

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from our Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.



8th Floor
Prince's Building
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Hong Kong

17 September 2007

The Board of Directors
Qunxing Paper Holdings Company Limited
ICEA Capital Limited
Access Capital Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Qunxing Paper Holdings Company Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**"), including the combined income statements, combined statements of changes in equity and combined cash flow statements of the Group for each of the years ended 31 December 2004, 2005 and 2006 and the four months ended 30 April 2007 (the "relevant period") and the combined balance sheets of the Group as at 31 December 2004, 2005 and 2006 and 30 April 2007 and the notes thereto (the "**Financial Information**") for inclusion in the prospectus of the Company dated 17 September 2007 (the "**Prospectus**").

The Company was incorporated in the Cayman Islands on 5 September 2006 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation (the "Reorganisation") as detailed in the section "Corporate reorganisation" in Appendix VI to the Prospectus, which was completed on 29 January 2007, the Company became the holding company of the subsidiaries now comprising the Group, details of which are set out in Section A below. The Company has not carried on any business since the date of its incorporation save for the aforementioned Reorganisation.

As at the date of this report, no audited financial statements have been prepared for the Company and the companies comprising the Group, except for Best Known Group Limited (慧富集團有限公司) and Shandong Qunxing Paper Limited (山東群星紙業有限公司), as they are either recently incorporated or are investment holding companies and have not carried on any business since their respective dates of incorporation or are not subject to statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation. We have, however, reviewed all significant transactions of these companies from their respective dates of incorporation to 30 April 2007 for the purpose of this report.

The statutory financial statements for Best Known Group Limited and Shandong Qunxing Paper Limited which were prepared in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”) or the relevant accounting rules and regulations applicable to enterprises in the People’s Republic of China (“PRC”), were audited during the relevant period by the respective statutory auditors as indicated below:

Name of company	Financial period	Auditors
Best Known Group Limited	Period from 21 April 2006 (date of incorporation) to 31 December 2006	KPMG
Shandong Qunxing Paper Limited	Years ended 31 December 2004, 2005 and 2006	鄒平鑾鑫有限責任會計師事務所

BASIS OF PREPARATION

The Financial Information has been prepared by the directors of the Company based on the audited financial statements or, where appropriate, unaudited management accounts of the companies now comprising the Group, on the basis set out in Section A below, after making such adjustments as are appropriate (the “Underlying Financial Information”). Adjustments have been made, for the purpose of this report, to restate the Underlying Financial Information to conform with IFRSs promulgated by IASB and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). IFRSs include International Accounting Standards and Interpretations.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation and true and fair presentation of the Financial Information in accordance with IFRSs. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to form an opinion on the Financial Information based on our audit.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have audited the Financial Information for the relevant period in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and we have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline "Prospectuses and the reporting accountant" (Statement 3.340) issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and true and fair presentation of the Financial Information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Financial Information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, for the purpose of this report and on the basis of presentation set out in Section A below, all adjustments considered necessary have been made and the Financial Information gives a true and fair view of the Group's combined results, combined statements of changes in equity and combined cash flows for the relevant period and of the Group's combined state of affairs as at 31 December 2004, 2005 and 2006 and 30 April 2007 and the Company's state of affairs as at 31 December 2006 and 30 April 2007.

COMPARATIVE FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited financial information of the Group including the combined income statement, combined statement of changes in equity and combined statement of cash flows for the four months ended 30 April 2006, together with the notes thereon (the "30 April 2006 Corresponding Information"), for which the directors are responsible, in accordance with Statement of Auditing Standard 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquiries of group management and applying analytical procedures to the 30 April 2006 Corresponding Information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and

verification of assets, liabilities and transactions. It is substantially less in scope than an audit and, therefore, provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the 30 April 2006 Corresponding Information.

On the basis of our review of the 30 April 2006 Corresponding Information, which does not constitute an audit, for the purpose of this report, we are not aware of any material modifications that should be made to the unaudited financial information presented for the four months ended 30 April 2006.

A BASIS OF PRESENTATION

The combined income statements, combined statements of changes in equity and combined cash flow statements of the Group as set out in Section B include the results of operations of the companies comprising the 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 the Group as at 31 December 2004, 2005 and 2006 and 30 April 2007 as set out in Section B have been prepared to present the state of affairs of the companies comprising the Group as at the respective dates as if the current group structure had been in existence as at the respective dates.

All material intra-group transactions and balances have been eliminated on combination.

At the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

Name of company	Place and date of incorporation/ establishment	Issued and fully paid up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Double Nation Limited ("Double Nation")	British Virgin Islands ("BVI") 18 May 2006	USD100/ USD50,000	100%	–	Investment holding
Best Known Group Limited ("Best Known")	Hong Kong 21 April 2006	HKD100/ HKD10,000	–	100%	Investment holding
Shandong Qunxing Paper Limited ("Shandong Qunxing")*	PRC 16 June 1999	RMB190,000,000/ RMB190,000,000	–	100%	Manufacture and sale of decorative base paper products and printing paper product

* This entity established in the PRC is a wholly foreign owned enterprise.

B FINANCIAL INFORMATION

1 Combined income statements

	Section C Note	Years ended 31 December			Four months ended 30 April	
		2004 RMB'000	2005 RMB'000	2006 RMB'000	2006 RMB'000	2007 RMB'000
					<i>(unaudited)</i>	
Turnover	2	467,158	696,425	950,844	260,132	338,018
Cost of sales		(382,497)	(563,115)	(766,727)	(207,915)	(255,547)
Gross profit		84,661	133,310	184,117	52,217	82,471
Other revenue	3	370	662	726	179	163
Selling expenses		(5,084)	(7,008)	(9,597)	(2,723)	(2,357)
Administrative expenses		(6,287)	(9,377)	(11,929)	(3,447)	(5,330)
Profit from operations		73,660	117,587	163,317	46,226	74,947
Finance costs	4(a)	(5,281)	(13,793)	(20,625)	(5,860)	(7,310)
Profit before taxation	4	68,379	103,794	142,692	40,366	67,637
Income tax	5(a)	(24,023)	(35,460)	(48,755)	(14,542)	–
Profit for the year/period		<u>44,356</u>	<u>68,334</u>	<u>93,937</u>	<u>25,824</u>	<u>67,637</u>
Earnings per share (RMB)						
– basic	9	<u>0.06</u>	<u>0.09</u>	<u>0.13</u>	<u>0.03</u>	<u>0.09</u>

The accompanying notes form part of the Financial Information.

2 Combined balance sheets

	Section C Note	As at 31 December			As at
		2004 RMB'000	2005 RMB'000	2006 RMB'000	30 April 2007 RMB'000
Non-current assets					
Property, plant and equipment	10	297,857	268,228	499,776	497,608
Construction in progress	11	–	132,411	16,000	–
Lease prepayments	12	–	–	–	10,960
Prepayment for the acquisition of plant and equipment		–	–	–	16,678
		<u>297,857</u>	<u>400,639</u>	<u>515,776</u>	<u>525,246</u>
Current assets					
Inventories	13	33,124	38,365	50,989	34,870
Trade and other receivables	14	39,490	64,257	81,785	66,347
Amounts due from controlling shareholders of the Company	19	26	47	15	–
Amounts due from related parties	19	–	–	183	296
Tax recoverable	20	–	–	–	4,365
Restricted bank balance	15	–	–	–	20,000
Cash and cash equivalents	16	51,983	65,568	67,265	58,224
		<u>124,623</u>	<u>168,237</u>	<u>200,237</u>	<u>184,102</u>
Current liabilities					
Bank loans	17	127,200	250,200	332,000	204,000
Trade and other payables	18	39,700	111,885	79,013	66,156
Amounts due to controlling shareholders of the Company	19	119,986	–	194,491	140
Amounts due to related parties	19	–	–	–	5,270
Tax payable	20	14,686	17,549	21,671	–
		<u>301,572</u>	<u>379,634</u>	<u>627,175</u>	<u>275,566</u>
Net current liabilities		<u>(176,949)</u>	<u>(211,397)</u>	<u>(426,938)</u>	<u>(91,464)</u>
Total assets less current liabilities		<u>120,908</u>	<u>189,242</u>	<u>88,838</u>	<u>433,782</u>
Non-current liabilities					
Bank loans	17	–	–	–	83,000
NET ASSETS		<u>120,908</u>	<u>189,242</u>	<u>88,838</u>	<u>350,782</u>
Capital and reserves					
Share capital	21	30,000	30,000	102	9,894
Reserves	22	90,908	159,242	88,736	340,888
TOTAL EQUITY		<u>120,908</u>	<u>189,242</u>	<u>88,838</u>	<u>350,782</u>

The accompanying notes form part of the Financial Information.

3 Combined statements of changes in equity

		Attributable to equity shareholders of the Company							
		Share capital	Share premium	Capital reserve	Other reserve	Statutory reserve	Exchange reserve	Retained profits/ (accumulated losses)	Total equity
Section C		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Note		(Note 21)	(Note 22)	(Note 22)		(Note 22)	(Note 22)	(Note 22)	
	At 1 January 2004	30,000	-	17,023	-	8,787	-	20,742	76,552
	Net profit for the year	-	-	-	-	-	-	44,356	44,356
	Appropriation to statutory reserve	-	-	-	-	11,453	-	(11,453)	-
	At 31 December 2004	30,000	-	17,023	-	20,240	-	53,645	120,908
	Net profit for the year	-	-	-	-	-	-	68,334	68,334
	Transfer to capital reserve	22(b)	-	112,877	-	-	-	(112,877)	-
	Appropriation to statutory reserve	-	-	-	-	17,385	-	(17,385)	-
	At 31 December 2005	30,000	-	129,900	-	37,625	-	(8,283)	189,242
	Exchange differences on translation of financial statements of operations outside the PRC	-	-	-	-	-	4,884	-	4,884
	Capital injection	21(a)	102	-	-	-	-	-	102
	Arising on Reorganisation (Note (i))	(30,000)	-	-	(169,327)	-	-	-	(199,327)
	Net profit for the year	-	-	-	-	-	-	93,937	93,937
	Appropriation to statutory reserve	-	-	-	-	14,259	-	(14,259)	-
	At 31 December 2006	102	-	129,900	(169,327)	51,884	4,884	71,395	88,838
	Exchange differences on translation of financial statements of operations outside the PRC	-	-	-	-	-	3,148	-	3,148
	Arising on Reorganisation (Note (ii))	21(b)	897	-	(996)	-	-	-	(99)
	Capitalisation issue	21(c)	8,895	182,363	-	-	-	-	191,258
	Capitalisation of reserves (Note (iii))	-	-	(129,900)	160,000	(30,100)	-	-	-
	Net profit for the period	-	-	-	-	-	-	67,637	67,637
	At 30 April 2007	<u>9,894</u>	<u>182,363</u>	<u>-</u>	<u>(10,323)</u>	<u>21,784</u>	<u>8,032</u>	<u>139,032</u>	<u>350,782</u>
	Unaudited								
	At 1 January 2006	30,000	-	129,900	-	37,625	-	(8,283)	189,242
	Net profit for the period	-	-	-	-	-	-	25,824	25,824
	At 30 April 2006	<u>30,000</u>	<u>-</u>	<u>129,900</u>	<u>-</u>	<u>37,625</u>	<u>-</u>	<u>17,541</u>	<u>215,066</u>

Notes:

- (i) On 16 August 2006, Best Known acquired the entire share capital of Shandong Qunxing from the controlling shareholders of the Company for cash consideration of HKD193,521,000 (equivalent to RMB199,327,000 at the date of transaction). The acquisition was satisfied by setting up unsecured and interest free advances of RMB199,327,000 from the controlling shareholders to Best Known. The difference between the historical carrying value of the shares acquired and the acquisition consideration is treated as an equity movement and recorded in "Other reserve". As a result of the acquisition, Shandong Qunxing became a wholly-owned subsidiary of Best Known.
- (ii) On 29 January 2007, the Company acquired the entire share capital of Double Nation from the holding company, Boom Instant Limited ("Boom Instant") for a consideration of RMB996,000. The acquisition was satisfied by a waiver of an amount due from Boom Instant of RMB99,000 and the allotment of 9,000,000 shares of HKD0.1 each. The difference between the nominal value of the shares acquired and the acquisition consideration is treated as an equity movement and recorded in "Other reserve". As a result of the acquisition, Double Nation became a wholly-owned subsidiary of the Company. The Company became the holding company on 29 January 2007.
- (iii) Upon completion of capital verification on 13 February 2007, the registered capital of Shandong Qunxing was increased from RMB30,000,000 to RMB190,000,000 by capitalisation of the capital and statutory reserves of RMB129,900,000 and RMB30,100,000 respectively pursuant to a board resolution dated 12 February 2007. The increase in registered capital of Shandong Qunxing is treated as an equity movement and recorded in "Other reserve".

The accompanying notes form part of the Financial Information.

4 Combined cash flow statements

	Section C Note	Years ended 31 December			Four months ended 30 April	
		2004 RMB'000	2005 RMB'000	2006 RMB'000	2006 RMB'000	2007 RMB'000
					<i>(unaudited)</i>	
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	4(c)	–	–	–	–	6
– Depreciation	4(c)	19,856	29,737	47,983	11,855	18,838
– Amortisation of lease prepayments	4(c)	–	–	–	–	20
– Finance costs	4(a)	5,281	13,793	20,625	5,860	7,310
– Interest income	3	(370)	(662)	(726)	(179)	(163)
– Foreign exchange loss		–	–	48	–	2,336
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
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
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Cash generated from operations		85,810	125,208	202,948	76,451	134,942
PRC income tax paid	20(a)	(18,328)	(32,597)	(44,633)	(17,988)	(26,036)
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net cash generated from operating activities		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
		67,482	92,611	158,315	58,463	108,906

Section C Note	Years ended 31 December			Four months ended 30 April		
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2006 RMB'000 <i>(unaudited)</i>	2007 RMB'000	
Investing activities						
Payment for the purchase of property, plant and equipment	10	(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	12	–	–	–	–	(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		<u>(142,565)</u>	<u>(68,226)</u>	<u>(217,825)</u>	<u>(112,727)</u>	<u>(43,371)</u>
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		<u>90,879</u>	<u>(10,800)</u>	<u>61,207</u>	<u>102,728</u>	<u>(74,576)</u>
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	16	<u>51,983</u>	<u>65,568</u>	<u>67,265</u>	<u>114,032</u>	<u>58,224</u>

Major non-cash transaction:

On 16 April 2007, the Board of Directors (“the Board”) passed a resolution to capitalise an amount due to Boom Instant of RMB191,258,000 by the allotment of 90,000,000 shares of HKD0.1 each, credited as fully paid. Upon the issue of the said shares, the amount due to Boom Instant of RMB191,258,000 was extinguished and cancelled.

The accompanying notes form part of the Financial Information.

C NOTES TO THE FINANCIAL INFORMATION**1 Significant accounting policies***(a) Statement of compliance*

The Financial Information set out in this report has been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which collective term includes all applicable individual IFRSs, International Accounting Standards (“IASs”) and Interpretations, issued by the International Accounting Standards Board (“IASB”).

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The Group has not previously presented combined financial statements. This is the Group’s first IFRS Financial Information and IFRS 1 has been applied.

The IASB has issued certain new and revised IFRSs that are not yet effective for the financial periods included in the relevant period. The Group has not early adopted these IFRSs in preparing the Financial Information for the relevant period (see note 29).

(b) Basis of preparation of the Financial Information

The Financial Information comprises the Company and its subsidiaries.

The Financial Information is presented in Renminbi (“RMB”), rounded to the nearest thousand. It is presented on the historical cost basis.

The Financial Information has been prepared in accordance with the going concern basis notwithstanding the net current liabilities of the Group at 31 December 2004, 2005 and 2006 and 30 April 2007. The directors are of the opinion that, based on a detailed review of the working capital forecast of the Group for the year ending 31 December 2008, the Group will have necessary liquid funds to finance its working capital and capital expenditure requirements up to 31 December 2008.

The preparation of the Financial Information in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be

reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the Financial Information and estimates with a significant risk of material adjustment in the next year are discussed in note 28.

The accounting policies set out below have been applied consistently to all periods presented.

(c) *Subsidiaries*

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the Financial Information from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

(d) *Lease prepayments*

Lease prepayments represent payments made to acquire leasehold land. Leasehold land is carried at cost less accumulated amortisation and impairment losses (see note 1(h)). Amortisation is charged to the income statement on a straight-line basis over the remaining lease term.

(e) *Property, plant and equipment*

Property, plant and equipment is stated in the combined balance sheets at cost less accumulated depreciation and impairment losses (see note 1(h)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

– Buildings	40 years
– Plant and machinery	10 – 20 years
– Motor vehicles	10 years
– Furniture and fixtures	10 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(f) Construction in progress

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses (see note 1(h)). Cost comprises direct costs of construction. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are complete.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(g) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(h) Impairment of assets

(i) Impairment of trade and other receivables

Receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes

observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery of an amount receivable is remote, the amount considered irrecoverable is written off against trade receivables and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account or written off directly are reversed against the allowance account or directly respectively. Other changes in the allowance account are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- lease prepayments; and
- construction in progress.

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(i) *Inventories*

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(j) *Trade and other receivables*

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(h)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(h)).

(k) *Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(l) *Trade and other payables*

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(n) *Employee benefits*

- (i) Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(o) *Income tax*

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from differences which arose on initial recognition of assets and liabilities, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred

tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

- (iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:
- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
 - in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) *Provisions and contingent liabilities*

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) *Revenue recognition*

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) *Sale of goods*

Revenue is recognised when the customer has accepted the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

(r) *Translation of foreign currencies*

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of operations outside the PRC are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Renminbi

at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of an operation outside the PRC, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(s) *Borrowing costs*

Borrowing costs are expensed in profit or loss in the period in which they are incurred.

(t) *Repair and maintenance expenditure*

Repair and maintenance expenditure, including cost of overhaul, is expensed as incurred.

(u) *Related parties*

For the purposes of the Financial Information, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making finance and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(v) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Group operates in a single business segment, the manufacturing and trading of decorative base paper products and printing paper product in the PRC. Accordingly, no segmental analysis is presented.

(w) Business combinations involving entities under common control

The combined financial statements incorporate the financial statements items of the combining entities or businesses as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling parties.

The net assets of the combining entities or businesses are recognised at the carrying values prior to the common control combination.

The combined income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the control of the controlling parties, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the combined financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under control of the controlling parties, whichever is shorter.

2 Turnover

The principal activities of the Group are the manufacturing and trading of decorative base paper products and printing paper product in the PRC. Turnover represents the sales value of goods sold less returns, discounts, and value added taxes and other sales taxes, which may be analysed as follows:

	Years ended 31 December			Four months ended	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Decorative base paper products	467,158	696,425	834,160	260,132	261,161
Printing paper product	–	–	116,684	–	76,857
	<u>467,158</u>	<u>696,425</u>	<u>950,844</u>	<u>260,132</u>	<u>338,018</u>

3 Other revenue

	Years ended 31 December			Four months ended	
	2004	2005	2006	30 April	
	RMB'000	RMB'000	RMB'000	2006	2007
				<i>(unaudited)</i>	
Interest income on financial assets not at fair value through profit or loss					
– Interest income from bank deposits	370	662	726	179	163

4 Profit before taxation

Profit before taxation is arrived at after charging:

	Years ended 31 December			Four months ended	
	2004	2005	2006	30 April	
	RMB'000	RMB'000	RMB'000	2006	2007
				<i>(unaudited)</i>	
(a) Finance costs:					
Interest on financial liabilities not at fair value through profit or loss					
– Interest on bank borrowings wholly repayable within five years	5,281	13,793	20,625	5,860	7,310
(b) Staff costs:					
Contributions to defined contribution retirement plans	1,366	1,612	2,058	520	1,056
Salaries, wages and other benefits	9,636	11,778	18,732	5,404	7,466
	11,002	13,390	20,790	5,924	8,522

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiary participates in a defined contribution retirement benefit scheme (“the Scheme”) organised by the local authority whereby the PRC subsidiary is required to make contributions to the Scheme at a fixed amount announced annually by the municipal government. The municipal government is responsible for the entire pension obligations payable to the retired employees.

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees in Hong Kong under the jurisdiction of the Hong Kong Employment Ordinance. The assets of the MPF Scheme are held separately from those of the Group and administrated by an independent trustee. Under the MPF Scheme, both the Group and the employees are mandatory to make regular contributions into the MPF Scheme. The Group is required to contribute an amount equivalent to 5% of the employees' relevant income to the MPF scheme, subject to the maximum level of relevant income of HKD20,000 per month. Mandatory contributions to the MPF Scheme are vested immediately.

The Group has no other material obligation for the payment of pension benefits associated with the two schemes referred to above beyond the annual contributions described above.

	Years ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
(c) Other items:					
Loss on disposal of property, plant and equipment	-	-	-	-	6
Auditors' remuneration	5	5	6	2	45
Depreciation	19,856	29,737	47,983	11,855	18,838
Amortisation of lease prepayments	-	-	-	-	20
Operating lease charges in respect of leasehold land and properties	900	900	1,200	400	392
	<u>900</u>	<u>900</u>	<u>1,200</u>	<u>400</u>	<u>392</u>

5 Income tax in the combined income statements

(a) Taxation in the combined income statements represents:

	Years ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Current tax					
– PRC income tax					
Provision for the year/period	24,023	35,460	48,755	14,542	-
	<u>24,023</u>	<u>35,460</u>	<u>48,755</u>	<u>14,542</u>	<u>-</u>

- (i) Pursuant to the rules and regulations of the Cayman Islands and BVI, the 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 the Group did not have assessable profits subject to Hong Kong Profits Tax during the relevant period.
- (iii) Pursuant to the income tax rules and regulations of the PRC, Shandong Qunxing is liable to PRC income tax at a rate of 33% for the years ended 31 December 2004, 2005 and 2006. 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 PRC income tax for the two years starting from 1 January 2007 to 31 December 2008, followed by a reduced PRC income tax rate of 15% for the remaining three years from 1 January 2009 to 31 December 2011.
- (iv) On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which will take effect on 1 January 2008. The PRC income tax rate is expected to gradually adjust to the standard rate of 25% over a five-year transition period. Production foreign investment enterprises which have not fully utilised their five-year tax holiday will be allowed to continue to receive the benefits of the full exemption or reduction in income tax rate during the five-year transition period. However, the new tax law has not set out the details as to how the existing preferential tax rate will gradually adjust to the standard rate of 25%. Consequently, the Group is not able to make an estimate of the expected financial effect of the new tax law. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable.

- (b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Years ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit before taxation	68,379	103,794	142,692	40,366	67,637
Income tax on profit before taxation, calculated at the rates applicable in the countries concerned	22,565	34,252	47,131	13,321	22,413
Tax effect of tax concession period	–	–	–	–	(22,628)
Tax effect of non-deductible expenses	1,458	1,208	1,624	1,221	215
Income tax	<u>24,023</u>	<u>35,460</u>	<u>48,755</u>	<u>14,542</u>	<u>–</u>

6 Directors' remuneration

Details of directors' remuneration are set out below:

Year ended 31 December 2004

	Fees	Basic salaries, allowances and other benefits in kind	Contributions to retirement benefit scheme	Bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Mr Zhu Mo Qun	–	85	3	–	88
Mr Zhu Yu Guo	–	97	3	–	100
Mr Sun Zhen Shui	–	–	–	–	–
Non-executive director					
Ms Sun Rui Fang	–	–	–	–	–
Independent non-executive directors					
Mr Zhao Wei	–	–	–	–	–
Mr Wang Lu	–	–	–	–	–
Mr Kwong Kwan Tong	–	–	–	–	–
Total	<u>–</u>	<u>182</u>	<u>6</u>	<u>–</u>	<u>188</u>

Year ended 31 December 2005

	Fees <i>RMB'000</i>	Basic salaries, allowances and other benefits in kind <i>RMB'000</i>	Contributions to retirement benefit scheme <i>RMB'000</i>	Bonuses <i>RMB'000</i>	Total <i>RMB'000</i>
Executive directors					
Mr Zhu Mo Qun	–	85	3	–	88
Mr Zhu Yu Guo	–	97	3	–	100
Mr Sun Zhen Shui	–	–	–	–	–
Non-executive director					
Ms Sun Rui Fang	–	–	–	–	–
Independent non-executive directors					
Mr Zhao Wei	–	–	–	–	–
Mr Wang Lu	–	–	–	–	–
Mr Kwong Kwan Tong	–	–	–	–	–
Total	<u>–</u>	<u>182</u>	<u>6</u>	<u>–</u>	<u>188</u>

Year ended 31 December 2006

	Fees <i>RMB'000</i>	Basic salaries, allowances and other benefits in kind <i>RMB'000</i>	Contributions to retirement benefit scheme <i>RMB'000</i>	Bonuses <i>RMB'000</i>	Total <i>RMB'000</i>
Executive directors					
Mr Zhu Mo Qun	–	97	3	–	100
Mr Zhu Yu Guo	–	121	3	–	124
Mr Sun Zhen Shui	–	–	–	–	–
Non-executive director					
Ms Sun Rui Fang	–	–	–	–	–
Independent non-executive directors					
Mr Zhao Wei	–	–	–	–	–
Mr Wang Lu	–	–	–	–	–
Mr Kwong Kwan Tong	–	–	–	–	–
Total	<u>–</u>	<u>218</u>	<u>6</u>	<u>–</u>	<u>224</u>

Four months ended 30 April 2006 (*unaudited*)

	Fees <i>RMB'000</i>	Basic salaries, allowances and other benefits in kind <i>RMB'000</i>	Contributions to retirement benefit scheme <i>RMB'000</i>	Bonuses <i>RMB'000</i>	Total <i>RMB'000</i>
Executive directors					
Mr Zhu Mo Qun	–	32	1	–	33
Mr Zhu Yu Guo	–	40	1	–	41
Mr Sun Zhen Shui	–	–	–	–	–
Non-executive director					
Ms Sun Rui Fang	–	–	–	–	–
Independent non-executive directors					
Mr Zhao Wei	–	–	–	–	–
Mr Wang Lu	–	–	–	–	–
Mr Kwong Kwan Tong	–	–	–	–	–
Total	<u>–</u>	<u>72</u>	<u>2</u>	<u>–</u>	<u>74</u>

Four months ended 30 April 2007

	Fees <i>RMB'000</i>	Basic salaries, allowances and other benefits in kind <i>RMB'000</i>	Contributions to retirement benefit scheme <i>RMB'000</i>	Bonuses <i>RMB'000</i>	Total <i>RMB'000</i>
Executive directors					
Mr Zhu Mo Qun	–	34	1	–	35
Mr Zhu Yu Guo	–	43	1	–	44
Mr Sun Zhen Shui	–	–	–	–	–
Non-executive director					
Ms Sun Rui Fang	–	–	–	–	–
Independent non-executive directors					
Mr Zhao Wei	–	–	–	–	–
Mr Wang Lu	–	–	–	–	–
Mr Kwong Kwan Tong	–	–	–	–	–
Total	<u>–</u>	<u>77</u>	<u>2</u>	<u>–</u>	<u>79</u>

During the relevant period, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 7 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the relevant period.

7 Individual with highest emoluments

Of the five individuals with the highest emoluments, two were also directors of the Company for the relevant period whose remuneration is disclosed in note 6 above. The remuneration in respect of the remaining individuals is as follows:

	Years ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Salaries and other emoluments	184	199	220	73	78
Contributions to retirement benefit scheme	8	8	8	3	3
	<u>192</u>	<u>207</u>	<u>228</u>	<u>76</u>	<u>81</u>

The emoluments of these individuals (pro-rated on a per annum basis for the four months ended 30 April) are within the following band:

	Number of individuals				
	Years ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
RMB Nil to RMB1,000,000	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>

8 Dividends

No dividend has been declared or paid by the Company since its incorporation.

Pursuant to an agreement on assignment of dividends dated 2 February 2007, all the dividends payable to Best Known, Double Nation and the Company from time to time with respect to their shares in their respective subsidiary are assigned and charged in favour of Industrial and Commercial Bank of China (Asia) Limited ("ICBC (Asia)") as security for the Bridging Loan Facilities granted by ICBC (Asia) to Boom Instant (see note 24 (c)(ii)).

9 Earnings per share

The calculation of basic earnings per share for the relevant period is based on the net profit attributable to the equity holders of the Company for each of the years ended 31 December 2004, 2005 and 2006 and the four months ended 30 April 2006 and 2007 and the 100,000,000 shares in issue as at the date of the Prospectus, and 650,000,000 shares to be issued pursuant to a capitalisation issue, as described under the section headed "Resolutions in writing of the sole Shareholder passed on 8 September 2007" in Appendix VI to the Prospectus, as if the shares had been outstanding throughout the entire relevant period.

There were no dilutive potential ordinary shares during the relevant period and, therefore, diluted earnings per share are not presented.

10 Property, plant and equipment

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Total RMB'000
Cost:					
At 1 January 2004	26,126	147,896	825	2,442	177,289
Additions	–	–	110	38	148
Transfer from construction in progress (<i>note 11</i>)	10,325	153,163	–	–	163,488
	<u>36,451</u>	<u>301,059</u>	<u>935</u>	<u>2,480</u>	<u>340,925</u>
At 31 December 2004	36,451	301,059	935	2,480	340,925
At 1 January 2005	36,451	301,059	935	2,480	340,925
Additions	–	–	–	108	108
	<u>36,451</u>	<u>301,059</u>	<u>935</u>	<u>2,588</u>	<u>341,033</u>
At 31 December 2005	36,451	301,059	935	2,588	341,033
At 1 January 2006	36,451	301,059	935	2,588	341,033
Additions	–	4,170	499	457	5,126
Transfer from construction in progress (<i>note 11</i>)	12,410	261,995	–	–	274,405
	<u>48,861</u>	<u>567,224</u>	<u>1,434</u>	<u>3,045</u>	<u>620,564</u>
At 31 December 2006	48,861	567,224	1,434	3,045	620,564
At 1 January 2007	48,861	567,224	1,434	3,045	620,564
Additions	–	192	485	99	776
Transfer from construction in progress (<i>note 11</i>)	–	16,000	–	–	16,000
Disposals	–	–	–	(140)	(140)
	<u>48,861</u>	<u>583,416</u>	<u>1,919</u>	<u>3,004</u>	<u>637,200</u>
At 30 April 2007	48,861	583,416	1,919	3,004	637,200

	Buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Furniture and fixtures <i>RMB'000</i>	Total <i>RMB'000</i>
Accumulated depreciation:					
At 1 January 2004	1,274	20,779	229	930	23,212
Charge for the year	702	18,841	80	233	19,856
	<u>1,976</u>	<u>39,620</u>	<u>309</u>	<u>1,163</u>	<u>43,068</u>
At 31 December 2004	<u>1,976</u>	<u>39,620</u>	<u>309</u>	<u>1,163</u>	<u>43,068</u>
At 1 January 2005	1,976	39,620	309	1,163	43,068
Charge for the year	866	28,541	89	241	29,737
	<u>2,842</u>	<u>68,161</u>	<u>398</u>	<u>1,404</u>	<u>72,805</u>
At 31 December 2005	<u>2,842</u>	<u>68,161</u>	<u>398</u>	<u>1,404</u>	<u>72,805</u>
At 1 January 2006	2,842	68,161	398	1,404	72,805
Charge for the year	1,093	46,492	119	279	47,983
	<u>3,935</u>	<u>114,653</u>	<u>517</u>	<u>1,683</u>	<u>120,788</u>
At 31 December 2006	<u>3,935</u>	<u>114,653</u>	<u>517</u>	<u>1,683</u>	<u>120,788</u>
At 1 January 2007	3,935	114,653	517	1,683	120,788
Charge for the period	387	18,305	45	101	18,838
Written back on disposal	–	–	–	(34)	(34)
	<u>4,322</u>	<u>132,958</u>	<u>562</u>	<u>1,750</u>	<u>139,592</u>
At 30 April 2007	<u>4,322</u>	<u>132,958</u>	<u>562</u>	<u>1,750</u>	<u>139,592</u>
Net book value:					
At 31 December 2004	<u>34,475</u>	<u>261,439</u>	<u>626</u>	<u>1,317</u>	<u>297,857</u>
At 31 December 2005	<u>33,609</u>	<u>232,898</u>	<u>537</u>	<u>1,184</u>	<u>268,228</u>
At 31 December 2006	<u>44,926</u>	<u>452,571</u>	<u>917</u>	<u>1,362</u>	<u>499,776</u>
At 30 April 2007	<u>44,539</u>	<u>450,458</u>	<u>1,357</u>	<u>1,254</u>	<u>497,608</u>

All of the Group's buildings are situated in the PRC.

The following items of property, plant and equipment are pledged to secure certain bank loans (note 17) granted to the Group.

	As at 31 December			As at
	2004	2005	2006	30 April
	RMB'000	RMB'000	RMB'000	2007
				RMB'000
Net book value of pledged assets:				
Plant and machinery	–	–	342,293	372,264
	<u>–</u>	<u>–</u>	<u>342,293</u>	<u>372,264</u>
11 Construction in progress				
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	39,199	–	132,411	16,000
Additions	124,289	132,411	157,994	–
Transfer to property, plant and equipment (note 10)	(163,488)	–	(274,405)	(16,000)
	<u>(163,488)</u>	<u>–</u>	<u>(274,405)</u>	<u>(16,000)</u>
At 31 December/ 30 April	<u>–</u>	<u>132,411</u>	<u>16,000</u>	<u>–</u>

Construction in progress comprises costs incurred on buildings and plant and machinery not yet completed at the respective balance sheet dates.

12 Lease prepayments

	2007
	RMB'000
Cost:	
Additions	10,980
	<u>10,980</u>
At 30 April	<u>10,980</u>
Accumulated amortisation:	
Charge for the period	20
	<u>20</u>
At 30 April	<u>20</u>
Net book value:	
At 30 April	<u>10,960</u>

Lease prepayments represent prepayments for land use rights in the PRC, which expire in 2053.

13 Inventories

(a) Inventories in the combined balance sheets comprise:

	As at 31 December			As at
	2004	2005	2006	30 April
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2007
Raw materials and consumables	12,533	10,762	30,426	19,854
Finished goods	20,591	27,603	20,563	15,016
	<u>33,124</u>	<u>38,365</u>	<u>50,989</u>	<u>34,870</u>

(b) An analysis of the amount of inventories recognised as an expense is as follows:

	Years ended 31 December			Four months ended	
	2004	2005	2006	30 April	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost of inventories sold	382,497	563,115	766,727	207,915	255,547
	<u>382,497</u>	<u>563,115</u>	<u>766,727</u>	<u>207,915</u>	<u>255,547</u>

(unaudited)

14 Trade and other receivables

	As at 31 December			As at
	2004	2005	2006	30 April
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2007
Trade receivables	39,341	64,116	80,478	63,388
Prepayments, deposits and other receivables	149	141	1,307	2,959
	<u>39,490</u>	<u>64,257</u>	<u>81,785</u>	<u>66,347</u>

(a) Ageing analysis

All of the trade and other receivables are expected to be recovered within one year. The Group's credit policy is set out in note 23(a). The Group generally grants credit periods of 30 days from the date of billing to its trade customers. An ageing analysis of the gross trade receivables as of the balance sheet date is as follows:

	As at 31 December			As at
	2004	2005	2006	30 April
	RMB'000	RMB'000	RMB'000	2007
				RMB'000
Current	39,341	62,917	79,226	63,388
Less than one month past due	–	1,199	1,252	–
	<u>39,341</u>	<u>64,116</u>	<u>80,478</u>	<u>63,388</u>

(b) Impairment of trade receivables

Based on past experience, the Group believes that no impairment allowance is necessary in respect of trade receivables that are aged within three months. The Group has made no impairment provisions for trade and other receivables for the years ended 31 December 2004, 2005 and 2006 and four months ended 30 April 2007.

15 Restricted bank balance

As part of the bridging loan arrangement (see note 24 (c)(ii)), Shandong Qunxing, Industrial and Commercial Bank of China Limited, Zouping sub-branch ("ICBC Zouping") and ICBC (Asia) have 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 bank deposit of RMB20,000,000 placed in the aforementioned account as at 30 April 2007 is restrictive in usage. The restricted bank balance can only be released upon the receipt of written notice from ICBC (Asia) to Boom Instant.

16 Cash and cash equivalents

	As at 31 December			As at
	2004	2005	2006	30 April
	RMB'000	RMB'000	RMB'000	2007
				RMB'000
Cash at bank and in hand	51,983	65,568	67,265	58,224
Cash and cash equivalent in the combined balance sheets and combined cash flow statements	<u>51,983</u>	<u>65,568</u>	<u>67,265</u>	<u>58,224</u>

As at 31 December 2004, 2005 and 2006 and 30 April 2007, cash in hand and cash placed with banks in the PRC and included in the cash and cash equivalent above amounted to RMB51,983,000, RMB65,568,000, RMB67,257,000 and RMB55,410,000 respectively. Remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

17 Bank loans

The bank loans were repayable as follows:

	As at 31 December			As at
	2004	2005	2006	30 April
	RMB'000	RMB'000	RMB'000	2007
				RMB'000
Within 1 year	127,200	250,200	332,000	204,000
After 1 year but within 2 years	–	–	–	83,000
	<u>127,200</u>	<u>250,200</u>	<u>332,000</u>	<u>287,000</u>
Representing:				
Secured bank loans:				
– secured by property, plant and equipment (note 10)	–	–	187,000	217,000
Unsecured bank loans:				
– guaranteed by a related party (note 25)	<u>127,200</u>	<u>250,200</u>	<u>145,000</u>	<u>70,000</u>
	<u>127,200</u>	<u>250,200</u>	<u>332,000</u>	<u>287,000</u>

The bank loans as at 31 December 2004, 2005 and 2006 and 30 April 2007 were interest bearing at rates ranging from 6.13% to 9.56%, 6.13% to 9.56%, 6.13% to 8.93% and 5.58% to 8.95% per annum respectively.

18 Trade and other payables

	As at 31 December			As at
	2004	2005	2006	30 April
	RMB'000	RMB'000	RMB'000	2007
				RMB'000
Trade payables	26,626	31,698	53,979	49,683
Other payables and accruals	<u>13,074</u>	<u>80,187</u>	<u>25,034</u>	<u>16,473</u>
	<u>39,700</u>	<u>111,885</u>	<u>79,013</u>	<u>66,156</u>

Included in trade and other payables are trade payables with the following ageing analysis as of the balance sheet date. The credit periods granted by various suppliers generally range from 3 days to 30 days.

	As at 31 December			As at
	2004	2005	2006	30 April
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 30 days	<u>26,626</u>	<u>31,698</u>	<u>53,979</u>	<u>49,683</u>

All of the trade and other payables are expected to be settled within one year.

19 Amounts due from/(to) related parties and controlling shareholders of the Company

- (i) The amounts due to controlling shareholders of the Company as at 31 December 2004 and 30 April 2007 were advances from the controlling shareholders of the Company which were unsecured, interest-free and had no fixed repayment terms.
- (ii) The amounts due to controlling shareholders of the Company as at 31 December 2006 mainly represented the consideration for the acquisition of the entire share capital of Shandong Qunxing, as set out in Section B. The balances were unsecured, interest-free and had fixed repayment terms due within one year.
- (iii) Amounts due from related parties and controlling shareholders of the Company represented operating expenses paid by the Group on their behalf. The balances were unsecured, interest-free and recoverable on demand.
- (iv) Amounts due to related parties represented listing fees and operating expenses paid by the related parties on behalf of the Group. The balances were unsecured, interest-free and repayable on demand.
- (v) The amounts due from/(to) related parties and controlling shareholders of the Company as at 30 April 2007 have been recovered/settled prior to the listing of the Company's shares on the Stock Exchange.

20 Income tax in the combined balance sheets

(a) Current taxation in the combined balance sheets represents:

	As at 31 December			As at
	2004	2005	2006	30 April
	RMB'000	RMB'000	RMB'000	2007
				RMB'000
Provision for PRC income tax for the year/period	24,023	35,460	48,755	–
Balance of PRC income tax relating to prior years	8,991	14,686	17,549	21,671
PRC income tax paid	(18,328)	(32,597)	(44,633)	(26,036)
	<u>14,686</u>	<u>17,549</u>	<u>21,671</u>	<u>(4,365)</u>
Representing:				
Tax payable	14,686	17,549	21,671	–
Tax recoverable	–	–	–	(4,365)
	<u>14,686</u>	<u>17,549</u>	<u>21,671</u>	<u>(4,365)</u>

(b) There were no significant unrecognised deferred tax assets or liabilities as at 31 December 2004, 2005 and 2006 and 30 April 2007.

21 Share capital

For the purpose of this report, share capital in the combined balance sheets as at 31 December 2004 and 2005 represents the paid-in capital of Shandong Qunxing.

Share capital in the combined balance sheets as at 31 December 2006 represents the aggregate amount of paid-in capital of the companies now comprising the Group and the nominal value of the share capital of the Company, after elimination of investments in subsidiaries.

Share capital in the combined balance sheets as at 30 April 2007 represents the nominal value of the share capital of the Company.

(a) Capital injection

Double Nation was incorporated on 18 May 2006 with issued share capital of USD100 comprising 100 shares of USD1 each, which were issued at par.

The Company was incorporated on 5 September 2006 with issued share capital of HKD100,000 comprising 1,000,000 shares of HKD0.1 each, which were issued at par.

(b) *Capitalisation issue upon Reorganisation*

On 29 January 2007, the Company acquired the entire share capital of Double Nation from the holding company, Boom Instant Limited (“Boom Instant”) for a consideration of RMB996,000. The acquisition was satisfied by a waiver of an amount due from Boom Instant of RMB99,000 and the allotment of 9,000,000 shares of HKD0.1 each.

(c) *Capitalisation issue*

Pursuant to the written resolutions of the shareholders of the Company passed on 16 April 2007, the Board had passed a resolution to capitalise an amount due to Boom Instant of RMB191,258,000 by the allotment of 90,000,000 shares of HKD0.1 each, credited as fully paid. Upon the issue of the said shares, the amount due to Boom Instant of RMB191,258,000 was extinguished and cancelled.

22 Reserves

(a) *Share premium*

Share premium at 30 April 2007 represents the share premium of the Company.

(b) *Capital reserve*

The opening balance of capital reserve represents the advance from a controlling shareholder of the Company, Mr Zhu Yu Guo. Prior to 1 January 2004, Mr Zhu Yu Guo agreed to waive repayment of the advance by the PRC subsidiary and the balance was recognised as a deemed capital contribution.

On 28 December 2005, the shareholders of the PRC subsidiary passed a resolution to transfer the retained profits of the PRC subsidiary as of 31 December 2005 to capital reserve. On 12 March 2006, the shareholders of the PRC subsidiary passed a supplementary resolution to transfer RMB112,877,000 from retained profits to the capital reserve.

The capital reserve is not distributable.

(c) *Statutory reserves*

Transfers from retained profits to the statutory reserve were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiary incorporated in the PRC and were approved by its board of directors.

(i) Statutory surplus reserve

The PRC subsidiary is required to transfer 10% of its net profit, as determined in accordance with the PRC accounting rules and regulations, to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders.

The statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

(ii) Statutory public welfare fund

For the period from 1 January 2004 to 16 August 2006, the date on which the PRC subsidiary transformed into a wholly foreign owned enterprise, the PRC subsidiary was required to transfer 5% of its net profit, as determined in accordance with the PRC accounting rules and regulations, to the statutory public welfare fund. This fund can only be utilised for capital items for the collective benefit of the PRC subsidiary's employees such as the construction of dormitories or a canteen and other staff welfare facilities. This fund is non-distributable other than on liquidation. The transfer to this fund must be made before the distribution of a dividend to shareholders.

According to the revised Company Law of the PRC effective on 1 January 2006, appropriation to the statutory public welfare fund is no longer required.

(d) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the PRC which are dealt with in accordance with the accounting policies as set out in note 1(r).

(e) *Distributable reserves*

The Company was incorporated on 5 September 2006 and has not carried out any business since the date of its incorporation. Accordingly, there were no reserves available for distribution to shareholders as at 30 April 2007.

On the basis set out in Section A above, the aggregate amounts of distributable reserves at 31 December 2004, 2005 and 2006 and 30 April 2007 of the companies comprising the Group were RMB53,645,000, RMB Nil, RMB71,395,000 and RMB139,032,000 respectively.

23 Financial instruments

This note presents information about the Group's exposure to credit, liquidity, interest rate, commodity price and currency risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the Group's trade and other receivables and deposits with banks.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Board has established a credit policy under which credit evaluations are performed on all customers requiring credit. These receivables are due within 30 days from the date of billing. Debtors with balances that are more than one month from the date of billing are requested to settle all outstanding balances before any further credit is granted. The Group does not collect collateral in respect of trade and other receivables.

At the balance sheet date, the Group has a certain concentration of credit risk as 6.1%, 5.5%, 28.9% and 18.8% and 26.1%, 24.1%, 45.7% and 36.2% of the total trade receivables were due from the Group's largest trade debtors and the five largest trade debtors as at 31 December 2004, 2005 and 2006 and 30 April 2007 respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the combined balance sheets.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 14.

(ii) Deposits with bank

The Group limits its exposure to credit risk by placing deposits with financial institutions that meet the established credit rating or other criteria. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's net current liabilities amounted to RMB176,949,000, RMB211,397,000, RMB426,938,000 and RMB91,464,000 as at 31 December 2004, 2005 and 2006 and 30 April 2007 respectively. The Group recorded a net cash inflow from operating activities of approximately RMB67,482,000, RMB92,611,000, RMB158,315,000 and RMB108,906,000 for the years ended 31 December 2004, 2005 and 2006 and the four months ended 30 April 2007 respectively. For the same period, the Group had a net cash outflow in respect of investing activities of RMB142,565,000, RMB68,226,000, RMB217,825,000 and RMB43,371,000 respectively. The Group also recorded a net cash inflow/ (outflow) in respect of financing activities of RMB90,879,000, (RMB10,800,000), RMB61,207,000 and (RMB74,576,000) respectively. The Group had an increase in cash and cash equivalents of approximately RMB15,796,000, RMB13,585,000 and RMB1,697,000 for the years ended 31 December 2004, 2005 and 2006 respectively and a decrease in cash and cash equivalents of approximately RMB9,041,000 for the four months ended 30 April 2007.

The directors of the Company have carried out a detailed review of the cash flow forecast of the Group for the twenty-four months ending 31 December 2008. Based on such forecast, the directors have determined that adequate liquidity exists to finance the working capital and capital expenditure requirements of the Group during that period. The directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

The following table shows the time periods after the balance sheet date during which contractual payments, presented on an undiscounted basis, are due to be made. These payments include, among others, interest payments computed using contractual rates (for fixed rate instruments) under the Group's non-derivative financial liabilities which are due to be paid.

	As at 31 December									As at 30 April			
	2004			2005			2006			2007			More than 1 year but within 2 years
	Total		Within 1 year or on demand	Total		Within 1 year or on demand	Total		Within 1 year or on demand	Total		Within 1 year or on demand	
	Contracted amount	Undiscounted cash flow		Contracted amount	Undiscounted cash flow		Contracted amount	Undiscounted cash flow		Contracted amount	Undiscounted cash flow		Contracted amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other payables	39,700	(39,700)	(39,700)	111,885	(111,885)	(111,885)	79,013	(79,013)	(79,013)	66,156	(66,156)	(66,156)	-
Amounts due to controlling shareholders of the Company	119,986	(119,986)	(119,986)	-	-	-	194,491	(194,491)	(194,491)	140	(140)	(140)	-
Amounts due to related parties	-	-	-	-	-	-	-	-	-	5,270	(5,270)	(5,270)	-
Bank loans	127,200	(131,523)	(131,523)	250,200	(257,172)	(257,172)	332,000	(339,839)	(339,839)	287,000	(310,734)	(220,407)	(90,327)

(c) Interest rate risk

The interest rates and maturity information of the Group's bank loans are disclosed in note 17. The Group's policy is to manage its interest rate risk to ensure there are no undue exposures to significant interest rate movements and rates are approximately fixed. The Group does not account for any fixed rate financial liabilities at fair value through profit or loss, and the Group does not use derivative financial instruments to hedge its debt obligations. Therefore, a change in interest rates at the balance sheet date would not affect profit or loss.

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier:

	As at 31 December						As at 30 April			Total RMB'000
	2004		2005		2006		2007			
	Effective interest rate	One year or less RMB'000	Effective interest rate	One year or less RMB'000	Effective interest rate	One year or less RMB'000	Effective interest rate	One year or less RMB'000	One to two years RMB'000	
Repricing dates for assets which reprice before maturity										
Cash at bank	0.72%	51,817	0.72%	65,499	0.72%	67,190	0.60%	58,189	-	58,189
Restricted bank deposit	-	-	-	-	-	-	0.72%	20,000	-	20,000
		<u>51,817</u>		<u>65,499</u>		<u>67,190</u>		<u>78,189</u>	<u>-</u>	<u>78,189</u>
Maturity dates for liabilities which do not reprice before maturity										
Bank loans	6.59%	<u>127,200</u>	6.61%	<u>250,200</u>	6.42%	<u>332,000</u>	6.94%	<u>204,000</u>	<u>83,000</u>	<u>287,000</u>

(d) Business risk

The Group's sales of printing paper product are principally to one customer. Although the Group has entered into a co-operative agreement with this customer, there can be no assurance that this customer will continue to purchase from the Group as and when needed. In the event that this customer ceased to purchase printing paper product from the Group and the Group could not secure orders from other customers, the Group's turnover and profitability would be adversely affected.

The Group's purchases of raw materials are primarily from several major suppliers. The Group has a certain concentration of business risk as 58%, 58%, 63% and 80% of the total purchases were from the Group's five largest suppliers for the years ended 31 December 2004, 2005 and 2006 and the four months ended 30 April 2007 respectively. If the Group could not purchase adequate quantities of materials from these suppliers and failed to identify alternative sources, the Group's turnover and profitability could be adversely affected.

(e) *Commodity price risk*

The major raw materials used in the production of the Group's products include wood pulp and titanium dioxide powder. The Group is exposed to fluctuations in the prices of wood pulp and titanium dioxide powder which are influenced by global as well as regional supply and demand conditions. Fluctuations in the price of wood pulp and titanium dioxide powder could adversely affect the Group's financial performance. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

(f) *Foreign currency risk*

As most of the Group's monetary assets and liabilities are denominated in Renminbi and the Group conducts its business transactions principally in Renminbi, the exchange rate risk of the Group is not significant and the Group does not employ any financial instruments for hedging purposes.

(g) *Fair values*

As stated in note 19, the amounts due to controlling shareholders of the Company as at 31 December 2004 and 30 April 2007 are interest-free and have no fixed repayments terms. Given these terms it is not meaningful to disclose fair values. All other financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2004, 2005 and 2006 and 30 April 2007.

(h) *Capital management*

The Group's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business. The Group defines the capital of the Group as the total shareholders' equity.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

24 Commitments and contingent liabilities*(a) Operating leases*

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December			As at
	2004	2005	2006	30 April
	RMB'000	RMB'000	RMB'000	2007
Within 1 year	900	800	1,200	751
After 1 year but within 5 years	3,200	3,200	4,800	2,400
Over 5 years	3,122	2,322	3,522	4,850
	<u>7,222</u>	<u>6,322</u>	<u>9,522</u>	<u>8,001</u>

The Group is the lessee in respect of leasehold land and properties held under operating leases. The leases typically run for an initial period of 10 years, with an option to renew the leases upon expiry when all terms are renegotiated. None of the lease includes contingent rentals.

(b) Capital commitments

Capital commitments outstanding at 31 December 2004, 2005 and 2006 and 30 April 2007 not provided for in the Financial Information were as follows:

	As at 31 December			As at
	2004	2005	2006	30 April
	RMB'000	RMB'000	RMB'000	2007
Contracted for	–	118,589	–	150,102
Authorised but not contracted for	–	20,000	–	30,000
	<u>–</u>	<u>138,589</u>	<u>–</u>	<u>180,102</u>

(c) *Contingent liabilities*

(i) Environmental contingencies

To date, the Group has not incurred any significant expenditure for environmental remediation, is currently not involved in any environmental remediation and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that could have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved, and may move further towards more rigorous enforcement of applicable laws, and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include i) the exact nature and extent of the contamination, ii) the extent of required cleanup efforts, iii) varying costs of alternative remediation strategies, iv) changes in environmental remediation requirements, and v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed or future environmental legislation cannot reasonably be estimated at present and could be material.

(ii) Bridging loan facility granted to the holding company

As at 30 April 2007, the following items/assets of the Group were assigned and charged in favour of ICBC (Asia) as security for a bridging loan of RMB210,362,000 granted by ICBC (Asia) to Boom Instant;

- dividends payable to Best Known, Double Nation and the Company from time to time with respect to their shares in their respective subsidiary (note 8);
- all assets of the Company, Double Nation and Best Known;
- the Company's rights, title, and interest in all of the issued share capital of Double Nation registered in the name of the 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 ICBC Loan Agreement dated 2 February 2007 entered into between Boom Instant and ICBC (Asia), Boom Instant had undertaken that it will fully repay the bridging loan due to ICBC (Asia) upon the listing of the Company's shares on the Stock Exchange.

According to the letter dated 28 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 the Company's shares on the Stock Exchange.

25 Material related party transactions

In addition to the related party information disclosed in note 19, the Group entered into the following material related party transactions.

During the relevant period, the directors are of the view that the following companies are related parties of the Group:

Name of party	Relationship
Addinsight Limited ("Addinsight")	Effectively 87.5% owned by Mr Zhu Yu Guo and 12.5% by Ms Sun Rui Fang, controlling shareholders of the Company
Be Broad Limited ("Be Broad")	Effectively 100% owned by Mr Zhu Mo Qun, a controlling shareholder of the Company
Boom Instant Limited ("Boom Instant")	Effectively 70% owned by Mr Zhu Yu Guo, 20% by Mr Zhu Mo Qun, 10% by Ms Sun Rui Fang, controlling shareholders of the Company

Name of party	Relationship
Shandong Changxing Group Limited ("SD Changxing")* (山東長星集團有限公司)	Effectively 55% owned by Mr Zhu Yu Guo, 30% by Mr Zhu Mo Qun and 15% by Ms Sun Rui Fang, controlling shareholders of the Company
ZouPing GuangHua Veneer Company Limited ("Guang Hua")* (鄒平光華板材有限公司)	Effectively 50% owned by Mr Zhu Yu Guo, 33% by Mr Zhu Mo Qun and 17% by Ms Sun Rui Fang, controlling shareholders of the Company
Jumbo Bonus Investments Limited ("Jumbo Bonus")	Effectively 70% owned by Mr Zhu Yu Guo, 20% by Mr Zhu Mo Qun and 10% by Ms Sun Rui Fang, controlling shareholders of the Company

* The English translation of the company names is for reference only. The official names of these companies are in Chinese.

(a) *Recurring transactions*

Particulars of significant transactions between the Group and the above related parties during the relevant period and expected to continue after the listing of the Company's shares on the Stock Exchange are as follows:

	Years ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Sale of decorative base paper products					
– Guang Hua	<u>7,827</u>	<u>8,956</u>	<u>6,172</u>	<u>1,852</u>	<u>2,266</u>
Lease of leasehold land and properties					
– SD Changxing	–	–	400	133	133
– Guang Hua	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>17</u>

The directors of the Company are of the opinion that the above related party transactions were conducted on normal commercial terms and in the ordinary course of business. The directors have confirmed that the above transactions will continue in the future after the listing of the Company's shares on the Stock Exchange.

(b) *Non-recurring transactions*

- (i) Particulars of significant transactions between the Group and the above related parties during the relevant period and expected to discontinue after the listing of the Company's shares on the Stock Exchanges are as follows:

	Years ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Lease of leasehold land and properties – Guang Hua	900	900	800	267	200

- (ii) On 2 April 2007, the Group entered into an agreement with Guang Hua to acquire leasehold land located in the PRC at the prevailing market value of RMB10,980,000.
- (iii) Certain bank loans of the Group totalling RMB127,200,000, RMB250,200,000, RMB145,000,000 and RMB70,000,000 as at 31 December 2004, 2005 and 2006 and 30 April 2007 respectively were guaranteed by SD Changxing. The above guarantees provided by the related party have been released subsequent to 30 April 2007.

The directors of the Company are of the opinion that the above related party transactions, excluding item (iii), were conducted on normal commercial terms and in the ordinary course of business. The directors have confirmed that the above non-recurring transactions will not be continued in the future after the listing of the Company's share on the Stock Exchange.

(c) *Balances with related parties*

As at the balance sheet dates, the Group had the following balances with related parties:

	As at 31 December			As at
	2004	2005	2006	30 April
	RMB'000	RMB'000	RMB'000	2007
				RMB'000
Amounts due from controlling shareholders of the Company				
– Mr Zhu Mo Qun	26	15	15	–
– Mr Zhu Yu Guo	–	32	–	–
	<u>26</u>	<u>47</u>	<u>15</u>	<u>–</u>
Amounts due from related parties				
– Addinsight	–	–	22	27
– Be Broad	–	–	17	22
– Boom Instant	–	–	118	221
– Jumbo Bonus	–	–	26	26
	<u>–</u>	<u>–</u>	<u>183</u>	<u>296</u>
Amounts due to controlling shareholders of the Company				
– Mr Zhu Mo Qun	–	–	99,160	–
– Mr Zhu Yu Guo	119,986	–	95,331	140
	<u>119,986</u>	<u>–</u>	<u>194,491</u>	<u>140</u>
Amounts due to related parties				
– Boom Instant	–	–	–	4,920
– SD Changxing	–	–	–	133
– Guang Hua	–	–	–	217
	<u>–</u>	<u>–</u>	<u>–</u>	<u>5,270</u>

- (i) The amounts due from controlling shareholders of the Company as at 31 December 2004, 2005 and 2006 were advances to controlling shareholders. The maximum balance of the advances to controlling shareholders were in aggregate RMB40,000, RMB47,000, RMB86,000 and RMB36,000 for the years ended 31 December 2004, 2005 and 2006 and the four months ended 30 April 2007 respectively.
- (ii) The amounts due to controlling shareholders of the Company as at 31 December 2004 were unsecured, interest-free and had no fixed repayment terms; whilst the amounts due to controlling shareholders of the Company as at 31 December 2006 were unsecured, interest-free and had fixed repayment terms due within one year.

The amounts due from related parties were unsecured, interest-free and were expected to be recovered within one year. There was no provision made against these amounts as at 31 December 2004, 2005 and 2006 and 30 April 2007.

- (iii) All balances with related parties and the controlling shareholders of the Company as at 30 April 2007 have been subsequently settled.

(d) *Key management personnel remuneration*

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 6 and certain of the highest paid employees as disclosed in note 7, is as follows:

	Years ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Short-term employee benefits	415	437	499	166	178
Contribution to retirement benefit schemes	15	15	15	5	7
	<u>430</u>	<u>452</u>	<u>514</u>	<u>171</u>	<u>185</u>

Total remuneration is included in "staff costs" (see note 4(b)).

26 The Company's balance sheet

The balance sheets of the Company were as follows:

	<i>Note</i>	As at 31 December 2006 RMB'000	As at 30 April 2007 RMB'000
Non-current assets			
Investment in a subsidiary	<i>(a)</i>	–	997
Current assets			
Prepayments	<i>(b)</i>	1,279	5,811
Amount due from holding company	<i>(c)</i>	100	–
Amount due from a subsidiary	<i>(d)</i>	–	190,657
		<u>1,379</u>	<u>196,468</u>
Current liabilities			
Amount due to holding company	<i>(e)</i>	–	2,684
Amounts due to subsidiaries	<i>(e)</i>	1,363	3,232
		<u>1,363</u>	<u>5,916</u>
Net current assets		<u>16</u>	<u>190,552</u>
NET ASSETS		<u>16</u>	<u>191,549</u>
Equity			
Share capital	<i>(f)</i>	102	9,894
Share premium	<i>(f)</i>	–	182,363
Accumulated losses		(84)	(107)
Exchange reserve		(2)	(601)
		<u>16</u>	<u>191,549</u>

(a) Investment in a subsidiary is stated at cost and details of the subsidiary as at 30 April 2007 are set out in Section A.

(b) Prepayments represent listing expenses prepaid by the Company.

- (c) Amount due from holding company represents the unpaid share capital due from Boom Instant.
- (d) Amount due from a subsidiary represents advance to a subsidiary which is unsecured, interest-free and has no fixed repayment terms.
- (e) Amounts due to holding company and subsidiaries represent listing expenses and other operating expenses paid by the holding company and subsidiary on behalf of the Company.
- (f) Share capital and share premium

	Share capital		Share
	No. of shares		premium
	('000)	RMB'000	RMB'000
Shares issued upon incorporation	1,000	102	–
At 31 December 2006	<u>1,000</u>	<u>102</u>	<u>–</u>
At 1 January 2007	1,000	102	–
Issue of shares pursuant to Reorganisation	9,000	897	–
Capitalisation issue	<u>90,000</u>	<u>8,895</u>	<u>182,363</u>
At 30 April 2007	<u>100,000</u>	<u>9,894</u>	<u>182,363</u>

The Company was incorporated in the Cayman Islands on 5 September 2006 as an exempted company with limited liability with an authorised share capital of HKD100,000, comprising 1,000,000 ordinary shares of HKD0.1 each, all of which were allotted and issued at par on 5 September 2006.

Pursuant to resolutions in writing on 29 January 2007, the authorised share capital of the Company was increased from HKD100,000 to HKD1,000,000,000 by the creation of an additional 9,999,000,000 shares of HKD0.1 each.

On 29 January 2007, the Company allotted and issued 9,000,000 shares to Boom Instant pursuant to the Reorganisation.

On 16 April 2007, the Company allotted and issued 90,000,000 shares of HKD0.1 each to Boom Instant for the capitalisation of the amount due to Boom Instant of RMB191,258,000.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

27 Ultimate controlling company

The Directors consider the ultimate controlling company of the Company as at 30 April 2007 to be Boom Instant Limited, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

28 Significant accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements 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 the Financial Information. The principal accounting policies are set forth in note 1. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the Financial Information.

(a) Impairment

If circumstances indicate that the carrying value of an asset may not be recoverable, the asset may be considered "impaired" and an impairment loss may be recognised in profit or loss. The carrying amounts of assets are reviewed at least annually in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of sales volumes, sales revenue and the amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volumes, sales revenue and the amount of operating costs.

(b) *Write-down of inventories*

The Group determines the write-down for obsolescence of inventories. These estimates are made with reference to aged inventories analyses, projections of expected future saleability of goods and management experience and judgement. Based on this review, a write-down of inventories will be made when the carrying amounts of inventories decline below their estimated net realisable value. Due to changes in market conditions, actual saleability of goods may be different from estimations and profit or loss could be affected by differences in this estimation.

(c) *Depreciation*

Property, plant and equipment is depreciated on a straight-line basis over the estimated useful lives of the relevant assets, after taking into account their estimated residual value, if any. The Group reviews the estimated useful lives of the assets annually in order to determine the amount of depreciation expenses to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets taking into account anticipated technological changes. The depreciation expenses for future periods are adjusted if there are significant changes from previous estimates.

(d) *Going concern basis*

Management makes an assessment of the Group's ability to continue as a going concern when preparing the Financial Information. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the balance sheet date. The degree of consideration depends on the facts in each case.

The Group is dependent upon the ongoing support of its banks to ensure that adequate bank borrowing facilities are available to meet the Group's future working capital and financing requirements. Management believes the Group is able to continue as a going concern after taking into account the bank borrowing facilities granted by its banks. Accordingly, management has prepared the Financial Information on a going concern basis. An adverse change in any of the above conditions would require the Financial Information to be prepared on an alternative authoritative basis and such basis, together with the fact that the Financial Information is not prepared on a going concern basis, would need to be disclosed. If the Group were unable to continue as a going concern, adjustments relating to the recoverability and classification of recorded asset amounts or classification of liabilities may need to be incorporated in the Financial Information.

29 Possible impact of amendments, new standards and interpretations issued but not yet effective for the relevant period

Up to the date of issue of this Accountants' Report, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the relevant period and which have not been adopted in this Accountants' Report.

Of these developments, the following relate to matters that may be relevant to the Group's operations and the Financial Information:

		Effective for accounting periods beginning on or after
IFRS 8	Operating segments	1 January 2009
IAS 23 (March 2007)	Borrowing costs	1 January 2009
IFRIC 11	IFRS 2 – Group and treasury share transactions	1 March 2007
IFRIC 12	Service Concession Arrangements	1 January 2008

The directors have confirmed that the Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

D SUBSEQUENT EVENTS

The following significant events took place subsequent to 30 April 2007:

(a) Share option scheme

Pursuant to a resolution in writing passed by the sole shareholder of the Company on 8 September 2007, the Company has conditionally adopted a share option scheme, whereby the directors of the Company may, at their discretion, invite any full time employees and directors of the Group and consultants of and advisors to the Group (subject to eligibility requirements as set out therein) to take options which entitle them to subscribe for shares representing up to a maximum of 10 percent of the shares of the Company in issue from time to time. The principal terms of the share option scheme are set out in Appendix VI to the Prospectus.

(b) Valuation of properties

For the purpose of the listing of the Company's shares on the Stock Exchange, the Group's properties were revalued as at 30 June 2007 by LCH (Asia-Pacific) Surveyors Limited, an independent firm of surveyors.

The valuation gave rise to a revaluation surplus of approximately RMB4,094,000 over the carrying amount of the relevant assets at that date. Such revaluation surplus will not be incorporated in the financial statements subsequently prepared for the year ending 31 December 2007. Details of the valuation are set out in Appendix IV to the Prospectus.

(c) Reschedule of short-term bank loans

In May 2007, the Group rescheduled the repayment terms of certain short-term bank borrowings amounting to RMB124,000,000. The repayment date of these short-term bank borrowings has been extended to May 2009.

(d) Purchase of land use rights

On 8 May 2007, the Group entered into an agreement with Guang Hua to acquire a piece of leasehold land located in the PRC at the prevailing market value of RMB461,000.

E SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 April 2007.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong