

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Our Directors believe that, given the accession of the PRC into WTO, the abundant supply of relatively low-cost labour and the gradual removal of trade barriers, China will become a major production base for decorative base paper products and printing paper products. Our Group will continue to focus on production capacity expertise, sales and marketing development and research and development in order to tap the growing demand for such products in the PRC.

We intend to implement the following plans to maintain and capitalise on our strengths so as to enhance our business prospects and profitability. Based on our Group's production capacity, experienced management team, research and development capabilities, well-established relationships with our major suppliers and customers, emphasis on the quality of products and our diversified product categories, our Directors believe that we are well-positioned to benefit from the expected growth of the market for decorative base paper products and printing paper products and will continue to capture the anticipated growth in the markets for our products.

In the future, our Group will leverage its expertise and competitive strengths to develop the following plans, with a view to achieving sustainable growth in results and operations:

Expand production capacity

As a result of rapid growth of economy and higher living standard in the PRC, it is expected that the demand of the high-class decorative paper products will continue to grow for the next 5-10 years, as discussed in the section headed "Industry overview" above. Our Directors believe that should the production of decorative base paper in the PRC continue to fall short of its apparent consumption, there will be room for further expansion in China's decorative base paper industry. Our plan to expand our designed annual production capacity up to 470,000 tonnes was approved by 山東省輕工業辦公室 (Shandong Province Light Industry Council*) in January 2007 as one of the approved projects for paper manufacturing industry in the PRC under 人造板工業“十一五”規劃分析報告 (The Outline for Development of the Laminated Board Industry under the Eleventh Five Year Plan*). Accordingly we have commenced the construction of our new production line no. 7 with a designed annual production capacity of 30,000 tonnes. The capital costs for construction of our production line no. 7 amount to approximately RMB180.0 million, excluding the cost of potential acquisition of the land use right to the parcel of land where production line no. 7 is situated, of which approximately RMB16.7 million was settled in early 2007 and the remaining balance will have to be settled in two instalments by March 2008 and February 2009 respectively. Both the completion of construction and the commencement of commercial production of our production line no. 7 are expected to take place in early 2008. To the best knowledge and belief of our Directors, it is the practice of the paper manufacturing industry for paper manufacturing companies to retain approximately 5% of the total construction cost as retention fee which will be refunded to the contractors upon paper manufacturing companies' satisfaction of machinery performance at the end of the retention period as agreed in the construction contracts. Our Directors confirm that the contractor engaged by us to construct paper production line no. 7 is an Independent Third Party.

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Our Group also plans to acquire the land use right for the parcel of land on which production line no. 7 is being constructed. The cost of acquisition will be determined between us and Guang Hua with reference to an independent valuation of the land and will be financed by our internally generated fund and will not be funded by proceeds from the New Issue.

In addition, we plan to construct four more new production lines no. 8 to no. 11, with an aggregate designed annual production capacity of 120,000 tonnes. The aggregate capital costs for construction of our production lines no. 8 to no. 11 are expected to amount to approximately RMB720.0 million (equivalent to approximately HK\$741.6 million), which are expected to be settled by instalments. We currently intend to apply approximately RMB324.0 million, RMB378.0 million and RMB18.0 million, respectively (equivalent to approximately HK\$333.7 million, HK\$389.3 million and HK\$18.5 million, respectively) from the net proceeds to be raised from the Share Offer for the construction of production lines no. 8 to no. 11 for each of the year ending 31 December 2008, 2009 and 2010, respectively. The commercial production of our production lines no. 8 and no. 9 is expected to commence in early 2009 and the commercial production of our production lines no. 10 and 11 is expected to commence in late 2009.

We also plan to re-engineer and modify our existing production facilities, in particular production line no. 1 and no. 3 with a view to improving our production efficiency. For our production line no. 1, the aggregate capital costs for re-engineering and modification amount to approximately RMB16.0 million (equivalent to approximately HK\$16.5 million), which will be settled by three instalments, we currently intend to pay RMB4.8 million, RMB9.6 million and RMB1.6 million, respectively (equivalent to approximately HK\$4.9 million, HK\$9.9 million and HK\$1.6 million, respectively) in May, June and July of 2009. Both the re-engineering and modification and the re-commencement of commercial production of our production line no. 1 are expected to take place in mid 2009. For our production line no. 3, the aggregate capital costs for re-engineering and modification amount to approximately RMB24 million (equivalent to approximately HK\$24.7 million), which will have to be settled by three instalments. We currently intend to pay RMB7.2 million, RMB14.4 million and RMB2.4 million, respectively (equivalent to approximately HK\$7.4 million, HK\$14.8 million and HK\$2.5 million, respectively) in December 2008, January and February 2009. We currently intend to apply approximately RMB7.2 million (equivalent to approximately HK\$7.4 million) and RMB32.8 million (equivalent to approximately HK\$33.8 million) from the net proceeds to be raised from the Share Offer for the re-engineering and modification of production lines no. 1 and no. 3 for each of the year ending 31 December 2008 and 2009, respectively. The re-engineering and modification and the re-commencement of commercial production of our production line no. 3 are expected to take place in the period from December 2008 to February 2009.

Except for the first instalment for our production line no. 7, which was settled by our internally sourced fund, the capital costs for construction of production lines no. 7 to no. 11 and those for re-engineering and modification of production lines no. 1 and no. 3 will be settled by the proceeds of the New Issue. All the technology, machinery and equipment required for construction of production lines no. 7 to no. 11 as well as for

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re-engineering and modification of production lines no. 1 and no. 3 have been and will be purchased from domestic paper manufacturing machinery suppliers in the PRC who are Independent Third Parties of our Group.

Launch more proactive sales and marketing activities

Currently, we primarily market our products through our sales and marketing staff who are based in the six designated sales regions, our internet website and outdoor billboards as well as by participating in exhibitions. We plan to carry out more marketing activities, such as, placing more advertisement in professional magazines targeted at manufacturers of construction materials and participating in more industry exhibitions and trade-fairs. We plan to use approximately RMB40.0 million (equivalent to approximately HK\$41.2 million) in sales and marketing activities for the three years ending 31 December 2009.

Develop overseas market

During the Track Record Period, all of our products were sold to customers in the PRC. With a view to increasing our channels of sales and distribution, we plan to export our products overseas to tap demand in selected international markets, in particular Hong Kong, Russia, Thailand and Vietnam. We will devise plans to develop overseas market for its products, through the appointment of sole distributors in different regions or by establishing its own sales offices to the extent if it is practicable. In view of the significance of Hong Kong as the gateway for Chinese enterprises to expand their business to international market, and Russia, Thailand and Vietnam are being emerging markets with strong economic growth recently, hence our Directors believe that the expansion to these markets will benefit to our performance in future. We plan to conduct thorough market research and liaise with various intermediary parties in order to ascertain the feasibility of establishing our presence in such regions. We also plan to establish representative offices in such regions in order to facilitate communication with and respond to enquiries from our overseas customers as and where the circumstances become desirable for us to do so. We plan to use approximately RMB30.0 million (equivalent to approximately HK\$30.9 million) for the development of overseas market for the 3 years ending 31 December 2009.

Enhance product research and development capability

Our Directors believe that our commitment to research and product development is essential to enhance our sales and marketing position and our ongoing research and development activities covering manufacturing techniques, processing technologies, quality control standardisation represent a critical factor for our superior overall performance as compared to our competitors.

Shandong Qunxing entered into a technology agreement in May 2007 with 山東省造紙工業研究設計院 (Research and Design Institute of Paper Manufacturing Industry of Shandong*) pursuant to which 山東省造紙工業研究設計院 (Research and Design Institute of Paper Manufacturing Industry of Shandong*) and Shandong Qunxing agreed to

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collaborate with each other to conduct research and develop new products and technology. Our Directors believe such arrangement will help bolster our product manufacturing capabilities and improve our production efficiency to lower our overall manufacturing costs and enhance our product quality. As at the Latest Practicable Date, we had been discussing with several established academic institutions in relation to possible strategic alliance. We plan to form more effective strategic alliance for research and development purposes in the future to ensure that every aspect of our business operation, in particular product development, production efficiency and quality control, will be covered and, as a result, can be improved. We plan to use approximately RMB5.0 million (equivalent to approximately HK\$5.2 million) for the research and development activities for the three years ending 31 December 2009.

PROPOSED USE OF NET PROCEEDS FROM THE NEW ISSUE

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

- as to approximately RMB163.3 million (equivalent to approximately HK\$168.2 million) for the settlement of the remaining balance of the construction costs of our new production line no. 7;
- as to approximately RMB360.0 million (equivalent to approximately HK\$370.8 million) for the construction of our new production lines no. 8 and no. 9;
- as to approximately RMB360.0 million (equivalent to approximately HK\$370.8 million) for the construction of our new production lines no. 10 and no. 11;
- as to approximately RMB40.0 million (equivalent to approximately HK\$41.2 million) for re-engineering and modification of our existing production lines no. 1 and no. 3;
- as to approximately RMB40.0 million (equivalent to approximately HK\$41.2 million) for strengthening our marketing activities;
- as to approximately RMB30.0 million (equivalent to approximately HK\$30.9 million) for development of overseas market;
- as to approximately RMB5.0 million (equivalent to approximately HK\$5.2 million) for research and development; and
- the remaining balance of approximately HK\$102.5 million for our general working capital.

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

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

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

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