SELECTED FINANCIAL INFORMATION

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

TRADING RECORD DURING THE TRACK RECORD PERIOD

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

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

COMBINED BALANCE SHEETS

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

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

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

Overview

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

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

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

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

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

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

Basis of preparation of financial information

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

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

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

Critical accounting policies and practices

The discussion and analysis of our operating results and financial condition are based on our audited financial information, which have been prepared in accordance with IFRSs issued by IASB. Our operating results and financial condition are sensitive to the accounting methods, assumptions and estimates that underlie the preparation of the financial information. The assumptions and estimates are based on our industry experience and on various other factors, including our Directors' expectations of future events that they believe to be reasonable. Our management evaluates these estimates on an ongoing basis. Actual results may differ from these estimates as facts, circumstances and conditions change or as a result of different assumptions.

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

- the selection of critical accounting policies; and
- the judgments and other uncertainties affecting the application of those critical accounting policies.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our audited financial information. Our significant accounting policies are summarised in note 1 of the accountants' report on our Group in Appendix I to this prospectus. We believe the following critical accounting policies and practices, involve a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives of plant and machinery

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

Major factors affecting our results of operations

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

The business environment in the PRC

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

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

The expansion of our production capacity in recent years

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

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

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

The increase of our equipment utilisation rate

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

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

Notes:

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

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

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

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

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

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

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

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

Our product mix

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

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

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

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

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

Our sales volumes and average selling prices

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

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

Our cost of production

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

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

Description of the major components of our results of operations

Turnover

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

Cost of sales

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

Other revenue

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

Selling expenses

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

Administrative expenses

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

Finance costs

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

Income tax

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

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

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

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

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

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

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

Period-to-period analysis of our trading record

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

Turnover

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

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

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

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

Cost of sales

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

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

Gross profit and gross profit margin

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

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

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

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

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

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

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

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

Other revenue

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

Selling expenses

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

Administrative expenses

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

Profit from operations

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

Finance costs

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

Income tax

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

Profit for the period and the net operating profit margin

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

Year-to-year analysis of our trading record

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

Turnover

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

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

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

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

Cost of sales

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

Gross profit and gross profit margin

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

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

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

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

Other revenue

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

Selling expenses

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

Administrative expenses

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

Profit from operations

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

Finance costs

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

Income tax

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

Profit for the year and the net operating profit margin

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

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

Turnover

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

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

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

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

Cost of sales

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

Gross profit and gross profit margin

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

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

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

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

Other revenue

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

Selling expenses

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

Administrative expenses

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

Profit from operations

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

Finance costs

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

Income tax

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

Profit for the year and the net operating profit margin

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

Key financial ratios

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

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

Notes:–

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

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

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

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

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

6. Quick ratio is calculated based on the difference between the total current assets and the inventories divided by the total current liabilities at the end of the year/period.

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

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

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

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

ANALYSIS ON SELECTED FINANCIAL RATIOS

Current and quick ratios

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

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

Gearing ratio

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

Our gearing ratio decreased from approximately 46.4% as at 31 December 2006 to approximately 40.5% as at 30 April 2007, which was mainly due to the fact that our bank borrowings decreased by approximately 13.6% from RMB332.0 million as at 31 December 2006 to RMB287.0 million as at 30 April 2007 while there was no material change in our total assets as at the respective date. During the four months ended 30 April 2007, our net cash generated from operating activities amounted to approximately RMB108.9 million which had been used to repay the bank borrowings of RMB45.0 million and part of the trade payables. Therefore, the total assets, comprising the non-current assets and current assets, had no material change while our bank borrowings decreased by 13.6%.

Return on assets

Return on assets is an indicator of how profitable a company is in terms of its total assets and gives an idea as to how efficient a company is in using its assets to generate earnings. Our return on assets for each of the three years ended 31 December 2006 and the four months ended 30 April 2007 amounted to approximately 10.5%, 12.0%, 13.1% and 9.5% (with the annualised figures amounting to approximately 28.5% for indicative purpose only), respectively. The improved return on assets during the three years ended 31 December 2006 was mainly attributable to the economy of scale brought by the increase in equipment utilisation rate of our production lines as well as the expansion of our production scale during the years. As a result of the entitlement of taxation holiday by our principal operating subsidiary in the PRC, Shandong Qunxing, as explained above, our return on assets for the four months ended 30 April 2007 further improved.

Return on equity

Return on equity measures the efficiency of a company in generating profits from every dollar of net assets invested. Our return on equity for each of the three years ended 31 December 2006 and the four months ended 30 April 2007 amounted to approximately 36.7%, 36.1%, 105.7% and 19.3% (with the annualised figures amounting to approximately 57.9% for indicative purpose only), respectively. The comparatively high return on equity for the year ended 31 December 2006 was mainly attributable to the fact that the consideration payable by Best Known for the acquisition of entire equity interest of Shandong Qunxing for the purpose of Reorganisation remained outstanding as at 31 December 2006 and was, therefore, classified as an amount due to the Controlling Shareholders instead of a component of the shareholders' equity of our Group as at 31 December 2006. As such, the shareholders' equity of our Group as at 31 December 2006 dropped significantly which resulted in an increase in our return on equity for the year ended 31 December 2006.

Our improved profitability attributable to the benefit resulting from the economy of scale and the entitlement of taxation holiday of Shandong Qunxing had improved the return on equity as at 30 April 2007 as compared to that of approximately 12.0% as at 30 April 2006.

Inventories and the inventory turnover days

Inventories balance as at the respective year/period end during the Track Record Period represents our raw materials reserve and the unsold finished goods that were kept in our warehouse.

Our inventories level increased by approximately 16.0% from approximately RMB33.1 million as at 31 December 2004 to approximately RMB38.4 million as at 31 December 2005. The increase was mainly attributable to the increase in the inventories of our finished goods, which was in line with the increase in our production capacity during the year ended 31 December 2005 as a result of the full year production of our production line no. 4 which commenced its commercial production in August 2004.

Our inventories level increased by approximately 32.8% from approximately RMB38.4 million as at 31 December 2005 to approximately RMB51.0 million as at 31 December 2006. The increase was mainly due to the increase in the inventories of our raw materials as a result of (i) the commencement of commercial production of our production lines no. 5 and no. 6 in April 2006 which added a total of 22,047 tonnes to our total production volume for the year ended 31 December 2006; and (ii) our implementation of the safety stock policy to maintain our inventories of raw materials at a level which can satisfy our production needs for approximately 1 week.

Our inventories level decreased by approximately 31.6% from approximately RMB51.0 million as at 31 December 2006 to approximately RMB34.9 million as at 30 April 2007. The decrease in the inventories level as at 30 April 2007 was mainly attributable to the fact that fewer raw materials were kept by us as at 30 April 2007 as a result of the planned suspension of our production during the Labour Day Golden Week public holidays in the PRC which began on 1 May 2007. In addition, fewer finished goods were kept by us as at 30 April 2007 as a large part of our finished goods were sold and delivered to our customers before the said long public holidays. As at the Latest Practicable Date, over 99.7% of the closing inventory as at 30 April 2007, which amounted to approximately RMB34.9 million, had been utilised subsequently.

Our inventory turnover days were 37, 30, 30 and 23 for each of the three years ended 31 December 2006 and the four months ended 30 April 2007, respectively. The improvement during the Track Record Period was mainly due to the implementation of more effective inventory control policy and measures. It is our practice to purchase sufficient amount of raw materials based on our production schedule and to keep seven one week's supply in storage. For finished products, it is our practice to keep minimal stock of finished products in the storage warehouse at our production base at Binzhou City to satisfy any customer's urgent demand. We may also keep reserve stock of finished products at times when our Directors believe that the market demand for decorative base paper makes it prudent to do so.

Trade receivables and debtors' turnover days

Trade receivables balance as at the respective year/period end during the Track Record Period represents the outstanding amounts receivable by us from our customers who have been granted with credit period. Normally, we require our customers to settle our invoices by cash on delivery. The granting of credit to customers is assessed on a case-by-case basis and we may grant credit terms of 30 days on a rolling basis to our customers with whom we have maintained a longer business relationship.

Our trade receivables balance as at 31 December 2004, 2005, 2006 and 30 April 2007 amounted to approximately RMB39.3 million, RMB64.1 million, RMB80.5 million and RMB63.4 million, respectively. The increase in trade receivables as at 31 December 2004, 2005 and 2006 was consistent with the increase in revenue from our decorative paper products and the revenue generated from the introduction of a new product line of printing paper in July 2006. Our Group has further tightened the credit period offered to part of our major customers with a view to minimising the outstanding balance receivable from such customers, such that our exposure to the credit risk from trade debtors could be reduced. Thus, our trade receivable balance as at 30 April 2007 decreased by approximately 21.2% from approximately RMB80.5 million as at 31 December 2006 to approximately RMB63.4 million as at 30 April 2007. As at the Latest Practicable Date, trade receivables of approximately RMB63.4 million as at 30 April 2007 had been fully repaid by our customers.

Our debtors' turnover days were 31, 34, 31 and 23 for each of the three years ended 31 December 2006 and the four months ended 30 April 2007, respectively. We adopted a stringent customer credit control policy and credit evaluations were performed on all customers requesting for credit. During the Track Record Period, most of our sales were made either on a cash-on-delivery basis or with a 30-day credit period from the date of billing. Customers with overdue balances are generally requested to settle all outstanding balances before any further goods are delivered to them. As such, the ageing of most of our trade receivables balance as at each of 31 December 2004, 2005, 2006 and 30 April 2007 can be maintained within 30 days from the date of billing to our customers.

Trade payables and creditors' turnover days

Trade payables balance as at the respective year/period end during the Track Record Period represents the outstanding amounts payable by us to our suppliers of raw materials. The credit periods granted by various suppliers generally range from 3 days to 30 days during the Track Record Period. With the expected higher level of production volume of our decorative base paper products and printing paper product, more trade purchases were made by us with our suppliers for raw materials to fulfill the increasing demand. As such, our trade payables balance increased as at 31 December 2004, 2005 and 2006, which amounted to approximately RMB26.6 million, RMB31.7 million, RMB54.0 million, respectively. Our trade payables balance as at 30 April 2007 decreased by approximately 8.0% from approximately RMB54.0 million as at 31 December 2006 to approximately RMB49.7 million as at 30 April 2007. The decrease was mainly due to the decrease in purchase of raw materials before the Labour Day Golden Week public holidays and the new production process developed in-house has reduced the usage of raw materials. As at the Latest Practicable Date, trade payables of approximately RMB49.7 million as at 30 April 2007 had been fully settled.

Our creditors' turnover days were 30, 24, 31 and 33 for each of the three years ended 31 December 2006 and the four months ended 30 April 2007, respectively. In December 2005, we repaid trade debts of approximately RMB10.0 million before they fell due. As a result, our balance of trade payables as at 31 December 2005 reduced significantly which led to lower creditors' turnover days in 2005. It is our policy to settle all of the outstanding balances with our suppliers within the maximum credit period granted so as to maintain our relationships with the respective suppliers.

Other payables and accruals

Other payables and accruals balance as at the respective year/period end during the Track Record Period mainly represents the payable to independent contractors for the construction or modification of our production lines, payable for taxes and government surcharges other than the PRC income tax and accruals for staff-related costs.

Our other payables and accruals balance as at 31 December 2004 amounted to approximately RMB13.1 million, which included payable for the construction of our production line no. 4 amounting to approximately RMB7.7 million, payable for taxes and government surcharges other than the PRC income tax amounting to approximately RMB2.3 million and accruals for staff-related costs amounting to approximately RMB2.0 million. Other payables and accruals balance as at 31 December 2005 increased by 512.2% to approximately RMB80.2 million. The increase was mainly attributable to the increase in payable for construction of our production lines nos. 5 and 6 to approximately RMB71.3 million, the payables for taxes and government surcharges other than the PRC income tax amounting to RMB4.6 million, and the increase in accrued staff-related costs to approximately RMB2.7 million. Other payables and accruals balance as at 31 December 2006 decreased by 68.8% to approximately RMB25.0 million. The decrease was mainly attributable to the decrease in payable for modification of our production line no. 2 to RMB15.9 million and the decrease in payable for taxes and government surcharges other than the PRC income tax to RMB1.5 million, whereas the accrued staff-related costs increased from RMB2.7 million as at 31 December 2005 to RMB5.7 million as at 31 December 2006. Other payables and accruals balance as at 30 April 2007 further decreased to approximately RMB16.5 million. The decrease was mainly attributable to the decrease in payables for construction/modification of our production lines to RMB0.7 million.

Amounts due to the Controlling Shareholders

Amounts due to the Controlling Shareholders as at the respective year/period end during the Track Record Period mainly represented advances from the Controlling Shareholders and the consideration for the acquisition of the entire interest of the registered capital of Shandong Qunxing as set out in the section headed “Corporate reorganisation” in Appendix VI to this prospectus. The amounts due to the Controlling Shareholders are unsecured, interest-free and had no fixed repayment terms.

The amount due to a Controlling Shareholder as at 31 December 2004 was approximately RMB120.0 million, which represented the advance granted by that Controlling Shareholder to Shandong Qunxing for the purchase of property, plant and machinery as well as raw materials. Such amount was fully settled by cash during the year ended 31 December 2005. As a result, there was no remaining balance as at 31 December 2005. During the year ended 31 December 2006, as part of the Reorganisation, both Mr. Zhu Mo Qun and Mr. Zhu transferred their equity interests in the registered capital of Shandong Qunxing to Best Known at an aggregate consideration of HK$193,521,070.7 (equivalent to approximately RMB194.5 million at the exchange rate as at 31 December 2006) on 17 July 2006. Such amount was fully settled in February 2007 by way of the proceeds from the ICBC Loan. Please refer to the paragraph headed “Financing arrangement in respect of the Reorganisation” in the section headed “Business” of this prospectus for the details of the financing arrangement under the ICBC Loan. As at 30 April 2007, the amount due to a Controlling Shareholder was approximately RMB140,000 which represented the advance from that Controlling Shareholder to our Group. Such amount had been subsequently settled as at the Latest Practicable Date.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity

The following table summarises our cash flows during the Track Record Period:–

	Years ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Operating activities					
Profit before taxation	68,379	103,794	142,692	40,366	67,637
Adjustments for:					
– Loss on disposal of property, plant and equipment	–	–	–	–	6
– Depreciation	19,856	29,737	47,983	11,855	18,838
– Amortisation of lease prepayments	–	–	–	–	20
– Finance costs	5,281	13,793	20,625	5,860	7,310
– Interest income	(370)	(662)	(726)	(179)	(163)
– Foreign exchange loss	–	–	48	–	2,336
Operating profit before changes in working capital	93,146	146,662	210,622	57,902	95,984
(Increase)/decrease in inventories	(16,646)	(5,241)	(12,624)	(20,377)	16,119
(Increase)/decrease in trade and other receivables	(4,830)	(24,767)	(17,528)	(3,467)	15,438
Increase in amounts due from related parties	–	–	(81)	–	(212)
Increase in trade and other payables	14,140	8,554	22,559	42,393	2,343
Increase in amounts due to related parties	–	–	–	–	5,270
Cash generated from operations	85,810	125,208	202,948	76,451	134,942
PRC income tax paid	(18,328)	(32,597)	(44,633)	(17,988)	(26,036)
Net cash generated from operating activities	67,482	92,611	158,315	58,463	108,906

	Years ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Investing activities					
Payment for the purchase of property, plant and equipment	(148)	(108)	(5,126)	(696)	(776)
Payment for construction in progress	(142,787)	(68,780)	(213,425)	(112,210)	(15,200)
Payment for lease prepayments	–	–	–	–	(10,980)
Prepayment for the acquisition of plant and equipment	–	–	–	–	(16,678)
Proceeds from sales of property, plant and equipment	–	–	–	–	100
Interest received	370	662	726	179	163
Net cash used in investing activities	(142,565)	(68,226)	(217,825)	(112,727)	(43,371)
Financing activities					
Proceeds from loans from holding company	–	–	–	–	192,070
Proceeds from bank loans	133,200	250,200	342,047	228,000	183,000
Repayment of bank loans	(57,000)	(127,200)	(260,247)	(119,200)	(228,000)
Increase in restricted bank balance	–	–	–	–	(20,000)
Interest paid	(5,281)	(13,793)	(20,625)	(5,860)	(7,310)
(Increase)/decrease in amounts due from controlling shareholders of the Company	(26)	(21)	32	(545)	(194,476)
Increase/(decrease) in amounts due to controlling shareholders of the Company	19,986	(119,986)	–	333	140
Net cash generated from/(used in) financing activities	90,879	(10,800)	61,207	102,728	(74,576)
Net increase/(decrease) in cash and cash equivalents	15,796	13,585	1,697	48,464	(9,041)
Cash and cash equivalents at beginning of the year/period	36,187	51,983	65,568	65,568	67,265
Cash and cash equivalents at end of the year/period	51,983	65,568	67,265	114,032	58,224

Financial resources and capital structure

Net current assets as at 31 July 2007

As at 31 July 2007, being the latest practicable date for the preparation of the working capital sufficiency statement in this prospectus, we had net current assets of approximately RMB106.0 million, comprising current assets of approximately RMB213.9 million and current liabilities of approximately RMB107.9 million. The following table sets out the composition of our unaudited current assets and liabilities as at 31 July 2007:

	RMB'000 (unaudited)
Current assets	
Inventories	38,990
Trade and other receivables	66,560
Tax recoverable	4,365
Cash and cash equivalents	104,018
	213,933
Current liabilities	
Bank loans	40,000
Trade and other payables	67,882
	107,882
Net current assets	106,051

Capital structure

As at 30 April 2007, we had net assets of approximately RMB350.8 million, comprising non-current assets of approximately RMB525.2 million (principally consisting of property, plant and equipment, construction in progress and prepayment for acquisition of plant and equipment), net current liabilities of approximately RMB91.5 million and non-current liabilities of approximately RMB83.0 million (consisting of long term bank borrowings).

Cash flows

We generally finance our operations through a combination of shareholders' equity, internally generated cash flows and bank borrowings. Following completion of the Share Offer, we expect to finance our capital expenditure and operational requirements through internally generated cash flows, net proceeds from the New Issue and our cash reserve. Our Directors believe that on a long-term basis, our liquidity will be funded from operations and, if necessary, additional equity financing or bank borrowings.

As at 30 April 2007, we had bank and cash balances of approximately RMB78.2 million (including restricted bank balance of approximately RMB20.0 million), and unutilised banking facilities of RMB20.0 million.

Net cashflow from operating activities

Our major operating cash flows during the Track Record Period are the sales receipt of our decorative base paper products and printing paper product. In general, the operating cash inflow increased due to the increase in sales receipt and the movement of our net working capital along with the growth of business during the Track Record Period.

Net cash generated from operating activities increased by 37.2% to RMB92.6 million for the year ended 31 December 2005 from RMB67.5 million for the year ended 31 December 2004. The increase in our operating cash flows was primarily attributed to the increase in our turnover for the year ended 31 December 2005 as a result of the increase in our sales volumes of decorative base paper products and the increase in the average selling prices of our decorative base paper products as detailed under the sub-paragraph headed "Comparison between the financial year ended 31 December 2005 and the financial year ended 31 December 2004" under the paragraph headed "Year-to-year analysis of our trading record" in this section.

Net cash generated from operating activities increased by 71.0% to RMB158.3 million for the year ended 31 December 2006 from RMB92.6 million for the year ended 31 December 2005. The increase was primarily attributed to the increase in our turnover for the year ended 31 December 2006 which was driven by (i) the increase in our sales volumes of decorative base paper products; and (ii) the launch of our new product line of printing paper in July 2006, details of which are disclosed under the sub-paragraph headed "Comparison between the financial year ended 31 December 2006 and the financial year ended 31 December 2005" under the paragraph headed "Year-to-year analysis of our trading record" in this section.

Net cash generated from operating activities increased by 86.2% to RMB108.9 million for the four months ended 30 April 2007 from RMB58.5 million for the four months ended 30 April 2006. The increase was primarily attributed to the increase in our turnover from April 2006 to April 2007, which was driven by (i) the increase in our sales volumes of decorative base paper products; and (ii) sales of our printing paper product, a new product line which we started manufacturing since July 2006 with its sales volumes amounting to 12,352 tonnes during the four months ended 30 April 2007, details of which are disclosed under the sub-paragraph headed "Comparison between the four months ended 30 April 2007 and the four months ended 30 April 2006" under the paragraph headed "Period-to-period analysis of our trading record" in this section.

Net cashflow from investing activities

The principal items affecting net cash used in investing activities during the Track Record Period had been our capital expenditures for property, plant and equipment for the expansion of our production capacity. Net cash outflow from investing activities decreased by 52.2% to RMB68.2 million for the year ended 31 December 2005 from RMB142.6 million for the year ended 31 December 2004. The decrease was principally due to the completion of construction and the commencement of commercial production of our production line no. 4 in August 2004 and the fact that there was no completion of construction or commencement of commercial production of any new production line during the year ended 31 December 2005.

Net cash outflow from investing activities increased by 219.4% to RMB217.8 million for the year ended 31 December 2006 from RMB68.2 million for the year ended 31 December 2005. The substantial increase was principally due to the completion of construction and the commencement of commercial production of our production lines no. 5 and no. 6 and in April 2006 and the fact that there was no completion of construction or commencement of commercial production of any new production line during the year ended 31 December 2005.

Net cash outflow from investing activities decreased by 61.5% to RMB43.4 million for the four months ended 30 April 2007 from RMB112.7 million for the four months ended 30 April 2006. The decrease was mainly due to the fact that we did not construct any new production line but carried out re-engineering and modification works on our existing production facilities during the four months ended 30 April 2007.

Net cashflow from financing activities

Our financing activities during the Track Record Period mainly included proceeds from and repayments of loans from bank and advancements from and repayment to our Controlling Shareholders. Net cash used in financing activities for the year ended 31 December 2005 amounted to approximately RMB10.8 million, whereas for the year ended 31 December 2004 and that ended 31 December 2006, net cash was generated from financing activities which amounted to approximately RMB90.9 million and RMB61.2 million, respectively. The change from cash inflow to outflow, and from cash outflow to inflow again, from the financing activities during the years of review was mainly attributable to the fact that we had repaid an outstanding amount due to Mr. Zhu, which amounted to approximately RMB120.0 million, in May 2005. Such amount due to Mr. Zhu of approximately RMB120 million mainly represented the amount advanced by Mr. Zhu to our Group before 31 December 2004 for the purchase of property, plant and machinery and raw materials.

During the four months ended 30 April 2006, net cash amounting to approximately RMB102.7 million was generated from financing activities, whereas during the four months ended 30 April 2007, net cash amounting to approximately RMB74.6 million was used in financing activities. The change from cash inflow to outflow during the two periods of review was mainly attributable to the fact that (i) the amount of bank loans we repaid during the four months ended 30 April 2007 was equal to the amount of new bank loans we borrowed during the four months ended 30 April 2006; and (ii) restricted bank balance amounting to approximately RMB20.0 million was placed with a local bank to secure the ICBC Loan for the purpose of Reorganisation as disclosed in the paragraph headed “Financing arrangement in respect of the Reorganisation” under the “Business” section of this prospectus. During the four months ended 30 April 2006, we financed the construction cost of our production lines no. 5 and no. 6 mainly by short-term bank borrowings. During the four months ended 30 April 2007, no new production line was being constructed. Thus, we did not roll over some of its short-term bank loans when they fell due during the four months ended 30 April 2007, while the remaining balance payable to the banks was settled by internally generated funds.

Capital expenditures management

As a leading decorative base paper products manufacturer in the PRC in terms of actual annual production capacity, our ability to maintain and grow our revenues, profits and cash flows largely depends on continued capital investment in expanding the scale of our operations. Our capital investment during the Track Record Period primarily comprised purchases of land, property, plant and equipment for our production lines no. 4, no. 5 and no. 6, which were funded by the cash generated from our operating activities, bank loans and advancement from the Controlling Shareholders.

In order to meet the expected growth in demand for the decorative base paper products and printing paper product in the PRC, our Directors believe that sufficient capital expenditure investment will be fundamental to our expansion plans, details of which have been set out in the section headed “Future plans and use of proceeds” in this prospectus. Among others, we expect to spend (i) approximately RMB883.3 million (equivalent to approximately HK$909.9 million) out of the net proceeds from the New Issue for the construction of our new production lines; and (ii) approximately RMB40.0 million (equivalent to approximately HK$41.2 million) out of the net proceeds from the New Issue for the re-engineering and modification of our existing production lines in order to expand our production capability and capacity.

We expect to meet future capital expenditure requirements through our available cash and cash equivalents, cash generated from our operating activities, available banking facilities and the expected net proceeds from the New Issue. The amount of our capital expenditures and capital commitments during the Track Record Period, the capital commitment existed as at the Latest Practicable Date and the estimated capital expenditure budget of our Group for the three years ending 31 December 2009 are shown as follows:

	Year ended 31 December			Four months ended 30 April
	2004	**2005**	**2006**	**2007**
		(RMB in million)		
Capital expenditure	124.4	132.5	163.1	0.8
Capital commitment	–	138.6	–	180.1

	Year ending 31 December		
	2007	**2008**	**2009**
Estimated capital expenditure budget	18.6	565.3	356.8
Capital commitment existed as at the Latest Practicable Date	180.1		

Our Directors expect that the estimated capital expenditure budget will be financed by the net proceeds from the New Issue and our internal financial resources.

Working capital and cash flow management

We finance our working capital requirements primarily through cash flow from our operating activities and bank borrowings. The net cash generated from our operating activities had improved during the Track Record Period and amounted to approximately RMB67.5 million, RMB92.6 million, RMB158.3 million and RMB108.9 million for the three years ended 31 December 2006 and the four months ended 30 April 2007, respectively. Despite the improving net cash generated from our operating activities, the utilisation of short-term bank loans for financing our business, operations and capital expenditure during the Track Record Period caused us to have net current liabilities of approximately RMB176.9 million, RMB211.4 million, RMB426.9 million and RMB91.5 million as at each of 31 December 2004, 2005, 2006 and 30 April 2007, respectively.

We have implemented and will implement several measures to improve our working capital management. For example, at the beginning of each year commencing from 1 January 2008, we will prepare an annual working capital requirements budget and will project the expected sales volume for the year to determine the level of our production that will need to be achieved before meeting such a target. We will also consider factors such as our production capacity, available manpower and market trends to determine our working capital requirements for the year. These factors will be monitored on a quarterly basis to ascertain whether actual results are in line with the budget. Where variances occur, our management will analyse such variances and modify its plans or implement new measures accordingly.

Directors' opinion on the sufficiency of our working capital

Our Directors are of the opinion that the working capital available to our Group is sufficient for our present requirements for the next 12 months commencing from the date of the publication of this prospectus taking into consideration:

(a) our cash flow from operating activities had been improving during the three years ended 31 December 2006 and net cash generated from operating activities in the four months ended 30 April 2007 was approximately RMB108.9 million as compared to approximately RMB58.5 million in the four months ended 30 April 2006;

(b) we have successfully extended our short-term loans to long-term loans when they fell due and, as a result, our short-term loans decreased from approximately RMB332.0 million as at 31 December 2006 to RMB204.0 million as at 30 April 2007;

(c) our management believes that our existing banking facilities will continue to be available during the next 12 months from the date of this prospectus;

(d) cash required for our investing activities could be satisfied by the proceeds from the New Issue; and

(e) our historical working capital had proven to be sufficient for the operation of our Group during the Track Record Period.

INDEBTEDNESS

Borrowing and banking facilities

As at 31 July 2007, being the latest practicable date for the purposes of this indebtedness statement prior to the printing of this prospectus, we had aggregate banking facilities of approximately RMB307.0 million, of which approximately RMB247.0 million had been utilised.

All of these borrowings were made by Shandong Qunxing from financial institutions in the PRC and were secured by certain properties and equipment owned by Shandong Qunxing.

Debt securities

As at the close of business on 31 July 2007, we had no debt securities issued outstanding, or authorised or otherwise created but unissued.

Capital commitment

As at the close of business on 31 July 2007, we had capital commitments contracted but not provided for in respect of acquisition of property, plant and equipment of approximately RMB180.1 million.

Contingent liabilities

As at 31 July 2007, certain of our assets/items as detailed below were assigned and charged in favour of ICBC (Asia) as security for a bridging loan of HK$213,522,000 granted by ICBC (Asia) to Boom Instant:

– dividends payable to Best Known, Double Nation and our Company from time to time with respect to their shares in their respective subsidiary;

– all assets of our Company, Double Nation and Best Known;

– our Company's rights, title, and interest in all of the issued share capital of Double Nation registered in the name of our Company;

– Double Nation's rights, title, and interest in all of the issued share capital of Best Known registered in the name of Double Nation; and

– Best Known's rights, title, and interest in the registered capital of and equity interest in Shandong Qunxing in respect to the paid up capital of RMB190,000,000 registered in the name of Best Known.

As part of the above bridging loan arrangement, Shandong Qunxing, ICBC Zouping and ICBC (Asia) had signed an account control agreement for the joint-control of the deposit of Shandong Qunxing in the account with ICBC Zouping by the parties thereto. The balance standing to the credit of the Shandong Qunxing account with ICBC Zouping shall not, without the prior written consent of ICBC (Asia) Limited, be less than RMB20,000,000 at any and all times during the loan period. The restricted bank balance can only be released upon the receipt of written notice from ICBC to Boom Instant.

According to the letter dated 27 August 2007 issued by ICBC (Asia) to Boom Instant, the above assets/items assigned and charged in favour of ICBC (Asia) will be released on or before the listing of our Company's shares on the Stock Exchange.

Disclaimer

Save as otherwise disclosed herein, and apart from any intra-group liabilities, we did not, as at the close of business of 31 July 2007, have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, shares or debentures, mortgages, loans, or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptances, acceptance credits or any guarantees or other material contingent liabilities outstanding at the close of business on 31 July 2007. Our Directors have confirmed that there has been no material adverse change in our indebtedness and contingent liabilities since 31 July 2007, being the latest practicable date for the purposes of this indebtedness statement prior to the printing of this prospectus.

PROFIT FORECAST FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2007

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

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

Notes:

1. The bases and assumptions on which the above profit forecast has been prepared are summarised in Appendix III to this prospectus.

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

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

The text of the letters from our auditors and reporting accountants, KPMG, and further details regarding the basis and assumptions of the profit forecast are set forth in Appendix III to this prospectus.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that as at the Latest Practicable Date, there were no circumstances which would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

DIVIDEND POLICY

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

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

Subject to the factors described above, we currently intend to recommend at the next annual general meeting of our Company an annual dividend of approximately 30% of our net profit available for distribution to our Shareholders after the Share Offer.

In respect of the ICBC Loan, the following security was given;–

(a) an assignment of dividends dated 2 February 2007 and made by our Company in favour of ICBC (Asia), all the dividends payable to our Company from time to time with respect to the shares in the capital of Double Nation registered in the name of our Company and the related dividends account were assigned and charged in favour of ICBC (Asia) as security for the ICBC Loan in accordance with the ICBC Loan Agreement.

(b) an assignment of dividends dated 2 February 2007 and made by Double Nation in favour of ICBC (Asia), all the dividends payable to Double Nation from time to time with respect to the shares in the capital of Best Known registered in the name of Double Nation and the related dividends account were assigned and charged in favour of ICBC (Asia) as security for the ICBC Loan.

(c) an assignment of dividends dated 2 February 2007 and made by Best Known in favour of ICBC (Asia), all the dividends payable to Best Known from time to time with respect to the shares in the capital of Shandong Qunxing registered in the name of Best Known and the related dividends account were assigned and charged in favour of ICBC (Asia) as security for the ICBC Loan.

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

DISTRIBUTABLE RESERVES

As at 30 April 2007, we had reserves amounting to approximately RMB139.0 million available for distribution to the Shareholders.

PROPERTY INTERESTS

As at the Latest Practicable Date, our Group held the following properties under long-term title certificates:–

	Property	Use
1.	A parcel of land together with various buildings and structures erected thereon and located at the eastern side of Zhu Jia Village, Chang Shan Town Zouping County, Binzhou City Shandong Province The PRC	Manufacturing, storage, ancillary office and staff quarters
2.	A parcel of land together with various buildings and structures erected thereon and located at the eastern side of Zhu Jia Village, Chang Shan Town Zouping County (also adjacent to Property 3 mentioned below), Binzhou City Shandong Province The PRC	Manufacturing, storage and ancillary office
3.	A parcel of land together with various buildings and structures erected thereon and located at the eastern side of Zhu Jia Village (also adjacent to Property 2 mentioned above), Chang Shan Town Zouping County, Binzhou City Shandong Province The PRC	Office and ancillary supporting

Our Group also rented two properties, one for office and storage purpose and the other one for constructing a manufacturing plant, in Chang Shan Town, Zouping County, Binzhou City, Shandong Province, the PRC. Our Group also rented an office premises in Hong Kong for office purpose.

Our legal advisers as to PRC law and as to Hong Kong Law have confirmed that there is no title defect or non-compliance in respect of our Group's property interests. LCH (Asia-Pacific) Surveyors Limited, an independent property valuer, has valued our property interests as at 30 June 2007 and is of the opinion that our property interests are valued at an aggregate amount of RMB59,820,000 as at 30 June 2007. The full text of the letter, summary of values and valuation certificate with regard to such property interests are set forth in Appendix IV to this prospectus.

The table below shows the reconciliation of property interests of our Group from our audited combined financial statement as at 30 April 2007 to the unaudited net asset value of the property interests of our Group as at 30 June 2007:

	Leasehold Land	**Buildings and structures**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Net book value as at 30 April 2007	10,960	44,539	55,499
Movement for the period from 1 May 2007 to 30 June 2007			
Additions	461	–	461
Disposal	–	–	–
Amortisation	(41)	–	(41)
Depreciation	–	(193)	(193)
Net book value as at 30 June 2007	11,380	44,346	55,726
Valuation surplus	500	3,594	4,094
Valuation as at 30 June 2007	11,880	47,940	59,820

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

For illustrative purpose only, the following statement of unaudited pro forma adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is prepared to show the effect on the audited net tangible assets of our Group as at 30 April 2007 as if the Share Offer had occurred on 30 April 2007 and is based on the combined net assets derived from the audited financial information of our Group as at 30 April 2007, as set out in Appendix I to this prospectus and adjusted as follows.

The unaudited pro forma adjusted net tangible assets of our Group has been prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the financial position of our Group.

	Audited combined net assets of the Group as at 30 April 2007 (RMB'000)	Lease prepayments as at 30 April 2007 (RMB'000)	Estimated net proceeds from the New Issue (RMB'000)	Unaudited pro forma adjusted net tangible assets (RMB'000)	Unaudited pro forma adjusted net tangible assets per Share (RMB)
Based on the maximum indicative Offer Price of HK$5.35 per Offer Share	350,782	(10,960)	1,281,918	1,621,740	1.62
Based on the minimum indicative Offer Price of HK$4.10 per Offer Share	350,782	(10,960)	977,259	1,317,081	1.32

Notes:

1. In accordance with the Group's accounting policies, leasehold land is up-front payments made to acquire the right of use of a long-term interest in land. These payments are stated at cost and amortised over the period of the related leases on a straight-line basis. Properties constructed on top of which are stated at historical cost less accumulated depreciation and impairment loss if any.

   As at 30 June 2007, LCH (Asia-Pacific) Surveyors Limited (the "Valuer"), an independent property valuer, performed an independent valuation for the Group's leasehold land and buildings and structures based on market value and depreciated replacement cost. The Valuer reported valuation of the land and buildings and structures at an amount of RMB59,820,000 as at 30 June 2007 and the revaluation surplus was RMB4,094,000. The Group will not account for these revaluation surpluses in its financial statements for the year ending 31 December 2007 according to its accounting policies. If they were accounted for, increases in amortisation and depreciation of approximately RMB5,000 and RMB50,000 respectively would have been recognised for the financial year ending 31 December 2007.

2. The estimated net proceeds from the New Issue are based on the maximum and minimum indicative Offer Price of HK$5.35 and HK$4.10 per Offer Share, respectively, after deduction of the underwriting fees and other related expenses payable by the Company and take no account of any Shares which may be issued upon the exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme.

3. The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to above and on the basis that 1,000,000,000 Shares (including the Shares in issue as at 30 April 2007, Shares under the Capitalisation Issue and the Share Offer) are in issue and that the Over-allotment Option and the options that may be granted under the Share Option Scheme are not exercised.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that there has been no material adverse change in our financial or trading position since 30 April 2007 (being the date to which our latest audited combined financial statements were prepared, as set out in the accountants' report in Appendix I to this prospectus).