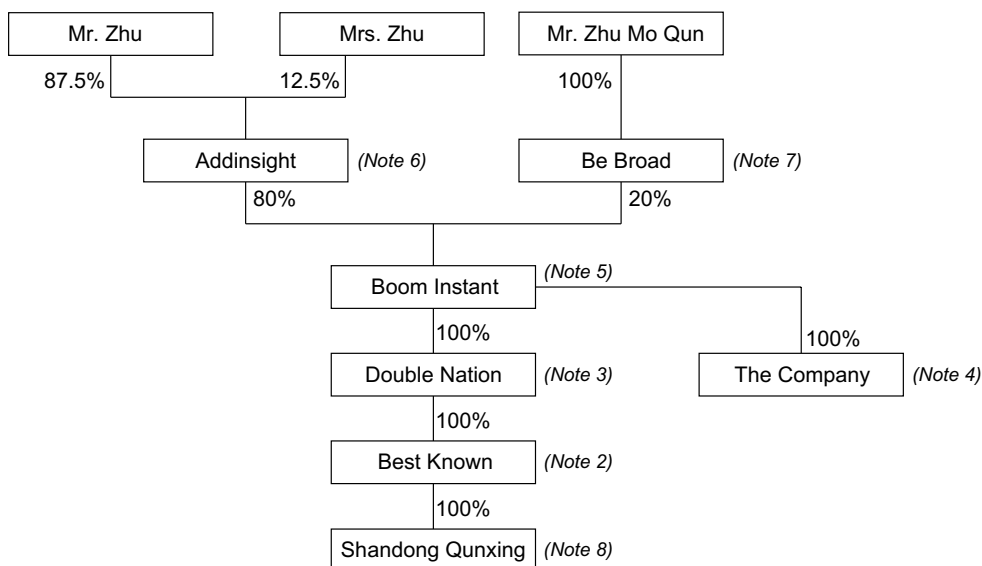
Best Known and Double Nation

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

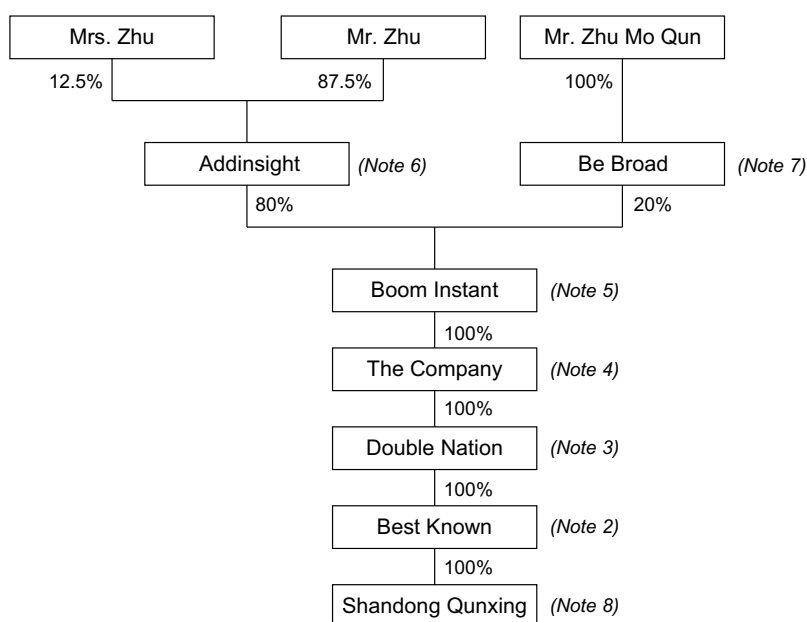


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Company and share swap

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).

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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).

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- (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).

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- (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).

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- (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.

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Milestones of our production capacity expansion and business development

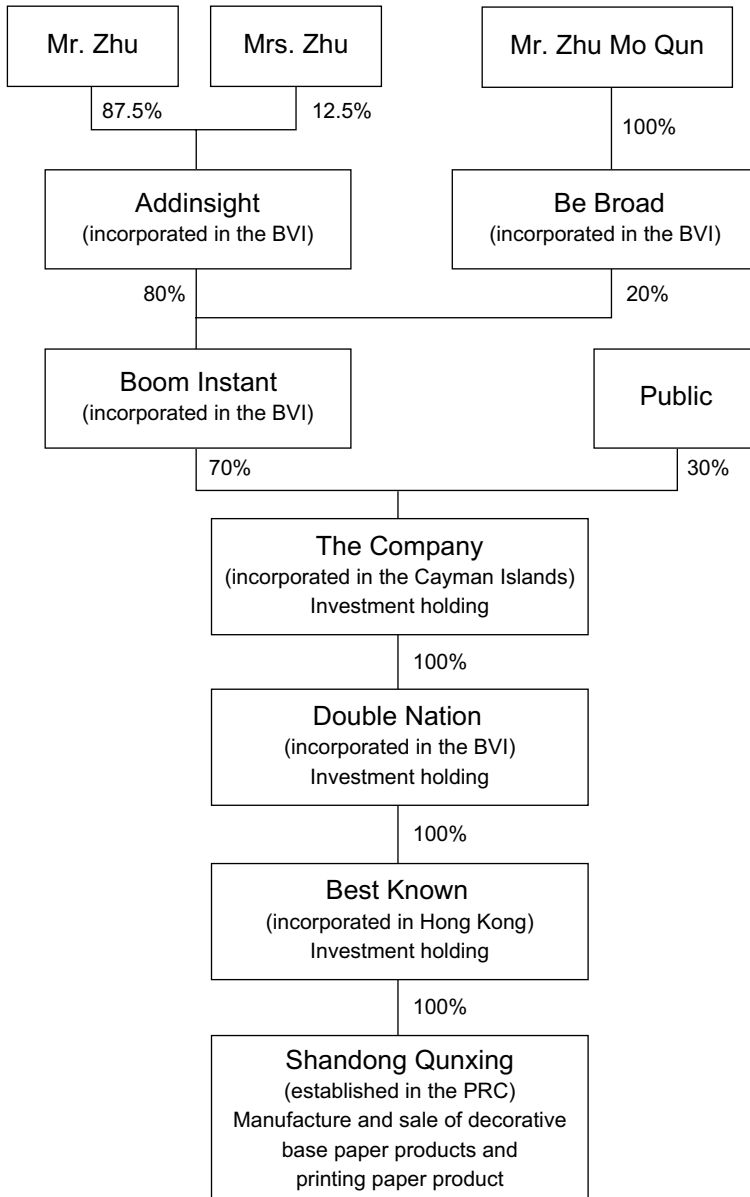
The following is a summary of the milestones of our production capacity expansion and business development:

| | |
|--------------|--|
| 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 |

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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.

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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

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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

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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.

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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.

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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 |

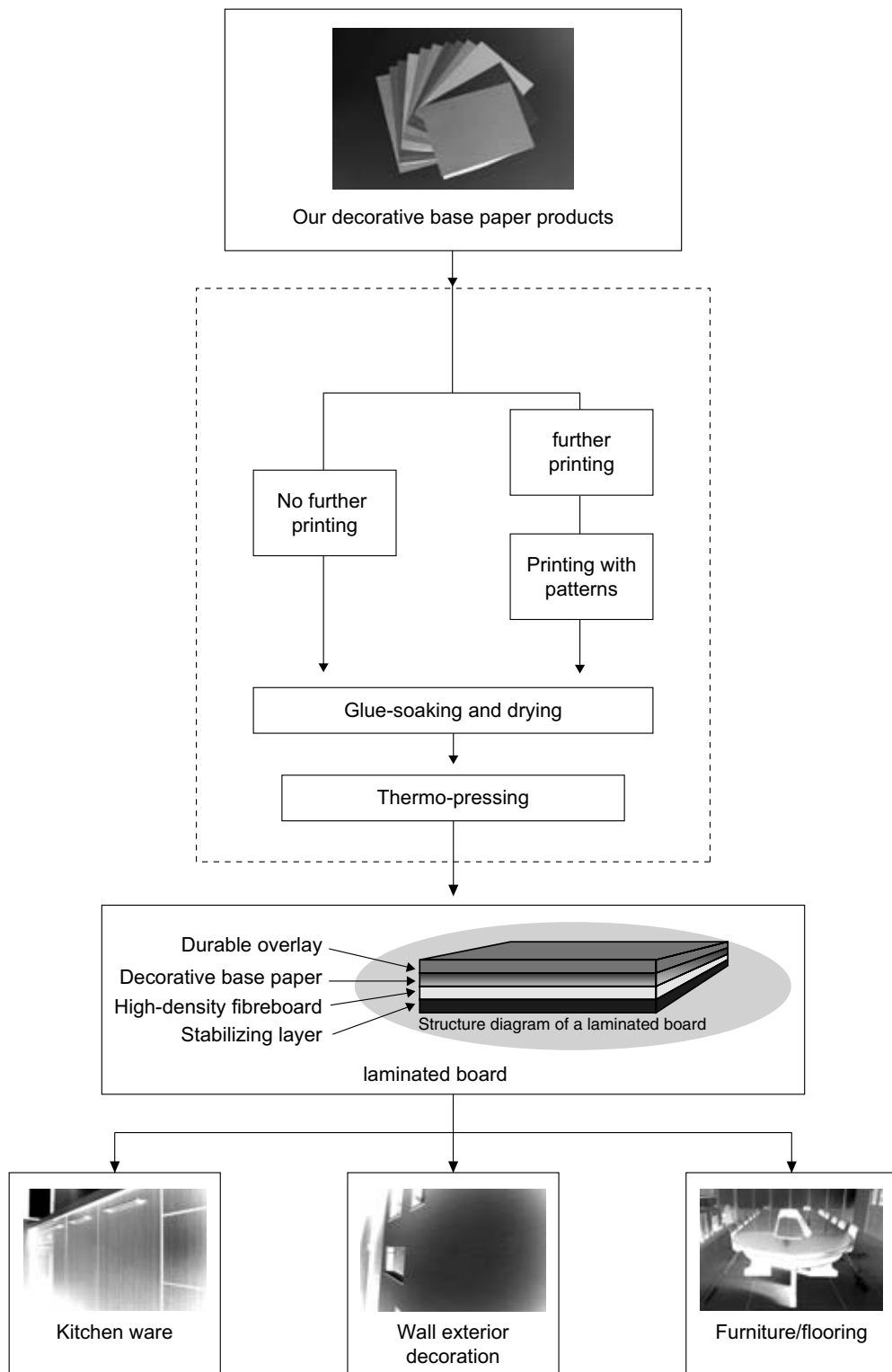
Decorative base paper

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.

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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.

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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 <i>(note 1)</i> | Water absorption level <i>(note 2)</i> | 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.

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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.

BUSINESS

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.

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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.

BUSINESS

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:

| Production line | Year end 31 December | | | | | | | | | | | |
|-----------------|-----------------------|---------------------------------------|----------------------------|-----------------------|---------------------------------------|----------------------------|-----------------------|---------------------------------------|----------------------------|------------------------------------|---------------------------------------|----------------------------|
| | 2004 | | | 2005 | | | 2006 | | | Four months ended 30 April 2007 | | |
| | Actual | Planned | Equipment | Actual | Planned | Equipment | Actual | Planned | Equipment | Actual | Planned | Equipment |
| | hours of operation | hours of operations ⁽¹⁾ | Utilisation ⁽²⁾ | hours of operation | hours of operations ⁽¹⁾ | Utilisation ⁽²⁾ | hours of operation | hours of operations ⁽¹⁾ | Utilisation ⁽²⁾ | hours of operation | hours of operations ⁽¹⁾ | 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.

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Utilities supply

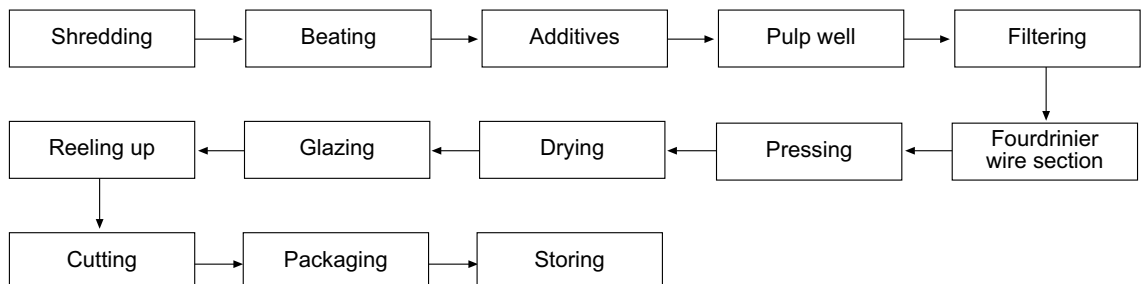
We require a significant amount of water, electricity and steam in our production process and obtain water supply from 鄒平縣水資源管理委員會 (Zouping County Water Resource Management Committee*), an Independent Third Party, and electricity and steam from 山東齊星長山熱電有限公司 (Shandong Qixing Changshan Heat and Electricity 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.

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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

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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.

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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.

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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.

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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.

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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

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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

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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.

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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

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was promulgated by the People's Congress of Shandong 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

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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 |

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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

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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.

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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 |
|-------------------------|--|--|--|---------------|---|
| <i>Shandong Qunxing</i> | | | | | |
| 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 |

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| 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*).

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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.