**Web Proof Information Pack of**

Jin Bao Bao Holdings Limited
金寶寶控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

## WARNING

This Web Proof Information Pack is being published in Hong Kong as required by The Stock Exchange of Hong Kong Limited (the "**HKEx**")/the Securities and Futures Commission solely for the purpose of providing information to the public in Hong Kong.

This Web Proof Information Pack is in draft form. The information contained in it is incomplete and is subject to change which can be material. This Web Proof Information Pack may not be updated until a document registered with the Registrar of Companies in Hong Kong is issued by Jin Bao Bao Holdings Limited (the "Company"), which will be posted on this website.

By viewing this document, you acknowledge, accept and agree with the Company, any of its affiliates, sponsors, advisors and members of the underwriting syndicate that:

(a) this Web Proof Information Pack is only for the purpose of facilitating equal dissemination of information to investors in Hong Kong and not for any other purposes. No investment decision should be based on the information contained in this Web Proof Information Pack;

(b) the posting of the Web Proof Information Pack or supplemental, revised or replacement pages on the website of HKEx does not give rise to any obligation of the Company, any of its affiliates, sponsors, advisors and members of the underwriting syndicate to proceed with an offering in Hong Kong or any other jurisdiction. There is no assurance that the Company will proceed with any offering;

(c) the contents of this Web Proof Information Pack or supplemental, revised or replacement pages may or may not be replicated in full or in part in the actual prospectus;

(d) this Web Proof Information Pack is in draft form and may be changed, updated revised by the Company from time to time and the changes, updates and/or revisions could be material, but each of the Company and its affiliates, advisors, sponsors or members of the underwriting syndicate is under no obligation, legal or otherwise, to update any information contained in this Web Proof Information Pack;

(e) this Web Proof Information Pack does not constitute a prospectus, disclosure document, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is it an invitation to the public to make offers to subscribe for or purchase any securities, nor is it calculated to invite offers by the public to subscribe for or purchase any securities;

(f) this Web Proof Information Pack must not be regarded as an inducement to subscribe for or purchase any securities, and no such inducement is intended;

(g) neither the Company nor any of its affiliates, advisors, sponsors or members of the underwriting syndicate is offering, or is soliciting offers to buy, any securities in any jurisdiction through the publication of this Web Proof Information Pack;

(h) each of the Company and any of its affiliates, advisors, sponsors or members of its underwriting syndicate expressly disclaims any and all liability on the basis of any information contained in, or omitted from, or any inaccuracies or errors in, this Web Proof Information Pack;

(i) the Company has not and will not register the securities referred to in this Web Proof Information Pack under the United States Securities Act of 1933, as amended, (the "**Securities Act**") or any state securities laws of the United States; and

(j) as there may be legal restrictions on the distribution of this Web Proof Information Pack or dissemination of any information contained in this Web Proof Information Pack, you agree to inform yourself about and observe any such restrictions applicable to you.

THIS WEB PROOF INFORMATION PACK IS NOT FOR PUBLICATION OR DISTRIBUTION TO PERSONS IN THE UNITED STATES. ANY SECURITIES REFERRED TO HEREIN HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, AND MAY NOT BE OFFERED OR SOLD WITHOUT REGISTRATION THEREUNDER OR PURSUANT TO AN AVAILABLE EXEMPTION THEREFROM. THERE WILL BE NO PUBLIC OFFER OF SECURITIES IN THE UNITED STATES.

NEITHER THIS WEB PROOF INFORMATION PACK NOR THE INFORMATION CONTAINED HEREIN CONSTITUTES OR FORMS A PART OF AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES IN THE UNITED STATES OR IN ANY OTHER JURISDICTIONS WHERE SUCH AN OFFER OR SALE IS NOT PERMITTED. THIS WEB PROOF INFORMATION PACK IS NOT BEING MADE AND MAY NOT BE DISTRIBUTED OR SENT INTO ANY JURISDICTION WHERE SUCH DISTRIBUTION OR DELIVERY IS NOT PERMITTED.

No offer or invitation will be made to the public in Hong Kong until after a prospectus of the Company is registered with the Registrar of Companies in Hong Kong. If an offer or an invitation is made to the public in Hong Kong in due course, prospective investors are reminded to make their investment decisions solely based on a prospectus of the Company registered with the Registrar of Companies in Hong Kong, copies of which will be distributed to the public during the offer period.

# TABLE OF CONTENTS

This Web Proof Information Pack contains the following information relating to the Company extracted from the draft document:



**YOU SHOULD READ THE SECTION HEADED "WARNING" ON THE COVER OF THIS WEB PROOF INFORMATION PACK.**

# SUMMARY

The summary section aims to provide an overview of the information contained in this document and as such, it does not contain all the information that may be important in making an investment decision in respect of the [•••]. There are risks inherited in many investments including the [•••]. You should read this document in its entirety, including but not limited to our Group's financial statements and the accompanying notes. You should also read the "Risk factors" section in this document for risks in relation to our business and the [•••]. Various expressions used in this section are defined in the "Definitions" and "Glossary" sections in this document.

## OVERVIEW

We are a provider of packaging products and structural components in the PRC. We specialize in the design, manufacture and sale of packaging products made primarily of EPS and EPO for packaging of consumer electrical appliances such as televisions, air conditioners, washing machines and refrigerators in the PRC. Our packaging products exhibit chemical, thermal and shock resistivity and offer protection against damages in transit and storage. In addition, we undertake the design and manufacture of structural components in various shapes and sizes that are often used as components inside consumer electrical appliances manufactured by our customers in the PRC. We are therefore able to offer our customers an integrated solution for their packaging needs.

We design and manufacture all our packaging products and structural components in the three factories located respectively in Chuzhou Economic Development Zone in Chuzhou City, Anhui Province, Pengqiao Economic Development Zone in Guangxing Town, Jiangjin District, Chongqing Municipality and Sichuan Province Miangyang State High Technology Industrial Development Zone in Mianyang City, Sichuan Province in the PRC.

We exercise close management and supervision on the manufacturing processes, product quality and delivery schedules of our packaging products. We upgrade and improve our manufacturing facilities and processes in order to improve manufacturing efficiency and stay competitive in the packaging industry in the PRC. The factories are strategically located close to our major customers and for this reason we can arrange for timely delivery and control the related transportation costs of our products. The close proximity to our major customers also allows us to maintain regular communications with them, understand their latest products and packaging requirements, industry trends and provide them prompt service and support.

The three factories are capable of a maximum annual manufacturing capacity, in aggregate, of 15,100 tonnes of packaging products and structural components. For the three financial years ended 31 December 2008, 2009 and 2010, the three factories manufactured packaging products and structural components per annum, in aggregate, of 9,478 tonnes, 6,683 tonnes and 8,156 tonnes respectively.

We are committed to developing efficient and effective packaging products and structural components for our customers. We believe that our strong product design and development capability, our diverse range of packaging products, our continuous focus on improving product quality and efficient product delivery arrangement are our competitive advantages in the packaging industry in the PRC.

# SUMMARY

We have established strong and long term relationships with our customers and some of whom have been customers of our packaging products for nearly 14 years. For the Track Record Period, the sales to our five largest customers were approximately RMB230.9 million, RMB121.3 million, RMB164.7 million and RMB98.5 million representing approximately 98.5%, 99.5%, 99.2% and 97.9% of our turnover for the respective periods.

Revenue of our Company decreased from approximately RMB234.5 million in 2008 to approximately RMB121.9 million in 2009 mainly as a result of the decrease in sales of packaging products for cathode ray tube televisions as some of our customers had shifted focus away from the production of cathode ray tube televisions to flat panel and plasma televisions. The decrease in sales of packaging products for cathode ray tube televisions continued to affect our revenue in 2010.

Our gross profit margin increase from approximately 24.9% in 2008 to approximately 28.6% in 2009 and approximately 32.3% in 2010. The increase in our gross profit margin reflected, in general, the increase in the gross profit margins of some of our packaging products and structural components and the increase in sales of EPO packaging products that offered comparatively higher margins than EPS packaging products. Further, our effort on improving efficiency of our manufacturing processes by way of cost control and enhancing our machineries and equipment contributed to the increase in our gross profit margin in 2008, 2009 and 2010.

We were either the sole or major supplier, or one of the largest suppliers of packaging products and structural components to Anhui Konka, Chongqing Haier, Chongqing Gree and Sichuan Changhong, the major consumer electrical appliance manufacturers in the PRC, who were our four major customers for the Track Record Period. We, in general, do not enter into long term sales and purchase agreements with our customers as they normally place purchase orders with us for our products based on their estimated sales and production needs.

The following table sets out our major customers and types of packaging products provided to them for the Track Record Period.

| **Names of major customers** | **Types of packaging solution and packaging products** |
|---|---|
| Anhui Konka | Cathode ray tube televisions and plasma televisions and refrigerators |
| Sichuan Changhong | Cathode ray tube televisions, flat panel and plasma televisions and others |
| Chongqing Haier | Cathode ray tube televisions, air conditioners, washing machines, refrigerators and others |
| Chongqing Gree | Air conditioners |

Our sales and marketing team regularly contacts our existing and potential customers about our current product lines and product development plans. We also pay visit to our existing customers once every week. Our sales and marketing team also contacts target potential customers by physical meetings, emails and phone calls. Our sales and marketing team will be available onsite at the manufacturing facilities of our major customers to provide detailed information of our packaging products and provide necessary evaluation to assist our major customers in deciding on the appropriate packaging products for their products. Our frequent communications with our major customers provide our sales and marketing team important feedbacks and requirements of our customers and the latest industry trends.

Our existing three factories are located close to the manufacturing base of our customers and thus minimizing transportation cost and time to be incurred by delivery of products to our customers; and allowing the pricing of products to remain competitive. As such, it is an industry pattern that the number of potential customers of packaging product suppliers may be restricted by the travel distance between them and as to what length is acceptable, in general, depends on circumstances in which such supplier operates, which may differ from supplier to supplier.

According to the market survey report dated [•••] from Synovate, (i) our target packaging product market for consumer electrical appliances namely, televisions, refrigerators, washing machines and air conditioners in the PRC amounted to about RMB3.8 billion in 2010, and (ii) we ranked the third amongst the largest packaging product providers in the PRC in terms of revenue in 2010. According to this market survey report, the market of EPS packaging products for electrical appliances is fragmented with many packaging products manufacturers in place. The top 10 largest market leaders shared about 36.7% of the total market share in the PRC in 2010. For further details of the market survey report, please refer to the section headed "Industry Overview" in this document.

During the period between 2007 and 2009, the PRC Government promulgated various policies in respect of the consumer electrical appliance industry namely, the "Rural Area Subsidized Electrical Appliances Purchase Policy (家電下鄉)", the "Home Appliances Replacement Policy (家電以舊換新)" and the "Energy Efficient Product Subsidy Policy (節能產品惠民工程)", which encouraged, to a certain extent, the demand for consumer electrical appliances and in turn packaging products in the PRC.

We purchase raw materials and components necessary for the manufacturing of our packaging products and structural components from independent third parties. The raw materials mainly include EPS and EPO. We have established long-term commercial relationships with our major suppliers for stable supply and timely delivery of high quality raw materials and components. As at the Latest Practicable Date, we have business relationship with our five largest suppliers of raw materials ranging from about one to twelve years. Majority of our five largest suppliers of raw materials are EPS or EPO producers in the PRC.

***Our cordial relationships with our major customers***

Our major customers include Anhui Konka, Sichuan Changhong, Chongqing Haier and Chongqing Gree who are renowned consumer electrical appliance manufacturers with strong brand names in the consumer electrical appliance market in the PRC and they and or their parent companies are publicly listed on stock markets in the PRC [and/or Hong Kong]. For the Track Record Period, our top five customers accounted for approximately 98.5%, approximately 99.5% and approximately 99.2% and approximately 97.9% of our revenue respectively. We have established long-term cordial commercial relationships with our major customers for many years with [some] over [14] years and with other since establishment of [some of our factories. We have co-established Sichuan Jianghong with Sichuan Changhong Electric for the manufacture of products for its own use.

The table below sets out our relationships with our major customers:

| | |
|---|---|
| *Anhui Konka* | • supplier of EPS packaging products since October 1997<br>• sole supplier of EPS packaging products for cathode ray tube televisions since October 1997<br>• sole supplier of EPS packaging products for refrigerators since June 2003<br>• sole supplier of EPS packaging products for plasma televisions since August 2005 |
| *Chongqing Gree* | • supplier of EPS packaging products since May 2005<br>• one of the [major] suppliers of EPS packaging products and EPS structural components for air conditioners since May 2005 |
| *Chongqing Haier* | • supplier of EPS packaging products since January 2007<br>• supplier of EPS packaging products for washing machines since [February 2007]<br>• supplier of EPS packaging products for air conditioners since [March 2007]<br>• supplier of EPS packaging products for refrigerators in [July 2007]<br>• supplier of EPS packaging products for cathode ray tube televisions since [October 2007]<br>• the [largest] supplier of EPS packaging products for air conditioners, washing machines and electrical water boilers for the Track Record Period<br>• the [sole] supplier of EPS packaging products for cathode ray tube televisions for the Track Record Period |
| *Sichuan Changhong* | • supplier of EPS packaging products since September 2005<br>• supplier of EPS packaging products for cathode ray tube, flat panel and plasma televisions since October 2005<br>• supplier of EPO packaging products for flat panel and plasma televisions since August 2008<br>• supplier of EPS packaging products for air conditioners and satellite television receivers since September 2005<br>• the largest supplier of EPS packaging products for flat panel televisions since 2005<br>• the largest supplier of EPS and EPO packaging products for plasma televisions since August 2008 |

Our major customers are amongst the large-scale manufacturers of consumer electrical appliances in the PRC and some of them also engaged in the development and production of a diversified portfolio of products. Based on the financial statements published by our major customers in 2010, the financial status of our major customers were solid as they recorded turnovers in billions of RMB and total assets in multi billions of RMB. Our Directors are of the view that all of our major customers are creditworthy commercial counter parties and are confident that all of them will honour their obligations including but not limited to settlement of trade receivables due to our Group in accordance with the terms of the respective sales agreements and purchase orders entered into between our major customers and our Group.

We work with our major customers, at early stage, to understand and analyze their products and requirements for packaging solutions such that our products can be devised to comply with their specific requirements and be available promptly and within schedules. Our practical approach to our packaging operations allows us to foster close commercial ties with our major customers and therefore gaining the opportunities to become a [core] supplier for them. In keeping regular communications with our customers, we have gained industry knowledge as to the technical requirements and the trends in packaging industry in the PRC.

As of the Latest Practicable Date, to the best of their knowledge after making reasonable enquiries, our Directors are not aware of any pending or threatened litigation between our Group and any of our top five customers arising from the performance of our Group's obligations under sales contracts entered into between us and any of them; and settlement of the outstanding balances of the Group's trade receivables by any of them.

Please refer to the section headed "Business – Customers" for details of our customers.

***Geographical delineation of our factories***

We consider the location of our existing three factories namely, Chuzhou Factory, Chongqing Factory and Sichuan Factory important and our preference is located within close proximity to our potential customers. The close distance between our manufacturing plant and our customers will shorten the delivery time and minimize related transportation costs of our packaging products to our customers. An appropriately located manufacturing base of a supplier of packaging products allows pricing of its products to remain competitive and keeping of long-term commercial relationship with its customers. By the same token, it is an industry pattern that the number of potential customers of the supplier of packaging products may be restricted by the travel distance between them and as to what length of travel distance is acceptable, in general, depends on the circumstances in which such supplier operates, which may differ from supplier to supplier. Our existing three factories are all located within close proximity to our major customers and are commercially viable to serve them in their respective neighborhoods only and therefore spare manufacturing capacity of one factory may not be used by another. By reason of geographical delineation explained above, our Directors are of the view that the appropriate suppliers of packaging products available to our major customers may be restricted to those located close to their manufacturing bases.

As at the Latest Practical Date, our Directors, to the best of their knowledge and belief, were not aware of any renowned suppliers of packaging products targeting mainly the consumer electrical appliances namely televisions, air conditioners, washing machines and refrigerators, who were located within close proximity to our existing major customers with manufacturing capacities capable of producing products with the scale and standard, on a long-term basis, rivaling ours and might pose a meaningful threat to our role as the packaging product suppliers to our existing major customers. Our Directors believe our long-term commercial relationships with our major customers are based on mutual benefits and commercial value.

***Our other competitive advantages***

We offer a variety of packaging products to the specifications of our customers. Our manufacturing facilities are capable of producing packaging products made of EPS and EPO and can be adjusted to increase the output of EPO packaging products as may be required by our customers should they prefer EPO packaging products given their superior shock absorbing ability, lighter weight and therefore lower delivery cost. We also offer structural components made of EPS that may be used to replace certain metal parts inside consumer electrical appliances such as air conditioners. Our sales and marketing staff, quality control staff and product design and development staff will continue their effort on maintaining a regular communication with our customers, understanding their latest product requirements, modifying the design and quality of our products so as to ensure our customers are satisfied with our products.

Our Directors believe that we can compete successfully in the packaging industry in the PRC based on our competitive strengths set out in the section headed "Business – competitive strengths" and business strategies set out in the section headed "Business – Business strategies" to this document and continue to receive purchasing orders from our customers including our major customers.

Having considered the above and in particular, our long-term cordial relationships with our major customers, the strategic locations and manufacturing capacities of our existing three factories and our product quality, our Directors are of the view that we have established strong commercial relationships with our major customers based on mutual benefits and commercial value which may not be easily challenged by new suppliers of packaging products without reasonable resources available for capital expenditure.

We plan to establish new factory in Wuhu City, Anhui Province, the PRC and to serve potential customers namely consumer electrical manufacturers there and in doing so expand our customer base and reduce reliance on our existing major customers in the future. Please refer to the section headed "Business – Business strategies – Expansion of our manufacturing capacity" and the section headed "Future plan" for further information in this regard.

## OUR PRODUCTS AND THE ENVIRONMENT

We manufacture and supply packaging products and structural components for packaging of consumer electrical appliances such as televisions, air conditioners, washing machines and refrigerators in the PRC. During the Track Record Period, all our packaging products were primarily made of raw materials comprising mainly EPS and to a lesser extent EPO while our structural components were made of EPS. The raw materials are preprocessed, conditioned and moulded through our manufacturing facilities into our packaging products. We do not apply chlorofluorocarbons as blowing agents in the manufacturing of our products and therefore make the manufacturing process more benign to the environment. Given the stable nature of EPS products, the proper handling and storage of which will not cause them to produce harmful substance that contaminates the air and underground water. Packaging products made of EPS and EPO can be recycled and reused. Their scraps can be reprocessed in our manufacturing facilities for production of packaging products and structural components. Nonetheless, the rigidity and low value of the scraps made of EPS making it not too commercially attractive to collect and transport them over long distance for recycling in the PRC. We do not, in general, incinerate [EPS and EPO scraps] as such scraps are typically [stored in our storage facilities and may be mixed with raw materials and used in the manufacturing of packaging products in our existing manufacturing facilities]. [For the Track Record Period, the value of packaging products that were recycled in our manufacturing facilities was negligible in comparison with our revenue and total asset value.] Our Directors [are not aware of any harmful substances released during our manufacturing processes of packaging products that caused material adverse impact on the environment. In this connection, we had not been served official notice in respect of any material breach of applicable environmental regulations in the PRC during the Track Record Period].

There are packaging products for electrical appliances that are considered environmental friendly and are recyclable and biodegradable. Customers who are conscious about environment protection may consider the use of environmental friendly packaging products. They may also use lighter materials such as EPO as raw material for packaging products so as to reduce the weight and delivery cost. EPO is an alternative to EPS as it possesses superior toughness and shock absorbing properties and therefore the use of EPO may reduce the overall quantity of packaging material required for packaging and protection purposes. EPO also has comparatively higher reusing and recycling rates. Our manufacturing facilities are capable of producing packaging products made of EPS and EPO and may be adjusted to increase the output of EPO packaging products as may be requested by our customers. We will continue to monitor the latest trends in the packaging industry and maintain regular communication with our customers in the PRC so as to understand the latest requirements for packaging products and continue modifying our product types and quality to the satisfaction of our customers.

As of the Latest Practicable Date, our Directors as advised by our PRC Legal Advisers, were not aware of any regulations prohibiting the manufacturing and sale of EPS and EPO packaging products for packaging consumer electrical appliances in the PRC. As advised by our PRC Legal Advisers and confirmed by our Directors, our PRC subsidiaries had obtained confirmations from relevant environmental bureau in respect of our compliance in all material aspects with the environmental laws in the PRC during the Track Record Period. In order to ensure on-going compliance with environmental protection related regulatory requirements applicable to our business activities in the PRC, our Group would designate [Ms. Chen Fen, an executive Director,] to supervise our compliance with the regulatory requirements and communicate with the relevant regulatory authorities and our PRC Legal Advisers, if necessary, with a view to keeping us abreast of the latest regulations and regulatory developments relating to our business and will circulate internal memo summarizing any new development to the regulatory requirements to our staff to ensure on-going compliance and the designated personnel is also responsible for reviewing compliance related work done and compliance records of our Group.

## FINANCIAL ANALYSIS

The following table sets out a breakdown of our revenue by product type for the periods stated:

| | For the financial year ended 31 December | | | | | | For the six months ended 30 June | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | | 2009 | | 2010 | | 2010 | | 2011 | |
| | Revenue *(RMB'000)* | % of revenue | Revenue *(RMB'000)* | % of revenue | Revenue *(RMB'000)* | % of revenue | Revenue *(RMB'000)* *(Unaudited)* | % of revenue | Revenue *(RMB'000)* | % of revenue |
| *Packaging products* | | | | | | | | | | |
| Televisions | 176,892 | 75.4 | 62,780 | 51.5 | 61,988 | 37.3 | 27,088 | 35.0 | 32,701 | 32.5 |
| Cathode ray tube | 160,869 | 68.6 | 21,378 | 17.5 | 9,766 | 5.9 | 5,896 | 7.6 | 2,902 | 2.9 |
| Flat panel & plasma | 16,023 | 6.8 | 41,402 | 34.0 | 52,222 | 31.4 | 21,192 | 27.4 | 29,799 | 29.6 |
| Air conditioners | 16,645 | 7.1 | 15,406 | 12.6 | 31,493 | 19.0 | 16,556 | 21.4 | 25,524 | 25.4 |
| Washing machines | 10,571 | 4.5 | 19,230 | 15.8 | 23,421 | 14.1 | 7,602 | 9.8 | 9,060 | 9.0 |
| Refrigerator | 11,864 | 5.1 | 14,331 | 11.8 | 28,037 | 16.9 | 16,246 | 21.0 | 16,229 | 16.2 |
| Others *(Note)* | 9,391 | 4.0 | 2,446 | 2.0 | 1,966 | 1.2 | 895 | 1.2 | 1,648 | 1.6 |
| *Structural components* | | | | | | | | | | |
| For air conditioners | 9,140 | 3.9 | 7,687 | 6.3 | 19,174 | 11.5 | 8,959 | 11.6 | 15,397 | 15.3 |
| Total | 234,503 | 100% | 121,880 | 100% | 166,079 | 100% | 77,346 | 100% | 100,559 | 100% |

*Note:*

Others represent our packaging products for, among other things, electrical water heater, medical equipments and other small-size electrical appliances, which we do not at this stage focus on in connection with our business development.

| | For the Track Record Period |
|---|---|
| Average selling price range (RMB/tonne) | |
| EPS products | [16,000] – [20,000] |
| EPO products | [55,000] – [69,000] |
| | |
| Average selling price range (RMB/tonne) | |
| *Packaging products* | |
| Television | |
| Cathode ray tube | [15,000] – [20,000] |
| Flat panel & plasma | [19,000] – [28,000] |
| Air conditioners | [14,000] – [18,000] |
| Washing machines | [16,000] – [18,000] |
| Refrigerators | [17,000] – [23,000] |
| *Structural component* | |
| For air conditioners | [24,000] – [42,000] |

| | For the financial year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 | 2011 |
| | *(tonnes)* | *(tonnes)* | *(tonnes)* | *(tonnes)* | *(tonnes)* |
| Quantities sold | | | | | |
| *Packaging products* | | | | | |
| Televisions | 8,862 | 3,139 | 2,750 | 1,163 | 1,228 |
| Cathode ray tube | 8,054 | 1,413 | 610 | 348 | 155 |
| Flat panel & plasma | 808 | 1,726 | 2,140 | 815 | 1,073 |
| Air conditioners | [981] | [1,068] | [1,973] | 1,054 | 1,491 |
| Washing machines | [619] | [1,186] | [1,406] | 446 | 532 |
| Refrigerators | [524] | [827] | [1,511] | 844 | 862 |
| Others | [565] | [148] | [117] | 51 | 93 |
| *Structural component* | | | | | |
| For air conditioners | [369] | [265] | [539] | 245 | 370 |
| Total | 11,920 | 6,633 | 8,296 | 3,803 | 4,576 |

*Note:*

In addition to the quantity of products manufactured by our factories, there were inventories of approximately [2,900] tonnes manufactured previously and remained available for sale in the financial year 2008. As such, the quantities of products sold by our Group might be larger than the quantities of products manufactured in a period.

For the Track Record Period, we recorded revenue of approximately RMB234.5 million, RMB121.9 million, RMB166.1 million, RMB100.6 million respectively whilst we recorded profit attributable to owners of our Company of approximately RMB31.3 million, RMB23.6 million, RMB35.7 million and RMB20.3 million for the respective periods.

Our revenue decreased by approximately RMB112.6 million or approximately 48.0%, from approximately RMB234.5 million for the financial year ended 31 December 2008 to approximately RMB121.9 million for the financial year ended 31 December 2009. The decrease was primarily due to an overall decrease in purchase orders placed by our customers and in particular, the decrease in the sales of packaging products for cathode ray tube televisions as some of our customers had shifted their focus from the production of cathode ray tube televisions to flat panel and plasma televisions. The onset of the global financial tsunami in 2008 dampened the world financial systems and economies including the Chinese economy and in particular, the consumer electrical appliances industry. The lackluster consumer confidence affected the demand for consumer electrical appliances and, in turn, our packaging products and structural components in the PRC for the financial year ended 2009.

**Shift of demand for packaging products for cathode ray tube televisions to flat panel and plasma televisions**

In addition, some of our customers reduced production of traditional cathode ray tube televisions in favour of the production of flat panel and plasma televisions, which in comparison require lesser amount of packaging products given that they are typically more compact in size and lighter in weight. The shift in our customers' production mix from cathode ray tube televisions to flat panel and plasma televisions may affect their choice of packaging products and in turn demand for our packaging products. Our Directors are of the view that the market trend for flat panel and plasma televisions will likely continue and as such, the demand for packaging products for cathode ray tube televisions will likely continue to decline as a result. Our customers [may source] packaging products for cathode ray tube televisions, flat panel and plasma televisions from different suppliers depending on their own circumstances. Revenue derived from the sales of packaging products for cathode ray tube televisions decreased notably during the Track Record Period and in this connection, our Directors are of the view that such decrease in revenue was caused mainly by the shift in our customers' production mix away from cathode ray tube televisions and not by the change in our customers' choice of packaging product suppliers. The decrease in revenue derived from sale of packaging products for cathode ray tube televisions was offset, to an extent, by the increase in revenue derived from sales of packaging products for flat panel and plasma televisions. However, such offsetting effect is small as the increase in quantity of packaging products sold for flat panel and plasma televisions was notably smaller than the decrease in quantity of packaging products sold for cathode ray tube televisions. The aggregate increase in quantity of packaging products sold for other electrical appliances such as air conditioners, washing machines and refrigerators and structural components sold for air conditioners were notably smaller than the decrease in quantity of packaging products sold for cathode ray tube televisions. Further, the average selling prices of packaging products for air conditioners and washing machines were lower than that of cathode ray tube televisions. As such, the increase in revenue from the sales of packaging products for other electrical appliances and sales of structural components for air conditioners was not enough to compensate for the loss of revenue arising from the decrease in demand for packaging products for cathode ray tube televisions during the Track Record Period.

Revenue increased by approximately RMB44.2 million or 36.3%, from approximately RMB121.9 million for the financial year ended 31 December 2009 to approximately RMB166.1 million for the financial year ended 31 December 2010. The increase was primarily due to an overall increase in purchase orders placed to us by our customers as the PRC economy together with the consumer electrical appliance industry and packaging industry in the PRC continued to recover from the global financial tsunami. In particular, we recorded increase in revenue from the sales of packaging products for air conditioners, washing machines and refrigerators. Chongqing Gree, one of our major customers, had expanded their manufacturing base and purchased more packaging products and structural components for their air conditioners. Revenue derived from the sales of structural components for air conditioners increased notably by approximately RMB[11.5] million or [149.4]%, from approximately RMB[7.7] million for the financial year 2009 to approximately RMB[19.2] million for the financial year 2010.

Revenue increased by approximately RMB[23.3] million or [30.0]% to approximately RMB[100.6] million in first half of 2011 from approximately RMB[77.3] million in the first half of 2010. The increase in revenue was caused mainly by the overall increase in customer demand for consumer electrical appliances and in turn our products in the PRC. We recorded an increase in revenue derived from the sale of all our products save and except packaging products for cathode ray tube television in the first half of 2011.

The following table sets out the breakdown of our revenue for EPS and EPO products for the periods stated:

| **Revenue** | **For the financial year ended 31 December** | | | **For the six months ended 30 June** | |
|---|---|---|---|---|---|
| *RMB'000* | **2008** | **2009** | **2010** | **2010** | **2011** |
| EPS products | 233,064 | 104,423 | 147,461 | [69,559] | [86,263] |
| EPO products | 1,439 | 17,457 | 18,618 | [7,787] | [14,296] |
| Total | 234,503 | 121,880 | 166,079 | 77,346 | 100,559 |

For the Track Record Period, we manufactured and sold packaging products made of EPO for packaging flat panel and plasma televisions. The increase in sales of packaging products made of EPO was mainly attributed to the increase in our customers' production of flat panel and plasma televisions. Our customers purchased packaging products made of both EPS and EPO for packaging their flat panel and plasma televisions. For the Track Record Period, revenue derived from the sale of packaging products and structural components made of EPS accounted for approximately [99.4]%, [85.7]%, [88.8]% and [85.8]% of our revenue respectively. Please refer to the section headed "Financial information" for the financial performances of our Group during the Track Record Period.

The following table sets out the gross profit and gross profit margins for each of our product type for the periods stated:

| Gross profit | For the financial year ended 31 December | | | | | | For the six months ended 30 June | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | | 2009 | | 2010 | | 2010 | | 2011 | |
| | Gross profits | Gross profit margins | Gross profits | Gross profit margins | Gross profits | Gross profit margins | Gross profits | Gross profit margins | Gross profits | Gross profit margins |
| | *(RMB'000)* | *(%)* | *(RMB'000)* | *(%)* | *(RMB'000)* | *(%)* | *(RMB'000)* | *(%)* | *(RMB'000)* | *(%)* |
| *Packaging products* | | | | | | | | | | |
| Televisions | 50,220 | 28.4 | 20,605 | 32.8 | 21,182 | 34.2 | 9,771 | 36.1 | 11,353 | 34.7 |
| Cathode ray tube | 46,560 | 28.9 | 6,823 | 31.9 | 3,718 | 38.1 | 1,758 | 29.8 | 801 | 27.6 |
| Flat panel & plasma | 3,660 | 22.8 | 13,782 | 33.3 | 17,464 | 33.4 | 8,013 | 37.8 | 10,552 | 35.4 |
| Air conditioners | 998 | 6.0 | 2,463 | 16.0 | 7,569 | 24.0 | 3,392 | 20.5 | 4,145 | 16.2 |
| Washing machines | 301 | 2.8 | 3,042 | 15.8 | 4,496 | 19.2 | 1,725 | 22.7 | 1,632 | 18.0 |
| Refrigerators | 3,513 | 29.6 | 4,290 | 29.9 | 7,886 | 28.1 | 3,658 | 22.5 | 3,608 | 22.2 |
| Others | 606 | 6.5 | 521 | 21.3 | 563 | 28.6 | 247 | 27.6 | 299 | 18.1 |
| *Structural components* | | | | | | | | | | |
| For air conditioners | 2,748 | 30.1 | 3,962 | 51.5 | 11,897 | 62.0 | 5,631 | 62.9 | 9,060 | 58.8 |
| Total | 58,386 | 24.9 | 34,883 | 28.6 | 53,593 | 32.3 | 24,424 | 31.6 | 30,097 | 29.9 |

The following table sets out the gross profit margins for EPS and EPO products for the periods stated:

| Gross profit margins (%) | For the financial year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 | 2011 |
| EPS products | 24.8 | 28.5 | 31.9 | [30.6] | [27.6] |
| EPO products | 44.8 | 29.5 | 35.6 | [40.6] | [44.2] |

Notwithstanding the fluctuations in sales activities, we continued our effort to monitor and manage closely the manufacturing operations and to ensure manufacturing efficiency and product quality. For the Track Record Period, our gross profit were approximately RMB58.4 million, RMB34.9 million, RMB53.6 million and RMB30.1 million respectively while gross profit margins were approximately 24.9%, 28.6%, 32.3%, 29.9% respectively.

For the three financial years ended 31 December 2008, 2009 and 2010, our gross profit margins increased in line with the general increase in gross profit margins of our packaging products and structural components. In particular, the gross profit margins of packaging products for televisions increased from approximately 28.4% in 2008 to approximately 32.8% in 2009 and approximately 34.2% in 2010 as we manufactured and sold more packaging products made of EPO that offered comparatively higher margins than packaging products made of EPS. The manufacturing of EPO packaging products required additional procedures and planning and EPO packaging products were priced comparatively higher than EPS packaging products. The gross profit margins of our EPO products decreased from approximately 44.8% in 2008 to approximately 29.5% in 2009 as our EPO products were priced at lower end of our price range amidst a challenging business environment in 2009.

The gross profit margin of packaging products for air conditioners was approximately 16.2% for the first half 2011, which did not fluctuate much from approximately 20.5% for the first half 2010. The gross profit margins of packaging products for air conditioners increased from approximately 6.0% in 2008 to approximately 16.0% in 2009 and approximately 24.0% in 2010. The increase in gross profit margins of packaging products for air conditioners from 2009 to 2010 was attributed mainly to better economies of scale on account of the increase in manufacturing output of packaging products for air conditioners in line with an increase in sales of such products to our customers. The increase in gross profit margins of packaging products for air conditioners from 2008 to 2009 was attributed mainly to the increase in sales of packaging products for air conditioners to particular customers at comparatively higher profit margins in 2009 than in 2008.

The gross profit margin of packaging products for washing machines was approximately 18.0% for the first half 2011 which did not fluctuate much from approximately 22.7% for the first half 2010. The gross profit margins of packaging products for washing machines increased from approximately 2.8% in 2008 to approximately 15.8% in 2009 and approximately 19.2% in 2010. The increase in gross profit margins of packaging products for washing machines from 2008 to 2010 was attributed mainly to the better economies of scale as we manufactured and sold more packaging products for washing machines during the Track Record Period.

The gross profit margin of structured components for air conditioners was approximately 58.8% for the first half 2011, which did not fluctuate much from approximately by 62.9% for the first half 2010. The gross profit margins of structural components for air conditioners increased from approximately 30.1% in 2008 to approximately 51.5% in 2009 and approximately 62.0% in 2010. The manufacturing of structural components required typically higher level of specifications and details and therefore the sales of which afforded higher profit margins. The overall increase in manufacturing output and average selling prices of the structural components contributed to the increase in gross profit margin of the components during the Track Record Period.

For the three financial years ended 31 December 2008, 2009 and 2010 the overall increase in gross profit margins of our Group was also attributed to the decrease in the depreciation of property, plant and equipment after the disposal of certain manufacturing machineries damaged by the earthquake that hit Wenchuan County, Sichuan Province, the PRC in 2008 and some of the manufacturing machineries were fully depreciated during the periods. In general, we continued our effort on improving efficiency of our manufacturing processes by way of cost control and enhancing our manufacturing machineries and equipment.

For the Track Record Period, profits attributable to owners of our Company ("net profits") were approximately RMB31.3 million, RMB23.6 million, approximately RMB35.7 million and RMB20.3 million respectively while net profit margins were approximately 13.3%, 19.4%, 21.5% and 20.2% respectively.

For the Track Record Period, the changes in our gross profit margins as explained in the paragraphs above were affected by various factors including, among other things, manufacturing output, mix of products sold and their respective gross profit margins, changes in cost of sales such as decrease in depreciation charges and improving efficiency of our manufacturing processes by way of cost control and enhancing our manufacturing machineries and equipment. Further, the increase in the sales of packaging products made of EPO and structural components with comparatively higher gross profit margins contributed to the overall increase in our gross profit margins. Please refer to the section headed "Financial information" of this document for further information in this regard.

**Our Sichuan Factory was affected by an earthquake in 2008**

On 12 May 2008, an earthquake measured 8.0 on the Richter scale hit Wenchuan County, Sichuan Province, the PRC according to the China Earthquake Administration (中國地震局). As a result, there were wide spread damages to infrastructures and buildings and many businesses and operations were severely affected near and around the earthquake epicenter. The Sichuan Factory was approximately 264 kilometers away from the earthquake epicenter and was affected by the disaster. We suffered a total loss of approximately RMB[2.9] million primarily as a result of damages to certain manufacturing machineries and equipment and our operations at the Sichuan Factory were suspended for seven days. No compensation was paid to our customers for losses arising from suspension of production. For the financial year ended 31 December 2008, Sichuan Factory contributed revenue and [net profit] of approximately RMB[129.6] million and approximately RMB[27.7] million respectively to our Group. Our manufacturing operations including manufacturing capacity resumed to normal after the repairs made to certain damaged equipment and purchases of new equipment. The financial performances of Sichuan Jianghong for the financial year ended 31 December 2009 was not affected by the disaster.

We have leased the Sichuan Factory since commencement of our operation there and have entered into a renewed leasing agreement to lease the premises for a period commencing from 1 January 2011 and ending on 31 December 2013, subject to renewal. As of the Latest Practicable Date, our Company [had not purchased insurance policy to insure against loss or damages on assets arising from natural disasters].

## BUSINESS STRATEGIES AND FUTURE PLAN

Our future plans for growth and expansion of our business are described below:

- Further expand our market position and increase our market share
- Further strengthening our product design and development capability
- Expansion of our manufacturing capacity
- Recruitment of quality personnel and continuous training of our staff

## FINANCIAL INFORMATION

The following tables set forth summary consolidated financial information of our Group. We have derived the consolidated financial information for the three years ended 31 December 2008, 2009 and 2010 and two six months ended 30 June 2010 and 2011 and as of 31 December 2008, 2009 and 2010 and 30 June 2011 set forth in the Accountants' Report in Appendix I to this document. The summary consolidated financial information should be read together with, and is qualified in its entirety by reference to, the consolidated financial statements in this document, including the related notes.

Our consolidated financial information was prepared in accordance with HKFRS.

### Consolidated statement of comprehensive income

| | **Year ended 31 December 2008** | **Year ended 31 December 2009** | **Year ended 31 December 2010** | **Six months ended 30 June 2010** | **Six months ended 30 June 2011** |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* *(Unaudited)* | *RMB'000* |
| Revenue | 234,503 | 121,880 | 166,079 | [77,346] | [100,559] |
| Cost of sales | (176,117) | (86,997) | (112,486) | [(52,922)] | [(70,462)] |
| Gross profit | 58,386 | 34,883 | 53,593 | [24,424] | [30,097] |
| Other income | 1,863 | 474 | 338 | [113] | [301] |
| Other gains and losses | (2,870) | 47 | (447) | [(2,782)] | [(1,238)] |
| Selling and distribution expenses | (4,760) | (4,327) | (6,260) | [(2,626)] | [(3,935)] |
| Administrative expenses | (5,513) | (5,280) | (6,120) | [(3,164)] | [(3,360)] |
| Other operating expenses | (324) | (263) | (715) | [(334)] | [(55)] |
| Profit from operations | 46,782 | 25,534 | 40,389 | [15,631] | [21,810] |
| Finance costs | (1,522) | (628) | (701) | [(296)] | [(432)] |
| Profit before tax | 45,260 | 24,906 | 39,688 | [15,335] | [21,378] |
| Income tax expense | (7,241) | (1,310) | (3,963) | [(3,026)] | [(1,087)] |
| **Profit for the year/period** | 38,019 | 23,596 | 35,725 | [12,309] | [20,291] |
| **Other comprehensive income for the year/period** | | | | | |
| Exchange differences on translating foreign operations | – | – | – | [–] | [2] |
| **Total comprehensive income for the year/period** | 38,019 | 23,596 | 35,725 | [12,309] | [20,293] |
| **Profit attributable to:** | | | | | |
| Owners of the Company | 31,276 | 23,596 | 35,725 | [12,309] | [20,291] |
| Non-controlling interests | 6,743 | – | – | [–] | [–] |
| | 38,019 | 23,596 | 35,725 | [12,309] | [20,291] |
| **Total comprehensive income attributable to:** | | | | | |
| Owners of the Company | 31,276 | 23,596 | 35,725 | 12,309 | 20,293 |
| Non-controlling interests | 6,743 | – | – | – | – |
| | 38,019 | 23,596 | 35,725 | 12,309 | 20,293 |

**Selected information from the statements of financial position**

| | As at 31 December 2008 | As at 31 December 2009 | As at 31 December 2010 | As at 30 June 2011 |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Non-current assets** | | | | |
| Property, plant and equipment | 46,186 | 43,548 | 41,052 | [40,910] |
| Prepaid lease payments | 3,053 | 3,029 | 2,954 | [2,918] |
| Deferred tax assets | – | – | 59 | [72] |
| | 49,239 | 46,577 | 44,065 | [43,900] |
| **Current assets** | | | | |
| Inventories | 9,278 | 8,797 | 11,178 | [11,393] |
| Prepaid lease payments | 70 | 71 | 71 | [71] |
| Held-for-trading investments | – | – | 9,811 | [–] |
| Trade and other receivables | 73,158 | 73,032 | 84,777 | [122,390] |
| Amounts due from related companies | 25,004 | 25,647 | 388 | [–] |
| Current tax assets | – | – | 1,405 | [3,076] |
| Pledged bank deposits | – | 846 | 333 | [–] |
| Cash and bank balances | 59,418 | 30,368 | 42,440 | [23,440] |
| | 166,928 | 138,761 | 150,403 | [160,370] |
| **Current liabilities** | | | | |
| Trade and other payables | 40,550 | 36,858 | 32,178 | [46,849] |
| Amounts due to directors | – | 715 | – | [52] |
| Amounts due to related companies | – | 22 | – | [–] |
| Amounts due to immediate holding company | – | – | – | [8,923] |
| Current tax liabilities | 4,180 | 1,662 | – | [–] |
| Bank borrowings | 8,000 | – | 4,000 | [4,000] |
| | 52,730 | 39,257 | 36,178 | [59,824] |
| **Net current assets** | 114,198 | 99,504 | 114,225 | [100,546] |
| **Total assets less current liabilities** | 163,437 | 146,081 | 158,290 | [144,446] |
| **Non-current liabilities** | | | | |
| Deferred tax liabilities | 161 | 260 | 678 | [887] |
| **Net assets** | 163,276 | 145,821 | 157,612 | [143,559] |
| **Capital and reserves** | | | | |
| Share capital | 92,603 | 92,603 | 92,603 | [–] |
| Reserves | 70,673 | 53,218 | 65,009 | [143,559] |
| Total equity attributable to owners of the Company | 163,276 | 145,821 | 157,612 | [143,559] |
| Non-controlling interests | – | – | – | [–] |
| **Total equity** | 163,276 | 145,821 | 157,612 | [143,559] |

**Selected information from the consolidated statements of cash flows**

| | For the financial year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2008** | **2009** | **2010** | **2010** | **2011** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* *(Unaudited)* | *RMB'000* |
| Net cash generated by/(used in) operating activities | 64,323 | 24,915 | 11,035 | (9,728) | 9,081 |
| Net cash (used in)/generated by investing activities | (28,549) | (5,180) | 22,115 | (326) | (2,604) |
| Net cash (used in)/generated by financing activities | (36,209) | (48,785) | (21,078) | 9,650 | (25,482) |
| Net (decrease)/increase in cash and cash equivalents | (435) | (29,050) | 12,072 | (404) | (19,005) |
| Cash and cash equivalents at the beginning of year/period | 59,853 | 59,418 | 30,368 | 30,368 | 42,440 |
| Effect of foreign exchange rate changes, net | – | – | – | – | 5 |
| Cash and cash equivalents at the end of year/period represented by cash and bank balances | 59,418 | 30,368 | 42,440 | 29,964 | 23,440 |

*Notes:*

- The decrease in net cash generated by operating activities from 2008 to 2009 was attributed mainly to the decrease in profit before tax in 2009.
- The decrease in net cash generated by operating activities from 2009 to 2010 was attributed mainly to the increase in held-for-trading investments and the increase in trade and other receivables in 2010. Our Company had disposed of all the held-for-trading investments in listed equity securities by January 2011.

## DIVIDEND POLICY

For the Track Record Period, our subsidiaries declared and paid to their then shareholder dividends of approximately RMB8.3 million, approximately RMB41.1 million, approximately RMB23.9 million and approximately RMB34.3 million respectively.

We currently do not have a fixed dividend policy. The dividends we declared and paid in the past should not be used as a reference for our future dividend payment. The declaration, payment and amount of dividends in the future will be subject to the discretion of the Board and will depend on our results of operations, cash flows, financial conditions, statutory and regulatory restrictions on the payment of dividends by us or our operating subsidiaries in the PRC, future prospects and other factors that our Directors may consider relevant from time to time. If any dividends are declared and paid by us, holders of our Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares. The declaration, payment, and amount of dividends will be subject to the discretion of our Directors.

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

## STRENGTHS

We believe that the following competitive strengths are key factors to our success:

- Our quality products
- Personnel with knowledge of and experience in the packaging products
- A broad range of packaging products
- Integrated solution for customers' packaging needs
- Strategic locations of the factories

## RISK FACTORS

We believe that there are certain risks and uncertainties involved in our operations, some of which are beyond our control. We have categorized these risks and uncertainties into: (i) risks related to our business and industry; (ii) risks related to the PRC; and (iii) risks related to the [•••]. For more details, please refer to the section headed "Risk Factors" to this document.

### Risks related to our business and industry

- Our business, operations and financial performance are affected by economic cycles and financial crises
- We rely upon a few major customers that accounted for a significant portion of our revenue
- We rely on short term purchase orders from customers
- Any change in PRC government's policies on household appliances could affect our operations

- We may not be able to develop and introduce new and better products
- Our products may not meet the specifications of our customers
- Our products and inventories may become obsolete
- Shift of demand for packaging products for cathode ray tube televisions to flat panel and plasma televisions
- We may experience interruptions of operations at our production facilities
- Any change in the PRC government's environmental policies on the manufacturing and sale of EPS and EPO packaging products could affect our operations
- We may fail to effectively implement our plan and operations
- We may fail to acquire adequate raw materials or to fulfill our customers' orders in a timely and cost-effective manner
- We may not be able to control the purchase prices of our major raw materials
- We may lose our key managerial and technical personnel
- We may fail to acquire adequate ancillary parts for the manufacturing of our products
- We may experience delays or defaults in collecting our trade receivables
- Our net cash generated from operating activities decreased continuously during the Track Record Period
- We may be exposed to infringement or misappropriation claims
- We may be subject to civil and criminal liabilities for our defective products
- We may fail to compete successfully against emergence of alternative products and suppliers
- We may compete with Sino Haijing
- Our future plan to establish a factory in Wuhu City, Anhui Province, the PRC may not be profitable
- We may fail to secure adequate capital in the future
- Our reliance on Sichuan Changhong Electric

- We may experience labor shortage or unrest

- We may experience fluctuations in business performance due to seasonal effect

- We may fail to operate successfully in the PRC

- We cannot control the disposition of our products by end users

- Our Group's non-compliance with certain social security insurance and housing provident fund contributions laws and regulations in the PRC could lead to the imposition of fines and penalties

- Any failure to comply with any safety standards in the PRC may affect our business

**Risks related to the PRC**

- Changes in the PRC's political, economic and social conditions, laws, regulations and policies may have an adverse effect on our business

- The PRC's legal system embodies uncertainties that could adversely affect our business

- Our operating PRC subsidiaries may be subject to higher level of tax rates in the PRC

- Our Company may be subject to withholding tax on dividends received from the PRC subsidiaries

- Gain on the sales of our Shares and dividends payables by us to our foreign investors may be subject to withholding tax under the PRC income taxes

- Fluctuations in the exchange rates of the RMB may adversely affect your investment and our business

- Government control of foreign currency conversion may affect the value of your investment

- It may be difficult to effect service of process upon us or our Directors who live in the PRC or to enforce against us or them in the PRC judgments obtained from non-PRC courts

- Our corporate structure may restrict our ability to receive dividends from, and transfer funds to, our PRC operating subsidiaries, which could restrict our ability to act in response to changing market conditions in a timely manner

# DEFINITIONS

*In this document, unless the context otherwise requires, the following expressions shall have the following meanings.*

| | |
|---|---|
| "affiliate(s)" | any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person |
| "Anhui Konka" | Anhui Konka Electronic Co., Ltd. (安徽康佳電子有限公司) and Anhui Konka Household Appliances Co., Ltd. (安徽康佳電器有限公司), collectively one of our top five customers during the Track Record Period |
| "Articles of Association" or "Articles" | the articles of association of our Company adopted on [•••], as amended from time to time and a summary of which is set out in Appendix IV to this document |
| "associate(s)" | has the meaning ascribed thereto under the Listing Rules |
| "Audit Committee" | the audit committee of the Board |
| "Board" or "Board of Directors" | the board of Directors |
| "Business Day" | any day (other than Saturday, Sunday or a public holiday) on which banks in Hong Kong are generally open for normal banking business |
| "BVI" | British Virgin Islands |
| "Cayman Companies Law" | the Companies Law (2010 Revision) of the Cayman Islands as amended, supplemented or otherwise modified from time to time |
| "Cheng Hao" | Cheng Hao International Limited (成浩國際有限公司), a company incorporated in the BVI with limited liability on 6 January 2011 and a directly wholly-owned subsidiary of our Company |
| "China" or "PRC" | the People's Republic of China excluding, for the purpose of this document, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan |
| "Chongqing Factory" | our factory located at the Pengqiao Economic Development Zone (江津區廣興鎮彭橋經濟開發區) in Guangxing Town, Jiangjin District, Chongqing Municipality, the PRC and further details of which are set out in Appendix III to this document |

# DEFINITIONS

| | |
|---|---|
| "Chongqing Gree" | Gree Electrical Appliances (Chongqing) Co., Ltd. (格力電器 (重慶) 有限公司), one of our top five customers during the Track Record Period |
| "Chongqing Guangjing" | Chongqing Guangjing Packaging Products Company Limited (重慶光景包裝製品有限公司), a company established in the PRC with limited liability on 20 October 2003 and an indirectly wholly-owned subsidiary of our Company |
| "Chongqing Haier" | Chongqing Haier Logistics Co., Ltd. (重慶海爾物流有限公司), one of our top five customers during the Track Record Period |
| "Chuzhou Chuangce" | Chuzhou Chuangce Packaging Materials Company Limited (滁州創策包裝材料有限公司) (formerly known as Chuzhou Jingda Package Company Limited (滁州景達包裝有限公司)), a company established in the PRC with limited liability on 5 October 1997 and an indirectly wholly-owned subsidiary of our Company |
| "Chuzhou Factory" | our factory located at the Chuzhou Economic Development Zone (滁州經濟技術開發區) in Chuzhou City, Anhui Province, the PRC and further details of which are set out in Appendix III to this document |
| "Company" or "Our Company" | Jin Bao Bao Holdings Limited (金寶寶控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 4 January 2011 |
| "Companies Ordinance" | the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| "Conca Investments" | Conca Investments Limited (光景投資有限公司), a company incorporated in Hong Kong with limited liability on 23 January 1992 which is owned by Mr. Chao as to 99% and by Ms. Zhou as to 1% and a former shareholder of Sichuan Jinghong, Chongqing Guangjing and Chuzhou Chuangce |
| "connected person(s)" | has the meaning ascribed to it under the Listing Rules |
| "Controlling Shareholders" | has the meaning ascribed to it under the Listing Rules and, unless the context requires otherwise, refers to Mr. Chao and Rich Gold |

# DEFINITIONS

| | |
|---|---|
| "CSRC" | the China Securities Regulatory Commission (中國証券監督管理委員會), a regulatory body responsible for the supervision and regulation of the Chinese securities market |
| "Director(s)" | the director(s) of our Company |
| "Group", "our Group", "our", "we" or "us" | our Company and our subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries, the present subsidiaries of our Company and the businesses operated by such companies or (as the case may be) their predecessors |
| "HKFRS" | Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants |
| "HKSCC" | Hong Kong Securities Clearing Company Limited |
| "HKSCC Nominees" | HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC |
| "Hong Kong" or "HK" | the Hong Kong Special Administrative Region of the PRC |
| "Hong Kong dollars" or "HK dollars" or "HK$" and "cents" | Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| "Hong Kong Share Registrar" | Tricor Investor Services Limited |
| "IFRS" | International Financial Reporting Standards promulgated by the International Accounting Standards Board ("IASB"). IFRS include the International Accounting Standards ("IAS") and their interpretations |
| "Independent Third Party(ies)" | party(ies) which is/are independent of and not connected (within the meaning of the Listing Rules) with any of our directors, chief executives or substantial shareholders (within the meaning of the Listing Rules) of our Company or any of our subsidiaries or any of their respective associates |
| "Latest Practicable Date" | [•••], being the latest practicable date for ascertaining certain information in this [•••] before its publication |

# DEFINITIONS

| | |
|---|---|
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange (as amended, supplemented or otherwise modified from time to time) |
| "Memorandum" | the memorandum of association of our Company adopted on [•••], as amended from time to time |
| "Metro Master" | Metro Master Limited (和景有限公司), a company incorporated in Hong Kong with limited liability on 22 December 2010 and an indirectly wholly-owned subsidiary of our Company |
| "MOFCOM" | the Ministry of Commerce of the PRC (中華人民共和國商務部) |
| "Mr. Chao" | Mr. Chao Pang Ieng (周鵬鷹) (alias: Zhou Peng Ying), our Chairman, chief executive officer, an executive Director, and one of the Controlling Shareholders |
| "Ms. Zhou" | Ms. Zhou Zheng Bin (周鄭斌) (formerly known as Zheng Bin (鄭斌)), the spouse of Mr. Chao and an executive Director |
| "National People's Congress" or "NPC" | the National People's Congress of the PRC |
| "Nomination Committee" | the nomination committee of the Board |
| "PRC Company Law" | the Company Law of the PRC ([•••]), enacted by the Standing Committee of the Eighth National People's Congress on 29 December 1993 and effective on 1 July 1994, and subsequently amended on 25 December 1999, 28 August 2004 and 27 October 2005, as amended, supplemented or otherwise modified from time to time |
| "PRC Court" | means any court or arbitral tribunal of the PRC |
| "PRC EIT Law" | the PRC Enterprise Income Tax Law 中華人民共和國企業所得稅法, promulgated on 16 March 2007 by the National People's Congress and effective on 1 January 2008 |
| "PRC government" or "State" | the government of the PRC, including all governmental sub-divisions (such as provincial, municipal and other regional or local government entities) |
| "Remuneration Committee" | the remuneration committee of the Board |

# DEFINITIONS

| | |
|---|---|
| "Reorganization" | the reorganization undertaken by our Company in preparation for the [•••] as described in the section headed "History, Reorganization and Group Structure" in and in the paragraph headed "Corporate Reorganization" in Appendix V to this document |
| "Rich Gold" | Rich Gold International Limited (富金國際有限公司), a company incorporated in the BVI with limited liability on 10 November 2010 which is wholly-owned by Mr. Chao and one of the Controlling Shareholders |
| "RMB" or "Renminbi" | Renminbi, the lawful currency of the PRC |
| "SFC" | the Securities and Futures Commission of Hong Kong |
| "Share(s)" | share(s) with a nominal value of HK$0.01 each in the share capital of our Company |
| "Shareholder(s)" | holder(s) of the Share(s) |
| "Share Option Scheme" | the share option scheme conditionally adopted by us on [•••], the principal terms of which are summarized in the paragraph headed "Share Option Scheme" in Appendix V to this document |
| "Shu Jin Law Firm" or "PRC Legal Advisers | Shu Jin Law Firm (廣東信達律師事務所), the legal advisors as to PRC Laws to our Company |
| "Sichuan Changhong Electric" | Sichuan Changhong Electric Co., Ltd. (四川長虹電器股份有限公司) |
| "Sichuan Changhong" | Sichuan Changhong Electric, Sichuan Changhong Air Conditioners Co., Ltd. (四川長虹空調有限公司), Sichuan Changhong Web Technology Limited Liability Co., Ltd. (四川長虹網絡科技有限責任公司), Sichuan Changhong Moulding Technology Co., Ltd. (四川長虹模塑科技有限公司), Sichuan Changhong Good Technology Precision Engineering Co., Ltd. (四川長虹技佳精工有限公司), Guangyuan Changhong Electronics Co., Ltd. (廣元長虹電子科技有限公司) and other subsidiaries of Sichuan Changhong Electric to which we sold products during the Track Record Period, collectively one of our top five customers during the Track Record Period |
| "Sichuan Factory" | our factory located at the Sichuan Province Mianyang State High Technology Industrial Development Zone (四川省綿陽國家高新技術開發區), Mianyang City, Guaoxin district, Sichuan Province, the PRC and further details of which are set out in Appendix III to this document |

| | |
|---|---|
| "Sichuan Jinghong" | Sichuan Jinghong Packaging Products Company Limited (四川景虹包裝製品有限公司), a company established in the PRC with limited liability on 15 September 2005 and an indirectly wholly-owned subsidiary of our Company |
| "State Administration for Industry and Commerce" | the State Administration for Industry and Commerce of the PRC (中華人民共和國工商行政管理總局) |
| "State Administration of Foreign Exchange" or "SAFE" | the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局), the PRC governmental agency responsible for matters relating to foreign exchange administration, including local branches, when applicable |
| "State Administration of Taxation" or "SAT" | the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局) |
| "State Council" | the State Council of the PRC (中華人民共和國國務院) |
| "Ministry of Environmental Protection" | the Ministry of Environmental Protection of China (中華人民共和國環境保護部) |
| "SASAC" | the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會) |
| "Stock Exchange" or "Hong Kong Stock Exchange" | The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited |
| "subsidiary(ies)" | has the meaning ascribed thereto in section 2 of the Companies Ordinance |
| "Takeovers Code" | the Codes on Takeovers and Mergers and Share Repurchases issued by the SFC, as amended, supplemented or otherwise modified from time to time |
| "Track Record Period" | the three financial years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 |
| "United States" or "U.S." | the United States of America, its territories, its possessions and all areas subject to its jurisdiction |
| "US dollars" or "US$" | United States dollars, the lawful currency of the United Sates |

| | |
|---|---|
| "VAT" | value added tax |
| "Wuhu City" | Wuhu City, Anhui Province, the PRC (中國安徽省蕪湖市) |
| "kg" | kilogram(s) |
| "lb" | pound(s) |
| "sq. ft." | square foot (feet) |
| "sq.m." | square metre(s) |

*Certain amounts and percentage figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*

*For ease of reference, the names of the PRC established companies or entities have been included in this document in both Chinese and English languages and the English names of these companies and entities are only English translation of their official Chinese names and are for identification purposes only. In the event of any inconsistency, the Chinese names shall prevail.*

# GLOSSARY OF TECHNICAL TERMS

*This glossary of technical terms contains explanations of certain terms used in this document as they relate to our Company and as they are used in this document in connection with our business or us. These terms and their given meanings may not correspond to standard industry definitions.*

| | |
|---|---|
| "CAGR" | compound annual growth rate |
| "environmental friendly products" | packaging products that meet any of the characteristics namely, 'reduce' (減量化), 'reuse' (復用), 'recover' (回收) and 'recycle' (再生) are considered, in general, to be friendly to the environment. |
| "expanded polyolefin" or "EPO" | a foam form of PO. EPO has the characteristics of excellent shock and chemical resistance and high dimensional stability. It is strong yet lightweight and comparatively more elastic than EPS<br><br>The average consumption of EPO is estimated to be approximately 30% less than EPS for packaging the same size goods given EPO has superior shock absorbing performance. As such, the use of EPO can save transportation and storage cost. EPO is also more environmental friendly than EPS.<br><br>The manufacturing process of EPO products is similar to EPS products. Manufacturers can use the same equipment for the manufacturing of both EPS and EPO products and thus avoid investing in additional equipment. |
| "expanded polystyrene" or "EPS" | a foam form of PS. EPS is usually white in colour and made of pre-expanded polystyrene beads. It is lightweight, moisture-resistant and has good thermal, acoustical insulation and shock absorbing properties. It is also remarkably buoyant given more than 90 percent of its composition is air. It is often used in moulded sheets for building insulation and as packaging material for cushioning fragile items inside boxes. It can be made to exhibit various degrees of thermal resistivity and smoke retarding ability. EPS products are lightweight, versatile, energy efficient and cost effective. |

***Environmental impact***

EPS can be produced by injection moulding with the use of blowing agents usually hydrocarbons such as pentane. Unlike other plastic foam products, EPS is not produced by using chlorofluorocarbons ("HFC") and other harmful compounds which are considered by many to be harmful to the balance of ozone in the earth's atmosphere, and therefore making it more benign to the environment. The manufacture of EPS requires less energy than that used in the manufacture of paper based alternatives. For the Track Record Period, the Company [did not] manufacture other foam products that required the application of HFC in the manufacturing process.

***Recycling***

EPS scraps can be easily added to products such as EPS insulation sheets and other EPS materials for construction applications. EPS scraps can also be turned into many items such as clothes hangers, park benches, flower pots, toys, rulers and architectural moulding. Given the rigidity and low value of EPS scraps, they are not commonly recycled in the PRC.

***Incineration***

PS may be incinerated at high temperatures and generated limited chemicals like water, carbon dioxide and carbon soot. According to the American Chemistry Council, PS can be incinerated and reduced into 1% of the starting volume in modern facilities as most of which is converted into carbon dioxide, water vapor and heat. The remaining residual may be available for disposal, and may still be considered an environmental issue.

***Disposal***

Degradation of materials creates potentially harmful liquid and gaseous by-products that may contaminate groundwater and air and as such require landfills to be equipped with the necessary facility to minimize their contact with air and water. EPS products are very stable and the disposal of which does not produce harmful by-products that contaminate air and underground water. Given the stability of EPS products, they degrade very slowly and some environmental organizations may consider this an environmental problem. By the same token, EPS products discarded can be recovered without major difficulty from the environment.

"GDP" — gross domestic product

# GLOSSARY OF TECHNICAL TERMS

| | |
|---|---|
| "ISO" | the International Organization for Standardization, a non-governmental organization which sets the ISO standards, being world-wide industrial and commercial standards |
| "ISO9001" | the international specification for a quality management system |
| "polymer" | a large molecule consists of repeating structural units called monomers that are typically connected by chemical bonds. A single polymer molecule may consist of hundreds to a million monomers and may have a linear, branched, or network structure. The ability for molecules to form long chains of polymer is vital to producing thermoplastic polymers.<br><br>Polymer includes a large class of natural and synthetic materials and has a diverse variety of properties. Examples of natural polymers include amber and natural rubber while synthetic polymers include synthetic rubber, nylon, PO, PP, PS and silicone |
| "polyolefin" or "PO" | a group of thermoplastic polymers. PO can be made by extrusion, injection moulding, blow moulding, or rotational moulding methods. Materials made of PO usually have oily or waxy appearance and are nonpolar, nonporous, and not receptive to inks and lacquers. |
| "polystyrene" or "PS" | a group of thermoplastic polymers. PS is a strong, acid- and alkali-resistant, non-absorbent and an excellent electrical insulator. It is in solid state at room temperature and if heated above its glass transition temperature, in liquid state, and becomes solid again when cooled. Pure PS is brittle but hard. PS is economical to be made and is one of the most widely used kinds of plastic and is commonly found in plastic cutlery, compact disc cases, and many other objects where a fairly rigid and economical plastic is desired. PS can also be made into foam by injection moulded or extruded.<br><br>PS can be recycled and reused. However it is not commonly recycled because of its rigidity (especially if foamed) and low scrap value. The rigidity and low value of the scraps made of EPS makes it not too commercially attractive to collect, transport and recycle in the PRC. |
| "structural components" (結構件) | components made of EPS that may be fabricated into various shapes and sizes and are often used inside consumer electrical appliances such as air conditioners. Our structural components made of EPS are typically made at higher density as compared to packaging products, and are chemical resistant, very light in weight and are economical to be produced and replaced. Our structural components for air-conditioners may be used to replace certain parts made of metal inside air conditioners such as metal frames and other metal parts and offer support and connection points to other parts inside the air conditioners. |

# FORWARD-LOOKING STATEMENT

This document contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business and operating strategies and our various measures to implement such strategies;
- our dividend distribution plans;
- our relationships with our key customers;
- our plan to expand our product offerings;
- our operations and business prospects, including our development plans for our existing and new businesses;
- our ability to complete our research and development projects and product developments;
- our financial condition;
- our capital expenditure plans;
- the regulatory environment in the PRC; and
- future developments and the competitive environment in our industry and the markets for our products.

The words "anticipate", "believe", "continue", "could", "expect", "intend", "may", "plan", "potential", "predict", "project", "seek", "should", "will", "would" and the negatives of these terms and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect our current views with respect to future events and there is no guarantee of our future performance that is subject to uncertainties, assumptions and risks including the risk factors as disclosed in this document.

Should one or more of the risks or uncertainties materialize, or should underlying assumptions prove to be incorrect, our financial condition and results of operations may be adversely affected and may vary materially from those described herein as anticipated, believed, estimated or expected.

Accordingly, the statements herein are not a guarantee of our future performance and you should not place undue reliance on such forward-looking information. We undertake no obligation to publicly update or revise any forward-looking statements contained in this document, whether as a result of new information, future events or otherwise, except as required by applicable laws, rules and regulations. All forward-looking statements contained in this document are qualified by reference to this cautionary statement.

# RISK FACTORS

*You should before making an [•••] in the [•••], consider carefully all of the information set out in this document including the risks and uncertainties described below in respect of our business, our industry and the [•••]. You should pay particular attention to the fact that we are a company incorporated in the Cayman Islands and that our principal operations are conducted in the PRC and are governed by a legal and regulatory environment that in some respects differs from what prevails in other countries. Our business could be affected materially and adversely by any of these risks.*

## RISKS RELATED TO OUR BUSINESS AND INDUSTRY

### Our business, operations and financial performance are affected by economic cycles and financial crises

Our business exhibits high correlation with the development and sales of the consumer electrical appliances in the PRC such as the sales of televisions, air conditioners and washing machines. The demand for our products relies on the development and sales of such consumer electrical appliances in the PRC which in turn rely on market condition of this industry that may fluctuate over time. Should the demand for the consumer electrical appliances in the PRC fall as a result of adverse economic cycles, the demand for our products may also fall, and in which case our business, operations, and financial performance could be adversely affected. Since the onset of the global financial tsunami in 2008, the world financial systems and economies including the Chinese economy have been affected and disrupted. Many governments in America, Europe and Asia including the Chinese government have implemented various economic stimulus packages in an attempt to boost their respective faltering economies. Nonetheless, there is no assurance as to the efficiency and effectiveness of such economic stimulus packages and there is no guarantee that the world economies including the Chinese economy will improve and recover back to the pre financial tsunami level. Should the financial crisis continue or worsen, the growth in the consumer electrical appliances industry in the PRC would slow down and so would the demand for our products and in which case, our business, operations, and financial performance could be adversely affected.

### We rely upon a few major customers that accounted for a significant portion of our revenues

We derived a significant portion of our revenues from a number of major customers. For the Track Record Period, the five largest customers accounted for approximately 98.5%, 99.5%, 99.2%, 97.9% of our revenues respectively, while the largest customer accounted for approximately 55.3%, 46.1%, 38.2%, 41.9% of our revenues respectively. Our customers in general place purchase orders with us based on their estimated sales and production needs. Whilst we typically enter into sales agreements with our customers, such sales agreements have a limited initial term and can be terminated by short notice. Our three factories are located close to the manufacturing bases of our customers and thus minimizing transportation cost, time and resources to be incurred by delivery of products to our customers; and allowing our pricing to remain competitive. An appropriately located manufacturing base of a supplier of packaging products allows pricing of its products to remain competitive and keeping of long-term commercial relationship with its customers. By the same token, it is an industry pattern that the number of potential customers of the supplier of packaging products may be restricted by the travel distance between them and as to what length of travel distance is acceptable, in general, depends on the circumstances in which such supplier operates, which may differ from supplier to supplier. As such, our role as a supplier to our existing customers and our products may not be easily replaced by products from other suppliers located further away from such customers. We also have a plan to establish a new factory in Wuhu City which upon completion will likely allow our Group to expand its customer base.

The concentration of sales of our products to a limited number of customers would make us vulnerable to counterparty risks that could materially affect our business, operations and financial performance, and such risks include reduction in purchase orders from such major customers, loss of business to other suppliers of similar products, the deterioration in the customers' settlement of payments and the worsening in their financial conditions. There is no assurance that our major customers would continue to buy our products. Should the major customers decrease purchase order sizes or stop placing purchase orders with us, our business, operations and financial performance could be adversely affected.

**We rely on short term purchase orders from customers**

We, in general, do not enter into long term sales and purchase agreements with our customers. Our customers namely, consumer electrical appliance manufacturers in the PRC normally place purchase orders with us for our products based on their estimated sales and production needs. For the Track Record Period, the number of customers with whom we had business dealings was around [28], [31], [32] and [27] respectively. We had lost certain customers as some of whom had [adjusted their product mix and moved manufacturing lines of certain products away while others had decided to close down businesses]. As such, the volume of purchase orders from our customers may vary and fluctuate notably from period to period. We intend to retain, to the extent possible, our existing customers and gain new customers, by way of, among other things, our competitive strengths namely, our quality products, knowledge of and experiences in the packaging products, broad range of packaging products, integrated solution for customers' packaging needs, and strategic locations of our factories. We also intend to expand our manufacturing capacity, as part of our business objectives, and establish a new factory in Wuhu City so as to expand our business and customer base geographically into the region. Nonetheless, there is no assurance that we can continue to maintain cordial commercial relationships with our customers or establish commercial relationships with new customers. Should our customers decrease their purchase order size or stop placing order with us, our revenue and profit might be reduced notably and in which case, our business, operations and financial performance could be adversely affected.

**Any change in PRC government's policies on household appliances could affect our business**

During the period between 2007 and 2009, the PRC government had implemented various policies in respect of the consumer electrical appliance industry namely, the "Rural Area Subsidized Electrical Appliances Purchase Policy (家電下鄉)", the "Home Appliances Replacement Policy (家電以舊換新)" and the "Energy Efficient Product Subsidy Policy (節能產品惠民工程)", which encouraged, to a certain extent, the demand for consumer electrical appliances and in turn related packaging products in the PRC. Under the policies, consumers may purchase consumer electrical appliances at lower and subsidized prices and more consumers may find such electrical appliances affordable which in turn encouraged the sales of such consumer electrical appliances. The increase in sales of consumer electrical appliances also encouraged the demand for packaging products and to a certain extent our packaging products for consumer electrical appliances namely, televisions, air conditioners, washing machines and refrigerators in the PRC. According to the statistics by MOFCOM, sales volume of household appliances under the "Rural Area Subsidized Electrical Appliances Purchase Policy" amounted to approximately 77.2 million units in 2010 with a total sales value of approximately RMB173.2 billion, representing increases of approximately 1.3 and 1.7 times respectively as compared to 2009. Refrigerators and televisions together contributed approximately 61% of the total sales value in 2010. According to the statistics by MOFCOM, the accumulated sales volume and value of household appliances under the "Home Appliances Replacement Policy" reached approximately 40.3 million units and RMB152.1 billion respectively as at 7 March 2011. Televisions, air conditioners, refrigerators and washing machines respectively contributed approximately 35.6%, 21.9%, 13.6% and 13.2% of the total sales volume as at 7 March 2011. According to the statistics by the National Development and Reform Commission, after one and a half years of the launch of the "Energy Efficient Product Subsidy Policy", the domestic consumption was increased by approximately RMB120 billion, of which the consumption of air conditioners was increased by approximately RMB70 billion.

Upon the expiry of such policies in phases over a [four year period from the dates of implementation of the respective policies and the latest by [2013], and without the subsidies from the PRC government, the demand in household appliances within the PRC may decrease, which may have an adverse impact on the demand of our products accordingly.

**We may not be able to develop and introduce new and better products**

The demand for our products is influenced by various factors including preferences of our customers and introduction of new technologies or materials, and availability of substitute products. The preference for more environmental friendly products, packaging materials or other particular types of materials that are at the time considered fashionable may have an influence on our customers' choice of packaging products. The introduction of new technologies or materials, and availability of substitute products may also influence our customers' choice of packaging products. The changes in customer preferences, the introduction of new technologies or materials, and availability of substitute products require us to anticipate and respond quickly to such changes by developing and introducing new and better products in a timely and cost effective manner. Should we fail to anticipate and respond to customers' changing preferences, emerging trends in technology and materials, and availability of substitute products in a timely and cost effective manner, our customers could reduce or stop placing purchase orders with us and in which case our business, operations and financial performance could be adversely affected.

**Our products may not meet the specifications of our customers**

Our customers place significant emphasis on product quality in their selection of suppliers. Many of our customers require us to supply products that meet their specifications. Should quality of our products be found to be deficient in a material way, we could be required to pay compensation to our customers and/or our customers could reduce or stop placing purchase orders with us, and in which case our business, operations and financial performance could be adversely affected. There is no assurance that our products will comply with all the specifications of our customers. Should we fail to comply with all such specifications, our business, operations and financial performance could be adversely affected.

Our quality control department is designated to ensure product quality and standard. Our products are inspected and tested for quality by our quality control personnel in accordance with our internal procedures and guidelines. Nonetheless, there are no assurances that our quality inspection and testing procedures are sufficient and effectively followed by our quality control personnel at all times. Should our quality control personnel fail to follow such internal procedures and guidelines, faulty or defective products could be delivered to our customers. Our quality testing procedures and guidelines are designed, in general, to evaluate product quality under normal usages and conditions and as such, may not able to cope with unexpected usages and extreme conditions which our products may fail to perform to the satisfaction of our customers. As such, there is no assurance that our quality inspection and testing procedures are sufficient in ensuring our products perform to the satisfaction of all our customers under all conditions.

For the Track Record Period, we had received notifications from our customers in respect of returned or defective products and in this connection we paid compensation of approximately RMB251,000, RMB188,000, RMB628,000 and RMB[46,000] respectively to our customers.

**Our products and inventories may become obsolete**

For the Track Record Period, we made provisions for obsolete products (including packaging products for cathode ray tube televisions) of nil, nil, approximately RMB322,000 and RMB[76,000] respectively. The introduction of new technologies, materials, changes in customers' preferences due to various reasons such as demand for more environmental friendly products and availability of substitute products in our industry and the markets for our products may render our products and inventories obsolete. Should we fail to manage our production and inventory levels effectively, there could be significant amounts of obsolete or excessive inventories, and in which case our business, operations and financial performance could be adversely affected.

**Shift of demand for packaging products for cathode ray tube televisions to those for flat panel and plasma televisions**

The shift in our customers' product mix from cathode ray tube televisions to flat panel and plasma televisions may affect their choice of packaging products and in turn demand for our packaging products. Our products and inventories may also become obsolete as a result of adverse changes in market demands. Our Directors are of the view that the market trend for flat panel and plasma televisions will likely continue and as such, the demand for packaging products for cathode ray tube televisions will likely continue to decline as a result. For the Track Record Period, revenue derived from our sale of packaging products for cathode ray tube televisions was approximately RMB160.9 million in 2008, approximately RMB21.4 million in 2009, approximately RMB9.8 million in 2010 and approximately RMB2.9 million in the first half 2011. Nonetheless, there is no assurance that our sales and marketing effort and the future plan will result in an increase in our revenue adequate to compensate for the loss of revenue arising from the decrease in the demand for packaging products for cathode ray tube televisions. Should we fail to compensate for the loss in our revenue arising from the above, our total revenue and in turn our profit might decrease notably, and in which case our business, operations and financial performance could be adversely affected.

**We may experience interruptions of operations at our production facilities**

The success of our business depends on, among other things, the continued operation of our production facilities. Our production facilities are subject to operating risks such as equipment failures, failures to comply with applicable regulations, disruptions in power supply, industrial accidents, labor shortages and strike, natural calamities such as fire, earthquake and flooding, and acts of sabotage. If any unanticipated or prolonged interruption of operations of any of our production facilities occurs as a result of any of the above risks or other factors, we may not be able to deliver our products to our customers in a timely manner or at all. Should the operation of our production facilities sustain prolonged interruptions, our business reputation and customer relationship might be damaged, and we might be liable to pay compensation to our customers, and in which case our business, operation and financial performance could be adversely affected.

The Sichuan Factory is located in Mianyang City, Sichuan Province, the PRC. Our operations in Sichuan Province may be vulnerable to natural disasters including but not limited to earthquake. Our operations may be interrupted as a result of damages to our machines, equipment and other operating assets in case of an outbreak of natural disasters. There may also be casualties of natural disasters. On 12 May 2008, an earthquake measured 8.0 on the Richter scale hit Wenchuan County, Sichuan Province, the PRC according to the China Earthquake Administration (中國地震局). As a result, there were widespread damages to infrastructures and buildings and many businesses and operations were severely affected near and around the earthquake epicenter. The Sichuan Factory was approximately 264 kilometers away from the earthquake epicenter. We suffered a total loss of approximately RMB[2.9] million primarily as a result of damages to certain manufacturing machineries and equipment and our operations at the factory were suspended for seven days. No compensation was paid to our customers for losses arising from the suspension of production. For the financial year ended 31 December 2008, the Sichuan Factory contributed revenue and [net profit] of approximately RMB[129.6] million and approximately RMB[27.7] million respectively to our Group. There can be no assurance that we will not be directly or indirectly affected by natural disasters in the future. Should there be casualties or material damages to our operating assets as a result of natural disasters, our business, operations and financial performance could be adversely affected.

**Any change in the PRC government's environmental policies on the manufacturing and sale of EPS and EPO packaging products could affect our operations**

We manufacture and sell packaging products and structural components for packaging of consumer electrical appliances such as televisions, air conditioners, washing machines and refrigerators in the PRC. During the Track Record Period, all our packaging products were primarily made of raw materials comprising mainly EPS and to a lesser extent EPO while our structural components were made of EPS. The raw materials are preprocessed, conditioned and moulded through our manufacturing facilities into our packaging products. EPS and EPO packaging products are very stable in nature and the proper handling and storage of which will not cause them to produce harmful substance that contaminates air and underground water. By the same token, EPS and EPO packaging products buried in the environment take very long time to biodegrade and in this connection, EPS and EPO products are considered to have environmental issue by some environmental organizations. Packaging products made of EPS and EPO can be recycled and reused. Nonetheless, the rigidity and low value of EPS scraps make it not too commercially attractive to collect and transport them over long distance for recycling in the PRC.

As of the Latest Practicable Date, our Directors were not aware of any regulations prohibiting the manufacturing and sale of EPS and EPO packaging products for packaging consumer electrical appliances in the PRC. As advised by our PRC Legal Advisers and confirmed by our Directors, our PRC subsidiaries had obtained confirmations from relevant environmental bureau in respect of the compliance in all material aspects with the environmental laws in the PRC during the Track Record Period. Should the environmental regulations be amended, supplemented or otherwise modified and as a result of which our operations become subject to more stringent environmental regulations, we might have to incur additional costs to comply with the latest environmental regulations and failing which, our business operations might be interrupted or suspended and in which case, our business operations and financial performance could be adversely affected.

**We may fail to effectively implement our plan and operations**

We plan our manufacturing based on, among other things, our internal annual projections and purchase orders received from our customers mainly on short term basis. However, there is no assurance that our internal projections of demand for our products are accurate and the subsequent manufacturing plans are effective. Should we fail to make accurate internal projections of demand for our products or fail to effectively implement our manufacturing plan, the level of inventories might not meet actual demand and we might fail to deliver our products to our customers as scheduled and in which case, our business, operations and financial performance could be adversely affected.

**We may fail to acquire adequate raw materials or to fulfill our customers' orders in a timely and cost-effective manner**

We rely on independent suppliers to provide us raw materials for production of our products. The principal types of raw materials used in the manufacturing of our products consist of EPS and EPO. For the Track Record Period, purchases from our five largest raw material suppliers together accounted for approximately 95.7%, 81.9%, 80.1% and [85.0]% of our total purchases of raw materials respectively, while our largest raw material supplier accounted for approximately 57.7%, 25.7%, 32.5% and [41.7]% of our total purchases of raw materials for the respective periods. Should any of our major suppliers fail to deliver raw materials in accordance with our schedule of production and that we fail to source such raw materials from other suppliers in a timely and cost-effective manner, our production might be delayed, and in which case our business, operations and financial performance could be adversely affected. We may at times be required to purchase raw materials from such other suppliers in the market as necessary at higher prices in order to meet our production schedule due to various factors such as the delay in placing purchase orders for the necessary amount of raw materials. Should we fail to pass the increase in raw materials costs to our customers, our profit margins might be reduced, and in which case our business, operations and financial performance could be adversely affected.

**We may not be able to control the purchase prices of our major raw materials**

We purchase our major raw materials namely, EPS and EPO from independent suppliers and the purchase prices for which are subject to significant price volatility as a result of changes in levels of demand, supply and other factors. In particular, the purchase prices of EPS, which is our major raw material are determined to a large extent by market factors. We are subject to a commodity price risk in relation to the purchases of EPS. We have established long-term commercial relationship with our major suppliers for stable and timely supply of raw materials. We, in general, [do not enter into long-term agreement with our suppliers in respect of the acquisition of raw materials for a period of more than one year. This is in line with our inventory management so as to avoid stocking of excessive quantity of raw materials.]

For the three financial years ended 31 December 2008, 2009 and 2010 and the two six months ended 30 June 2010 and 2011, our average annual purchase prices of EPS were approximately RMB10,620/tonne, RMB7,688/tonne, RMB9,272/tonne, RMB9,502/tonne and RMB10,689/tonne respectively while average annual purchase prices of EPO were approximately RMB35,019/ tonne, approximately RMB35,015/tonne, approximately RMB32,234/tonne, RMB34,308/tonne and RMB33,202/tonne respectively. For illustration of the sensitivity of our gross profit to changes in costs of raw materials, every [1]% increase in costs of raw materials would result in our gross profit being reduced by approximately [2.2%] in 2008, approximately [1.6]% in 2009, approximately [1.5]% in 2010 and 1.7% in the first half 2011. We have tried to manage such price risk primarily through matching of the purchase prices for our raw materials with the price terms of sales of our products to our customers. Our pricing policy allowed us to pass the increase in our costs of raw materials to our customers by increasing selling prices of our products. The pricing of our products reflected, in general, our costs of raw materials. Nonetheless, there is no assurance that the price risk in relation to the purchases of major raw materials could be minimized effectively at all times. Should we fail to pass the possible increase in purchase prices of raw materials to our customers, our profit margins might be reduced, and in which case our business, operations and financial performance could be adversely affected.

**We may lose our key managerial and technical personnel**

We depend, to a significant extent, on the efforts and abilities of our Directors and senior management, particularly Mr. Chao and our other executive Directors set forth in the section headed "Directors and Senior Management" in this document, for our future growth and success, as they have contributed their in-depth industry experience and technical knowledge to us. Specifically,

- Mr. Chao, our Chairman, the chief executive officer of our Group, an executive Director and a Controlling Shareholder, has been instrumental in the formulation and execution of our business and expansion strategies and his forward-looking growth strategies and management concepts are essential to our rapid growth in recent years.

- Ms. Chen Fen, an executive Director, has joined our Group since September 2005 and has contributed to the business operation and in particular financial management of our Group.

- Mr. Zuo Ji Lin, an executive Director, has joined our Group since April 2001 and has contributed to the business operation and in particular marketing management of our Group.

Our Directors and members of our senior management team are critical to our business development and maintenance of relationships with many of our key customers. We are dependent on other managerial and marketing personnels and technicians for our production, marketing, sales, and research and development operations. Competition for qualified personnel is intense in our industry within the PRC. Should we lose the services of our key managerial and technical personnel or fail to attract and retain additional qualified managerial, technical and marketing personnel, our business, operations and financial performance could be adversely affected.

**We may fail to acquire adequate ancillary parts for the manufacturing of our products**

We purchase ancillary parts for use in some of our packaging products. We intend to continue purchasing ancillary parts for our packaging products as and when necessary as the manufacturing of such parts, in our view, requires specialized facilities and expertise that are not the focus of our existing business and manufacturing operations. For the Track Record Period, purchase costs of the above ancillary parts amounted to approximately RMB3.5 million, RMB4.3 million, RMB6.2 million and RMB[3.1] million respectively. We have engaged 14, 13, 15 and 22 ancillary parts manufacturers respectively during the same period. We are subject to various risks associated with the utilization of ancillary parts, including failure of such parts to meet our production criteria, product quality or delivery requirements. Should any of these risks materialize, our business, operations and financial performance could be adversely affected. We may be required to seek alternative suppliers for the above ancillary parts. Should there be a prolonged interruption to our operations as a result of excessive time taken to secure alternative suppliers of the ancillary parts and an increase in our expenditure as a result of the above, our business, operations and financial performance could be adversely affected.

**We may experience delays or defaults in collecting our trade receivables**

For the Track Record Period, our trade receivables were approximately RMB52.4 million, RMB56.3 million, RMB56.3 million and RMB83.6 million respectively, representing approximately 31.4%, 40.6%, 37.4% and 52.1% of our total current assets as of the respective period ends. For the Track Record Period, the provision set aside for doubtful debts was approximately RMB[1,000], Nil, Nil and Nil respectively, while bad debts written-off were approximately RMB1,000, Nil, Nil and Nil respectively. As of [30 September 2011], approximately RMB[72.5] million or approximately [86.7]% of the trade receivables outstanding as of 30 June 2011 had been settled in cash and note receivables. Should we experience difficulty in collecting any of our trade receivables or at all, our cash flow and working capital position could be worsened, and in which case our business, operations and financial performance could be adversely affected.

**Our net cash generated from operating activities decreased continuously in 2008, 2009 and 2010**

Our net cash generated by our operating activities decreased from approximately RMB64.3 million in 2008 to approximately RMB24.9 million in 2009, and further to approximately RMB11.0 million in 2010. The decrease in net cash generated by our operating activities from 2008 to 2009 was attributed mainly to the decrease in profit before tax in 2009. The decrease in net cash generated by our operating activities from 2009 to 2010 was attributed mainly to the increase in held-for-trading investments and the increase in trade and other receivables in 2010. As of [30 September 2011], approximately 86.7% of the trade receivables outstanding as of 30 June 2011 had been settled. Our Group disposed of all the investment in listed equity securities by January 2011. There is no assurance that we will continue to record net cash generated from operating activities in the future. Should our net cash generated from operating activities continue to decrease or become net cash used in operating activities, the cash resources and liquidity of our Group might be reduced and in which case, our business operations and financial performances could be adversely affected.

Please refer to the paragraph headed "Financial information – Liquidity and capital resources" for further information in this regard.

**We may be exposed to infringement or misappropriation claims**

The development of our business depends on our technical know-how in designing and manufacturing our products without knowingly infringing the intellectual property rights of other third parties. The design and manufacturing of our products involve applications of various technology, engineering, scientific calculations [and the six patents licensed to us by one of our top five customers]. We may face intellectual property infringement claims and the defence of which can be both costly and time consuming and may significantly divert our efforts and resources from our principal business operations. During the Track Record Period, to the best knowledge of our Directors, we had not received any claims filed against our Group in respect of infringement or misappropriation of intellectual property rights. Should any of the infringement or misappropriation claims be determined adversely against us, we could be subject to significant liability to third parties and required to seek licenses from third parties, pay ongoing royalties and also redesign our products. If there is any infringement or misappropriation claims against us, we might also be prohibited from carrying on business activities in relation to the manufacture and sale of our products or the use of our technologies and/or patents. Protracted litigation could also result in our existing or potential customers deferring or limiting their purchase or use of our products until resolution of such litigation.

**We may be subject to civil and criminal liabilities for our defective products**

Manufacturers and sellers of defective products in the PRC may be liable for loss and injury caused by such products. According to the principal laws and regulations governing this area, such as the General Principles of the Civil Law of the PRC (民法通則), where a sub-standard product causes property damage or physical injury to any person, the manufacturer or seller of such sub-standard product may be subject to civil liabilities for such damage or injury. In addition, under the Product Quality Law of the PRC (中華人民共和國產品質量法), manufacturers are responsible for the quality of the products they produce which must meet certain minimum standards and manufacturers producing defective products may be liable for criminal liability and have their business licenses revoked.

We generally do not have product liability insurance for our products, business interruption insurance, third-party liability insurance for personal injuries. Whilst there have not been any complaints or claims against us for damage or physical injury to any person due to defective products for the Track Record Period, there is no assurance that we will not receive any complaints or claims against us pursuant to, including but not limited to, the breach of any of the above-mentioned laws in the future. Should any of the above materialise, our business, operations and financial performance could be adversely affected.

**We may fail to compete successfully against emergence of alternative products and suppliers**

We face significant competition in our business. There are many suppliers of similar or alternative products in our industry and terms of pricing offered by such suppliers can be very competitive. Our customers may require us to lower the pricing of our products in order to remain competitive. For the Track Record Period, the average selling prices of our Group's EPS products ranged between approximately RMB[16,000]/tonne to approximately RMB[20,000]/tonne, while our Group's EPO products ranged between approximately RMB[55,000]/tonne to approximately RMB[69,000]/tonne. The maintenance of manufacturing and related costs in check is thus considered important to keeping our terms of pricing competitive. Suppliers with comparatively large scale of operation are considered advantageous in achieving better economies of scale and keeping manufacturing costs comparatively lower. The location of manufacturing facilities and related transportation cost and time are also considered crucial in attracting purchase orders from customers. Customers may at times require individual products and the capability to offer and turn around such products are also considered important to securing purchase orders from customers. The introduction of new technologies and materials, availability of alternative products and changes in customers' preferences may also have an impact on the sales of our products. We, in general, compete on the following aspects:

- Terms of pricing;
- Product quality and reliability;
- Design, technical and manufacturing capabilities;
- Ability to meet customers' delivery schedules; and
- Customer relationships and services.

There is no assurance that our business and products will remain competitive in any of the above areas. As we expand our range of products to target a wider base of customers, we expect to face strong competition from many established players in the markets for these products. Many of our existing and potential competitors may have significantly greater financial, manufacturing, sales, marketing and other resources than we have. Should we fail to compete effectively in the future, our business, operations and financial performance could be adversely affected.

**We may compete with Sino Haijing**

The elder brother of Mr. Chao, an executive Director and one of the Controlling Shareholders, is a controlling shareholder of Sino Haijing Holdings which is engaged in the manufacture and sale of packaging materials, including EPS packaging products and paper honeycomb products. For the financial year ended 31 December 2010, Sino Haijing reported revenue of approximately HK$514.3 million, profit for the year of approximately HK$32.9 million and net assets of approximately HK$350.7 million. We are of the view that the supply of packaging products for consumer electrical appliance, is a localized industry as such products are typically large and rigid and therefore the transportation costs of which over long distance are expensive. As such, buyers of packaging products will typically choose to purchase such products from suppliers located near to their manufacturing bases. As of the Latest Practicable Date, all our existing factories are located far away from the factories of Sino Haijing and our Group has no plan to build a material business presence in those locations where Sino Haijing has major manufacturing operations, and in this regard, we are not in direct competition with Sino Haijing.

Nonetheless, there is no assurance that Sino Haijing will not establish material business presence near our factories and compete directly for our existing customers. Should Sino Haijing compete directly with our Group for business, we might fail to retain existing or gain new customers and in which case, our business and financial performances might be adversely affected.

**Our future plan to establish a factory in Wuhu City may not be profitable**

We intend to establish a new factory in Wuhu City for the manufacturing and sale of packaging and structural products. We consider the location of our new factory important and our preference is those locations within close proximity to our potential customers. The close distance between the manufacturing plant and our customers will shorten the delivery time and minimize related transportation costs of our packaging products to our customers. Our existing three factories are commercially viable to serve customers in their respective neighborhoods only and therefore spare manufacturing capacities of one factory may not be used by another. Notwithstanding the spare manufacturing capacities of the three factories, the establishment of the new factory in Wuhu City is to serve potential customers in the city. The future plan to establish a factory in Wuhu City is subject to various risks including but not limited to, the delay in securing a suitable location for the new factory at appropriate consideration with adequate gross floor area and equipped with necessary facilities and provision of power resources adequate for our business and manufacturing operations. Further, we may face fierce competition from other suppliers of packaging products already established in Wuhu City and may experience difficulty in securing adequate purchase orders from potential customers, if at all. There is no assurance that our future plan to establish the factory will proceed to completion and if completed will be profitable for our Company. As of the Latest Practicable Date, our Company had not entered into any agreements in respect of the supply of packaging products to potential customers in Wuhu City. Should the new factory fail to generate profits, we might suffer a loss in investments and in which case, our business and financial performance could be adversely affected.

Please refer to the paragraph headed "Business – Business strategies" for further information in this regard.

**We may fail to secure adequate capital in the future**

The construction and maintenance of our manufacturing facilities are capital intensive. For the Track Record Period, our capital expenditures amounted to RMB4.0 million, RMB3.7 million, RMB4.3 million and RMB[3.5] million respectively. The capital expenditures were incurred primarily to increase our production capacity and improve quality of our manufacturing facilities. Our future capital requirements may be substantial as we seek to expand our operations and manufacturing capabilities. There is no assurance that we will have adequate internal and external resources to meet our future capital expenditure requirements, and we may from time to time be required to raise additional funds to meet such capital requirements. Any equity or debt financing, if available at all, may be on terms that are not favorable to us. A high level of borrowings and other forms of debt may result in a significant increase in interest expenses while at the same time exposing us to increased interest rate risks. Equity financings could result in dilution of interests of our Shareholders, and our securities issued in future financings may have rights, preferences and privileges that are senior to those of our existing Shares. Should we fail to obtain necessary funding on acceptable terms or at all, our business expansion and other business plans might be delayed which in a long run could affected our competitive strength in the industry and markets, and in which case our business, operations and financial performance could be adversely affected.

**Our reliance on Sichuan Changhong Electric**

Sichuan Jinghong relies on Sichuan Changhong Electric, one of our top five customers, for the purchase of its products, and the following arrangements: the leasing of the Sichuan Factory, the supply of power resources and the licensing of patents for Sichuan Jinghong business and manufacturing operations.

Sichuan Jinghong and Sichuan Changhong Electric have entered into agreements to secure the above arrangements for a specified period subject to renewal upon expiry in accordance with the terms and conditions as specified in such agreements. Nonetheless, there is no assurance that such arrangements will not be terminated before, or will be renewed upon, their respective expiry dates. Should the lease arrangement be terminated or not be renewed, we would have to execute a contingency plan to relocate the operations of Sichuan Jinghong to a factory at appropriate location in Mianyang City, Sichuan province, the PRC at manageable costs including but not limited to rental and relocation costs to be incurred in this regard within a reasonable timeframe in order to continue our business and manufacturing operations there. Based on our contingency plan, we identified factories available for leasing at appropriate locations in Mianyang City namely, within reasonable distance from our existing and potential customers offering gross floor areas ranged from approximately [14,000] sq.m. to approximately [16,000] sq.m. at asking rents comparable to the rent for the leasing of the Sichuan Factory. The factories were installed with equipment for the supply of power resources necessary for our operations at rates comparable to that payable by Sichuan Jinghong to Sichuan Changhong Electric for purchase of power resources. The execution of the contingency plan will likely incur expenses including, among other things, relocation expenses and renovation expenses and such expenses were estimated, in aggregate, to be approximately RMB2 million. The whole relocation process was expected to take around [30] days while the installation of machines and equipment was expected to take around [7] days and during which the operations of Sichuan Jinghong might be suspended and as such, Sichuan Jinghong would suffer a loss of revenue of approximately RMB[5.4] million estimated on a pro rata basis of the revenue contributed by Sichuan Jinghong for the financial year ended 31 December 2010. Please refer to the paragraph headed "Business – Our relationship with Sichuan Changhong Electric" for further information in this regard.

***The sale of our products***

For the Track Record Period, we derived revenue from the sale of products to Sichuan Changhong Electric of approximately RMB[126.0] million, approximately RMB[43.5] million, approximately RMB[40.8] million and approximately RMB[25.0] million respectively, which accounted for approximately [53.7]%, approximately [35.7]%, approximately [24.6]% and approximately [24.9]% of our total revenues respectively. The pricing for the sales of our products to Sichuan Changhong Electric was based on market rates and fell within our price range for such products. There is no assurance that Sichuan Changhong Electric will continue to place purchase orders with us in the future. Should Sichuan Changhong Electric place fewer or no purchase orders for our products, our sales might decrease notably and in which case our business, operations and financial performance could be adversely affected.

***The leasing of Sichuan Factory***

Sichuan Changhong Electric and Sichuan Jinghong entered into a renewed leasing agreement dated 27 December 2010, pursuant to which Sichuan Changhong Electric leased the Sichuan Factory to Sichuan Jinghong for a term of three years commencing from 1 January 2011 and ending on 31 December 2013, subject to renewal, at a rental of approximately RMB121,000 per month or approximately RMB1.5 million per year. As confirmed by Asset Appraisal Limited, our property valuer, the rent payable by Sichuan Jinghong to Sichuan Changhong Electric for leasing of the Sichuan Factory is fair and reasonable and comparable to market rental prices of similar industrial properties located nearby. There can be no assurance that the leasing arrangement for the Sichuan Factory will not be terminated before its expiry date or the leasing arrangement will be renewed upon its expiry date. Should the leasing arrangement for the Sichuan Factory be terminated before its expiry date or not be renewed upon its expiry date, we would be required to execute a contingency plan and secure a factory at appropriate location in Mianyang city, Sichuan province, the PRC at manageable costs including but not limited to rental and relocation costs to be incurred in this regard within a reasonable timeframe in order to continue our business and manufacturing operations there. Should we fail to execute the relocation plan as and when required successfully, the business and operations of Sichuan Jinghong might be affected and in which case our business, operations and financial performance could be adversely affected.

***The supply of power resource***

Sichuan Changhong Electric and Sichuan Jinghong entered into a renewed agreement dated 13 February 2011 pursuant to which Sichuan Changhong Electric agreed to supply and Sichuan Jinghong agreed to purchase power resources including electricity, water, steam and pressurized air for business and manufacturing operations of Sichuan Jinghong, for a term of three years commencing on 13 February 2011 and ending from 13 February 2014, subject to renewal, at predetermined rates with reference to prevailing market rates and manufacturing capacity of the Sichuan Factory. Our Directors are of the view that the rates payable by Sichuan Jinghong to Sichuan Changhong Electric for the purchase of power resources are fair and reasonable and based on the prevailing market rates of such power resources, the materials and operating costs incurred in the provision of such power resources by Sichuan Changhong Electric. Should the power supply arrangement for the Sichuan Factory be terminated before its expiry date or not be renewed upon its expiry date, we would be required to secure alternative source of power supply or produce such power supply on our own at manageable costs including but not limited to acquisition of the necessary power lines and cables, machineries and equipment to be incurred in this regard within a reasonable timeframe in order to continue our business and manufacturing operations there. Should we fail to secure alternative source of power supply or produce such power supply on our own as and when required successfully, the business and manufacturing operations of Sichuan Jinghong might be affected and in which case our business, operations and financial performance could be adversely affected.

***The licensing of patents***

In August 2008 and October 2009, Sichuan Jinghong (as licensee) entered into two patent licensing agreements respectively with Sichuan Changhong Electric (as licensor) pursuant to which Sichuan Jinghong are granted the use in the PRC of (i) two patents owned by Sichuan Changhong Electric for a term of 5 years from 22 August 2008 at a total consideration of RMB8,000 per year; and (ii) four patents owned by Sichuan Changhong Electric for a term of 5 years from 20 October 2009 at a total consideration of RMB12,000 per year. Our Directors are of the view that the considerations for the licensing of the patents under the abovementioned agreements are fair and reasonable which are based on arm's length negotiation between the respective parties. Should any of the patent licensing arrangements be terminated before its expiry date or not be renewed upon its expiry date, Sichuan Jinghong would not be allowed to use such patents in connection with its business and manufacturing operations, and in which case our business, operations and financial performance could be adversely affected. The patents were related to the design of packaging products for certain versions of [flat panel and plasma televisions]. For the Track Record Period, our Group did not rely much on the application of the patents referred to in the patent licensing agreements as revenue derived from sale of packaging products on which such patents were directly applied was immaterial. In view of the above, our Directors considered the patents were not crucial to the operations of our Group during the Track Record Period.

**We may experience labor shortage or unrest**

Our production processes are labor intensive. We recruit workers on our own for our production processes. There are cases of labor shortages reported in various areas in the PRC. [Whilst we had not experienced any significant labor shortages in the past, there is no assurance that we will not face such problems in the future. We may be required to increase the wages for our workers as a result of changes in the labor market conditions or industry practices. Some recent reported cases of labor unrest in some manufacturing companies based in the PRC resulted in significantly increases in wages for their employees. We have not experienced and do not expect labor unrest and demand for pay raise from our employees as a direct result of such incidents. For the three financial years ended 31 December 2008, 2009 and 2010, the average annual wage per employee of our Group based on the number of employees as of the respective year end dates were approximately RMB[22,000], approximately RMB[22,000] and approximately RMB[25,000] respectively.

We expect the wage levels of our employees and contract workers will continue to be determined in accordance with the prevailing market rates in relevant locations as well as performance of such employees for the foreseeable future in order for us to remain competitive. There is no assurance that we will not face labor unrest or we will not raise wages for our employees whether due to labor unrest at our Group or as a result of the pay raise of other manufacturing companies in the PRC in response to labor unrest related to them. Labor unrest will disrupt our production and the higher wages will result in increased labor costs for us. Should we fail to increase our product prices to offset the additional labor costs in a timely manner or fail to manage labor shortage or labor unrest, our business, operation and financial performance could be adversely affected.

**We may experience fluctuations in business performance due to seasonal effect**

The sales of our products are subject to seasonal effect as our customers namely, manufacturers of consumer electrical applicances typically place more purchase orders for our products in the months of December, January, April and August each year in anticipation of higher sales of consumer electrical applicances around and during holidays such as Chinese New Year and summer season. We typically receive relatively fewer purchase orders in February each year as our customers generally experience a reduced level of manufacturing activity in the absence of the above seasonal factors. In view of the above, our sales and as a result, our business and financial performances are subject to fluctuations from period to period.

**We may fail to operate successfully in the PRC**

During the Track Record Period, we generated all our revenues from the sales of our products to customers in the PRC. We anticipate a very significant portion, if not all, of our sales activities will continue to be carried out in the PRC in the near future as our target customers are mainly consumer electrical appliance manufacturers in the PRC. As such, we may face a variety of risks and uncertainties associated with carrying out business activities in the PRC. Please refer to the paragraph headed "Risks related to the PRC" below for more information. Should we fail to manage the risks and uncertainties related to carrying out business activities in the PRC, our revenues from the sales of our products in the PRC might be affected, and in which case, our business operation and financial performance could be adversely affected.

**We cannot control the disposition of our products by end users**

We specialize in the design, manufacturing and sale of packaging products made primarily of EPS and EPO and structural components made of EPS for consumer electrical appliances in the PRC. Our customers typically apply our products for packaging or as components (in case of our structural components) inside the consumer electrical appliances, and sell them to consumers or end users in the PRC.

We have no control over the end users as to their dispositions of our products. Given that products made of EPS and EPO tend to biodegrade slowly in an open environment, any disposal of such products, in an uncontrolled manner, may have a negative impact on the environment.

**Our Group's non-compliance with certain social security insurance and housing provident fund contributions laws and regulations in the PRC could lead to the imposition of fines and penalties**

During the Track Record Period, we have not fully paid certain past social security insurance premiums and housing provident fund contributions for and on behalf of all of our employees in the PRC.

The outstanding amount of the social security insurance and housing provident fund contributions payable by our PRC subsidiaries to the relevant PRC authorities in respect of the above non-compliance with the social security system in the PRC were approximately RMB[850,000]. In this connection, our Controlling Shareholders have agreed to indemnify our Group against any losses, liabilities and expenses, relating to any claim brought by the authorities or any other third party in relation to the above non-compliance. Please refer to the paragraph headed "Business – Regulatory compliance – Social security insurance and housing provident fund contributions" in this document for further details.

As advised by our PRC Legal Advisers, we may be ordered to pay such outstanding social security insurance premiums and/or housing provident fund contributions within a prescribed time limit by the relevant PRC authorities. According to《住房公積金管理條例》(the Regulations on Management of Housing Provident Fund), if we fail to rectify the non-compliance within the prescribed time limit as ordered by the relevant PRC authorities, a fine in an amount between RMB10,000 and RMB50,000 may be imposed on our Group. In addition, pursuant to《社會保險費申報繳納管理暫行辦法》(the Interim Regulation on the Collection and Payment of Social Security Insurance Premiums), if we fail to rectify the non-compliance within the prescribed time limit as ordered by the relevant PRC authorities, the relevant PRC authorities may impose a belated payment (滯納金) at the daily rate of 0.2% of the overdue social security insurance premiums for any delay in payment from the date when the relevant contributions become due and payable until the actual payment date.

Any judgment or decision against us in respect of the outstanding social security insurance and/or housing provident fund contributions and in the event that the Controlling Shareholders fail to honour their indemnity could have an adverse effect on our reputation, cash flow and results of operations.

**Any failure to comply with any production safety standards in the PRC may affect our business**

We are required to ensure safety throughout our production and business operations in order to comply with laws and regulations relating to production safety in the PRC. For the Track Record Period, our Group had not received any official notices from the relevant authorities in the PRC in respect of demand to make payment of fines or penalties or make improvement to our manufacturing facilities arising from failure to comply with production safety standards in the PRC. In the event of failure to meet the PRC standards for production safety, we could be subject to fines or penalties or be required to invest additional capital to carry out necessary improvements to meet such standards, and accordingly our business and results of operations would be adversely affected.

## RISKS RELATED TO THE PRC

### Changes in the PRC's political, economic and social conditions, laws, regulations and policies may have an adverse effect on our business

The economy of the PRC differs from the economies of most developed countries in many respects, including:

- structure;
- level of government involvement;
- level of development;
- growth rate;
- control of foreign exchange; and
- allocation of resources.

The PRC economy has been making the transition from a planned economy to a more market-oriented economy. For the past three decades, the PRC government has implemented economic reform measures emphasizing utilization of market forces in the development of the PRC economy. In addition, the PRC government continues to play a significant role in regulating industries by imposing industrial policies. Despite the implementation of such reforms, we cannot predict whether changes in the PRC's political, economic and social conditions, laws, regulations and policies will have any adverse effect on our current or future business, results of operations or financial condition.

### The PRC's legal system embodies uncertainties that could adversely affect our business

As substantially all of our operations are conducted and substantially all of our assets are located in the PRC, our operations are generally affected by and subject to the PRC legal system and the PRC laws and regulations. Since 1979, many new laws and regulations covering general economic matters have been promulgated in the PRC. Despite this activity to develop the legal system, the PRC's system of laws is not yet complete. Even where adequate law exists in the PRC, the enforcement of existing laws or contracts based on existing law may be uncertain or sporadic, and it may be difficult to obtain swift and equitable enforcement or to obtain enforcement of a judgment by a court of another jurisdiction. The PRC legal system is based on written statutes and their interpretation, and prior court decisions may be cited for reference but have limited weight as precedents. The relative inexperience of the PRC's judiciary in many cases creates additional uncertainty as to the outcome of any litigation. In addition, interpretation of statutes and regulations may be subject to government policies reflecting domestic political changes.

**Our operating PRC subsidiaries may be subject to higher level of tax rates in the PRC**

We operate our business and manufacturing operations principally through our operating PRC subsidiaries namely, Sichuan Jinghong, Chongqing Guangjing and Chuzhou Chuangce and such operations are subject to various taxes in the PRC. Our operating PRC subsidiaries have enjoyed favourable tax rates in the PRC. For the Track Record Period, income tax expenses of our Group were approximately RMB7.2 million, RMB1.3 million, RMB4.0 million and RMB1.1 million respectively. The tax concession applicable to Sichuan Jinghong had expired in 2010 and as such it would be subject to the statutory rate of 25% under PRC EIT Law in the PRC from 2011 onwards.

The favourable tax rates currently enjoyed by our operating PRC subsidiaries will likely expire in the near future and upon the expiry of which, the business operations of our operating PRC subsidiaries will be subject to the comparatively higher tax rates in the PRC. In view of the above, our operating PRC subsidiaries will not be able to continue to enjoy the low effective tax rates as shown in the Track Record Period indefinitely and, at later stage, will be required to pay higher level of tax in respect of their operations in the PRC and in which case, our tax payments will be increased while earnings retained for Shareholders will be reduced.

Please refer to the paragraph headed "Financial information – Principal income statement – Income tax expenses components" for further information in this regard.

**Our Company may be subject to withholding tax on dividends received from the PRC subsidiaries**

We were incorporated in the Cayman Islands, and substantially all of our income will come from dividends that we receive from our PRC subsidiaries. Before the PRC EIT Law came into effect, dividends derived from our business operations in the PRC were not subject to income tax under PRC law. Under the PRC EIT Law, dividends payable to foreign investors that are "derived from sources within the PRC" may be subject to income tax at the rate of 5% by way of withholding, unless otherwise reduced by PRC laws, rules and regulations or through agreements between the PRC Government and the government of other countries or regions. Under the PRC EIT Law, equity investment income from sources within the PRC or a foreign territory, such as dividends and bonuses, will be recognized by reference to the locations in which the enterprises that distributed the dividends and bonuses are located. As a result, dividends payable to our foreign investors may be deemed as income derived from sources within the PRC.

**Gain on the sales of our Shares and dividends payables by us to our foreign investors may be subject to withholding tax under the PRC income taxes**

Under the PRC EIT Law, a PRC income tax at the rate of 10% is applicable to dividends payable to enterprise investors that are non-resident enterprises to the extent such dividends have their sources within the PRC. Similarly, any gain realized on the transfer of shares by such investors is also subject to a 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. If we are considered as a PRC resident enterprise by virtue of having our management in the PRC, it is unclear whether the dividends we pay with respect to our Shares, or the gain you may realize from the sale of our Shares, would be treated as income derived from sources within the PRC and therefore become subject to the PRC EIT Law. If we are required under the PRC EIT Law to withhold PRC enterprise income tax on our dividends payable to our foreign Shareholders, or if you are required to pay PRC enterprise income tax on the transfer of your Shares, the value of your investment in our Shares may be materially and adversely affected.

**Fluctuations in the exchange rates of the RMB may adversely affect our business**

The exchange rates between the RMB and the Hong Kong dollar, the U.S. dollar and other foreign currencies are affected by, among other things, changes in the PRC's political and economic conditions. In 2005, the PRC government changed its policy of pegging the value of the RMB to the U.S. dollar. Under that policy, the RMB is pegged against a basket of currencies, determined by the People's Bank of China ("PBOC"), against which it can rise or fall by as much as 0.5% each day. In late June 2010, the PBOC announced that it has decided to proceed further with reform of the RMB exchange rate regime and to enhance the RMB exchange rate flexibility. This signals that there may be additional policy changes relating to the RMB exchange rate regime.

There remains significant international pressure on the PRC government to adopt a more flexible policy, which could result in a further appreciation of the RMB against the U.S. dollar, the Hong Kong dollar or other foreign currency. As we rely on dividends paid to us by our operating subsidiaries, any significant revaluation of the RMB may have a material adverse effect on the value of dividends payable in foreign currency terms, and to the extent that we need to convert the proceeds from the [•••] and future financing into the RMB for our operations, appreciation of the RMB against the relevant foreign currencies would have an adverse effect on the RMB amount we receive from the conversion.

As our functional currency is RMB, such foreign currency-denominated cash and cash equivalents are exposed to fluctuations in the value of the RMB against the currencies in which these cash and cash equivalents are denominated. Any significant appreciation of the RMB against these foreign currencies may result in significant exchange losses.

Furthermore, any appreciation of the RMB increases our cost of production, and any devaluation of the RMB may adversely affect the value of our net assets in foreign currency terms.

**Government control of foreign currency conversion may affect the value of your investment**

The PRC Government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of the PRC. We receive all of our revenues in RMB. Under our current group structure, our Company's income is primarily derived from dividend payments from our subsidiaries in the PRC. Shortages in the availability of foreign currency may restrict the ability of our subsidiaries in the PRC to remit sufficient foreign currency to pay dividends or other payments to our Company, or otherwise satisfy their foreign currency denominated obligations, if any. Under existing PRC foreign exchange regulations, payments of certain current account items can be made in foreign currencies without prior approval from the local branch of the PRC State Administration of Foreign Exchange, or SAFE, by complying with certain procedural requirements. However, approval from appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as the repayment of bank loans denominated in foreign currencies. The restrictions on foreign exchange transactions under capital accounts could also affect the ability of our subsidiaries in the PRC to obtain foreign exchange through debt or equity financing, including by means of loans or capital contribution from us. The PRC Government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy the currency demands, our Company may not be able to pay dividends in foreign currencies to our Shareholders.

**It may be difficult to effect service of process upon us or our Directors who live in the PRC or to enforce against us or them in the PRC judgments obtained from non-PRC courts**

Our Company is incorporated in the Cayman Islands. A majority of our Directors are residents of the PRC. Our Company is a holding company, and a substantial proportion of the assets of our operating subsidiaries are located within the PRC. Therefore, it may be difficult for investors to effect service of process upon us or our Directors who live in the PRC or to enforce against us or them in the PRC any judgments obtained from non-PRC courts.

The PRC does not have treaties providing for the reciprocal enforcement of judgments of courts with Japan, the United Kingdom, the United States or most other developed countries. Accordingly, it may be difficult to secure recognition and enforcement in the PRC for court judgments obtained in other jurisdictions and to access our assets in the PRC in order to enforce judgment awards entered against us outside of the PRC. Therefore, it may be difficult for you to enforce against us, or our Directors in the PRC, any judgments obtained from non-PRC courts.

**Our corporate structure may restrict our ability to receive dividends from, and transfer funds to, our PRC operating subsidiaries, which could restrict our ability to act in response to changing market conditions in a timely manner**

Our Company is a Cayman Islands holding company and substantially all of our operations are conducted through our PRC operating subsidiaries. The ability of our PRC operating subsidiaries to make dividend and other payments to us may be restricted by factors that include changes in applicable foreign exchange and other laws and regulations. In particular, under PRC law, each of our PRC operating subsidiaries may only pay dividends after 10% of its net profit has been set aside as reserve funds, unless such reserves have reached at least 50% of its registered capital. In addition, the profit available for distribution from our PRC operating subsidiaries is determined in accordance with generally accepted accounting principles in the PRC. This calculation may differ if it were performed in accordance with HKFRS. As a result, we may not have sufficient distributions from our PRC operating subsidiaries to enable necessary profit distributions to our Shareholders in the future, which would be based upon our financial statements prepared under HKFRS.

Distributions by our PRC operating subsidiaries to us other than as dividends may be subject to governmental approval and taxation. Any transfer of funds from our Company to our PRC operating subsidiaries, either as a shareholder loan or as an increase in registered capital, is subject to registration or approval of PRC governmental authorities, including the relevant administration of foreign exchange and/or the relevant examining and approval authority. These limitations on the free flow of funds between us and our PRC subsidiaries could restrict our ability to act in response to changing market conditions in a timely manner.

# DIRECTORS AND OTHER PARTIES

## DIRECTORS

| Name | Address | Nationality |
|---|---|---|
| ***Executive Directors*** | | |
| Mr. Chao Pang Ieng (周鵬鷹) (alias: Zhou Peng Ying) | [Praca Lobo De Avila<br>No. 22<br>9 Andar, B9<br>Edif. Regent<br>Macau] | [Chinese] |
| Ms. Zhou Zheng Bin (周鄭斌) (formerly known as Zheng Bin (鄭斌)) | Praca Lobo De Avila<br>No. 22<br>9 Andar, B9<br>Edif. Regent<br>Macau | [Chinese] |
| Ms. Chen Fen (陳蕡) | 2-203 Lan Yue Wan Pan<br>Dongbin Road, Nanshan District<br>Shenzhen, Guangdong Province, the PRC | [Chinese] |
| Mr. Zuo Ji Lin (左際林) | Room 504, Unit B<br>Building 19, Hui Feng Yuan,<br>[Chuzhou City Development Zone]<br>Chuzhou City, Anhui Province, the PRC | [Chinese] |
| ***Independent non-executive Directors*** | | |
| Mr. Chan Chun Chi (陳駿志) | 1/F, 52 Fung Chi Tsuen, Yuen Long<br>New Territories, Hong Kong | Chinese |
| Mr. Yu Xi Chun (虞熙春) | 108, Block 6, South Zone<br>Tai Ran Plaza<br>Futian District, Shenzhen<br>Guangdong Province, the PRC | Chinese |
| Mr. Wu Hao Tian (吳昊天) | 202, Building 12, Phase 1<br>China Travel International Mansion<br>Nongyuan Road, Futian District,<br>Shenzhen, Guangdong Province<br>the PRC | [Chinese] |

# CORPORATE INFORMATION

| | |
|---|---|
| **Registered Office** | Clifton House, 75 Fort Street<br>PO Box 1350, Grand Cayman KY1-1108<br>Cayman Islands |
| **Headquarter and Principal Place of Business in Hong Kong** | Unit No. 2118, 21st Floor<br>China Merchants Tower<br>Shum Tak Centre<br>Nos. 168-200 Connaught Road Central |
| **Company Website** | http://www.jinbaobao.com.hk<br>*(information contained in this website does not form part of this document)* |
| **Company Secretary** | Mr. Tsoi Ka Shing (蔡嘉誠) |
| **Authorized Representatives** | Mr. Chao Pang Ieng (周鵬鷹)<br>Praca Lobo De Avila<br>No. 22<br>9 Andar, B9<br>Edif. Regent<br>Macau<br><br>Mr. Tsoi Ka Shing (蔡嘉誠)<br>1/F., 51 Sheung Wo Che<br>Shatin, New Territories<br>Hong Kong |
| **Audit Committee** | Mr. Chan Chun Chi (陳駿志) *(Chairman)*<br>Mr. Yu Xi Chun (虞熙春)<br>Mr. Wu Hao Tian (吳昊天) |
| **Remuneration Committee** | Mr. Chao Pang Ieng (周鵬鷹) *(Chairman)*<br>Mr. Chan Chun Chi (陳駿志)<br>Mr. Wu Hao Tian (吳昊天) |
| **Nomination Committee** | Ms. Chen Fen (陳蕡) *(Chairperson)*<br>Mr. Yu Xi Chun (虞熙春)<br>Mr. Wu Hao Tian (吳昊天) |

# CORPORATE INFORMATION

| | |
|---|---|
| **Principal Bankers** | **Bank of China Limited**<br>Chuzhou branch<br>15 Langya Road<br>Chuzhou City<br>Anhui Province<br>the PRC |
| | **China Construction Bank Corporation**<br>Mianyang branch<br>26 Huoju Bei Road<br>Mianyang State High Technology Industrial Development Zone<br>Mianyang City<br>Sichuan Province<br>the PRC |

*This section contains certain information which is derived from official government publications and industry sources as well as a report we commissioned from Synovate, an Independent Third Party. We believe that the sources of the information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. While we have exercised reasonable care in compiling and reproducing such information from official government publications, it has not been independently verified by us, or any of our affiliates or advisors, nor by [•••], the [•••] or any of their affiliates or advisors or any other party involved in the [•••]. The information from official government publications may not be consistent with information available from other sources within or outside the PRC. Our Group, its affiliates or advisors, the [•••] or their affiliates or advisors, or any other party involved in the [•••] do not make any representation as to the accuracy, completeness or fairness of such information from official government publications and, accordingly, you should not unduly rely on such information from official government publications.*

## ELECTRICAL APPLIANCES PACKAGING PRODUCT MANUFACTURING INDUSTRY IN CHINA

### Overview of Electrical Appliances Packaging Product Manufacturing Industry

The electrical appliances packaging product manufacturing industry primarily serves the electrical appliances manufacturers by supplying EPS made products and solutions to package electrical appliances including televisions, air-conditioners, refrigerators, washing machines etc. The market has more than 500 EPS packaging product manufacturers for electrical appliances in China, which most of them are located around the electrical appliances manufacturers in Pearl River Delta, Yangtze River Delta, and Bohai regions. Recently, as the production cost including the labor cost along the coastal regions has been increasing, the electrical appliances manufacturers have been moving some of their production bases westwards. The electrical appliances packaging product manufacturers follow their customers to move their key production bases to central and western China. Despite the moving trend, Pearl River Delta, Yangtze River Delta, and Bohai regions combined is still the key site for the electrical appliances products demand, which accounts for about 70% of the total televisions production, about 84% of the total air-conditioner production, about 71% of the total refrigerator production, about 75% of the total washing machine production in China in 2009. According to Synovate, we accounted for approximately [47]% of the EPS packaging for electrical appliances in Chuzhou City, Anhui Province, approximately [70]% in Sichuan Province and Chongqing municipality and approximately [4.3]% in the PRC in 2010.

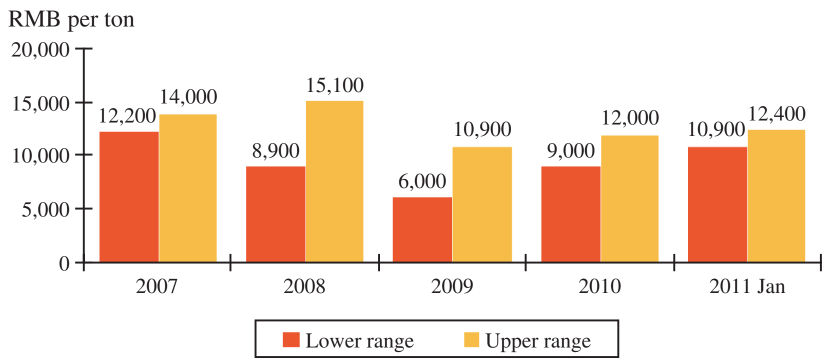
### EPS Packaging Materials for Manufacturing

EPS is a key raw material that is used in the manufacturing of packaging products. The supply of EPS materials is currently sufficient to fulfill the production demand in China. The output value of EPS materials has reached about 2.2 million tonnes in 2010, which increased by about 22% compared to that of 2009. Across the same period, the utilization rate of EPS production is about 53% on average.

The EPS material production base is mainly located in Jiangsu province, which has the advantage of logistics due to the well-developed packaging industry in the area. Restricted by raw materials supply and investment, EPS suppliers are about 20 in number having over 15 thousand tonnes of production capacity.

The average price of EPS has been fluctuated between the range of about RMB6,000 per tonne and about RMB15,100 per tonne across the period of 2007 to 2010. The graph below sets out the average price range of EPS on a yearly basis from 2007 to 2010 and the average price range of EPS during January of 2011.

**The Historical Trend for Price Range of EPS**




*Sources: EPS Committee of China Plastic Association; Synovate report*

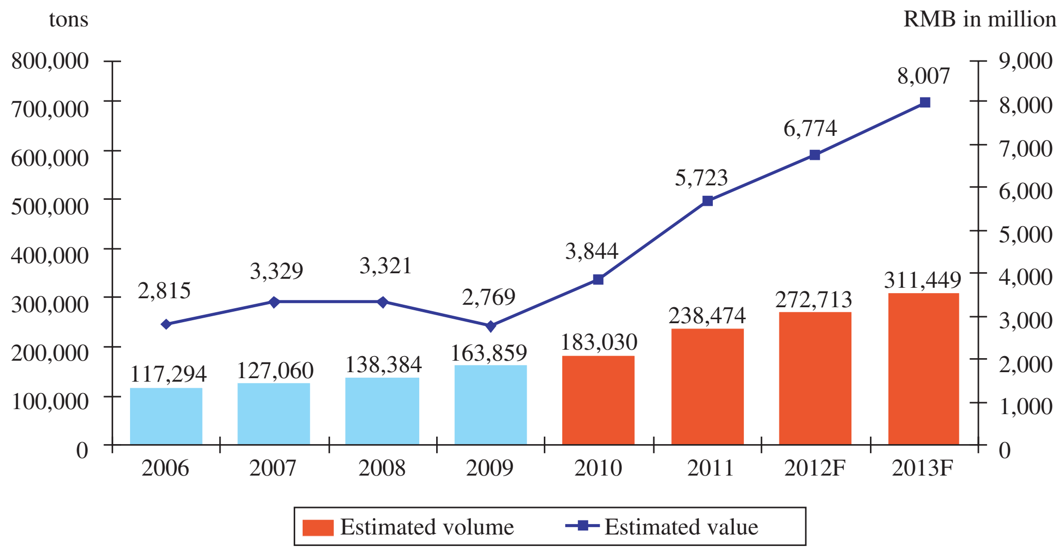
The lowest average price of EPS since 2007 was recorded in early 2009, which was impacted by the financial crisis due to the decrease in the demand for electrical appliances packaging. The stimulus policy of the government drove the recovery of the economy and the need for EPS soon after the financial crisis. The highest average price of EPS during the period was recorded in June 2008, which was affected by the strong demand for the electrical appliances packaging. The average price of EPS has maintained at the level of about RMB10,000 to RMB12,000 per tonne because of the steady surplus over demand, with the needs from insulation industry as well.

**Overview of EPS Packaging Products Manufacturing market for Electrical Appliances**

The EPS packaging product manufacturing market for electrical appliances is mainly driven by the market demand of large-sized appliances including air-conditioners, televisions, refrigerators, and washing machines, which EPS packaging products wrapped over these appliances to absorb shock during the delivery. The market demand for these appliances was highly impacted by the economic dynamics and government policy in China. The economy of China grew rapidly over the rate of 8.7% between 2006 and 2009, during which the increasing wealth of Chinese and rapid urbanization of rural areas in China had driven the increase in the consumption of electrical appliances at the CAGR of about 15.3%, reaching about RMB 359 per household in 2009. The ‘Rural Area Subsidized Electrical Appliances Purchase Policy’, ‘Home Appliances Replacement Policy’, and ‘Energy Efficient Product Subsidy Policy’ further encouraged the consumption.

In line with the increasing demand for electrical appliances, the market of EPS packaging products for electrical appliances grew strongly from about 117 thousand tonnes in 2006 to about 183 thousand tonnes of output volume in 2010, at the CAGR of about 11.8% across the period. On the other hand, as the market was affected by the global economic downturn and rising of the fierce competition in 2009, the output value of the market maintained at the level of about RMB2.8 billion in 2006 to 2009, at the CAGR of about -0.5% and surged to about RMB3.8 billion in 2010. The graph below sets out the output volume and value of EPS packaging products manufacturing industry for electrical appliances packaging in China from 2006 to 2013.

**Output Volume and Value of EPS Packaging Products Manufacturing Industry for Electrical Appliances Packaging in China**




*Note: Electrical appliances of the above data and analysis is focused on 4 categories including (1) Television, (2) refrigerator, (3) washing machine and (4) air-conditioner*

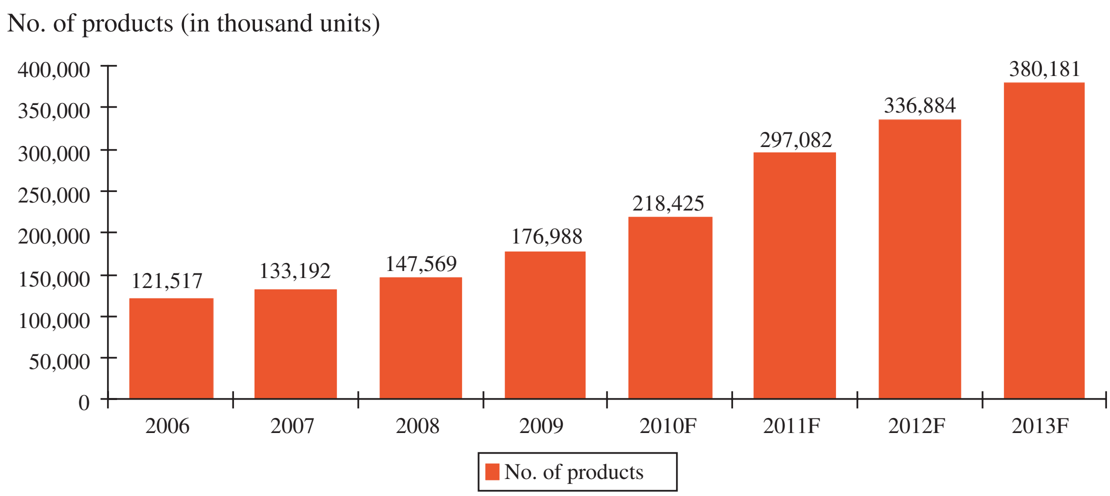
*Sources: Synovate report*

The electrical appliances domestic sales volume increased at about 13.4% annually, which was faster than the output volume of EPS packaging products for these appliances. The increasing consumption of LCD Television replacing the decreasing consumption of cathode ray tube television (from about 93% to 38% of the total televisions) caused the saving of EPS material packaging. It is expected that the output volume and value of EPS packaging products for electrical appliances will increase at CAGR of about 14.3% and 18.3% from 2010 to 2013 respectively, because of (i) the government's policy to stimulate the demand for electrical appliances, (ii) the rapid speed of urbanization, (iii) the increasing income and wealth of Chinese people driving further the future consumption of home electrical appliances, (iv) the inflation and increase in costs of materials and manufacturing overhead, (v) the increase in manufacturing output of electrical appliances, and (vi) the recovery of export market due to the recovery of the global economy.

**Electrical Appliances Demand for EPS Packaging Products**

The estimated number of electrical appliances (Television, refrigerator, washing machine, and air-conditioner) that need EPS packaging products in China increased significantly from about 122 million units in 2006 to about 218 million units in 2010, at the CAGR of about 15.8% across the period. The significant growth was because of the higher performance of shock absorption and lower production and logistics costs compared to other alternative packaging products such as EPE and cardboard. Enhancement to increase the recyclable rate of EPS materials and the launch of innovative EPS resin were also favorable to the growth of the demand for EPS packaging products. These have caused the growth of the demand for EPS packaging products in China and it is expected it will grow more significantly from 2011 to 2013, with the CAGR of about 13.1%. The graph below sets out the estimated number of electrical appliances that need EPS packaging products in China from 2006 to 2013.

**Number of Electrical Appliances that Need EPS Packaging Products in China**




*Notes: The above data and analysis is focused on 4 categories of the electrical appliances including (1) Television, (2) refrigerator, (3) washing machine and (4) air-conditioner*

*Sources: Synovate report*

The demand from the four types of electrical appliances increased at CAGR of about 15.8% across the period from 2006 to 2010 caused the total growth. Among the four types of electrical appliances, refrigerator had the most significant growth during the period at the CAGR of 27.9%, and was followed by washing machine, at the CAGR of about 17.1%. The third place was air-conditioner, at the CAGR of about 14.5%; while the least was Television, at the CAGR of about 8.6%. The table below sets out the estimated number of electrical appliances that need EPS packaging products by product type in China from 2006 to 2010.

**Number of Electrical Appliances that Need EPS Packaging Products by Product Type in China (2006-2010)**

| Rank | 2006 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | Electrical appliances products | No. of products (thousand units) | Percentage to the total (%) | Electrical appliances products | No. of products (thousand units) | Percentage to the total (%) |
| 1 | Air-conditioner | 41,839 | 34.4 | Air-conditioner | 48,156 | 36.2 |
| 2 | Television | 37,364 | 30.7 | Television | 33,750 | 25.3 |
| 3 | Washing machine | 23,525 | 19.4 | Washing machine | 26,643 | 20.0 |
| 4 | Refrigerator | 18,789 | 15.5 | Refrigerator | 24,643 | 18.5 |
| Total | | 121,517 | 100.0 | | 133,192 | 100.0 |
| Rank | 2008 | | | 2009 | | |
| | Electrical appliances products | No. of products (thousand units) | Percentage to the total (%) | Electrical appliances products | No. of products (thousand units) | Percentage to the total (%) |
| 1 | Air-conditioner | 49,547 | 33.6 | Air-conditioner | 57,033 | 32.2 |
| 2 | Television | 40,491 | 27.4 | Television | 43,348 | 24.5 |
| 3 | Washing machine | 29,789 | 20.2 | Refrigerator | 40,578 | 22.9 |
| 4 | Refrigerator | 27,742 | 18.8 | Washing machine | 36,029 | 20.4 |
| Total | | 147,569 | 100.0 | | 176,988 | 100.0 |
| Rank | 2010 | | | | | |
| | Electrical appliances products | No. of products (thousand units) | Percentage to the total (%) | | | |
| 1 | Air-conditioner | 71,999 | 33.0 | | | |
| 2 | Refrigerator | 52,020 | 23.8 | | | |
| 3 | Washing machine | 50,218 | 23.0 | | | |
| 4 | Television | 44,188 | 20.2 | | | |
| Total | | 218,425 | 100.0 | | | |

*Notes: The above data and analysis is focused on 4 categories of the electrical appliances including (1) Television, (2) refrigerator, (3) washing machine and (4) air-conditioner*

*Sources: Synovate report*

Among the four types of electrical appliances, air-conditioner was the top one that needed EPS packaging products from 2006 to 2010, and was followed by Television; both together were accounted for ranging from about 56.7% to 65.1% of the total market share of the four types of electrical appliances that needed EPS packaging products in China across the period. The increasing wealth of Chinese household, government policy encouragement, and global warming caused the strong demand for air-conditioners, while Beijing Olympic Games in 2008 motivated the fast growth of Television demand, which saw the fastest growth rate of about 20.0% in 2009. The demand for air-conditioner and Television had been impacted by the stronger demand growth from refrigerator and washing machine, which were driven by the rapid urbanization of rural areas in China and the government subsidy policy. The estimated number of refrigerator that needed EPS packaging products increased from about 18.8 million units in 2006 to about 50.2 million units in 2010, which show the strongest growth and was close to the demand from Television. The estimated number of washing machine that needed EPS packaging products increased from about 23.5 million units in 2006 to reach about 44.2 million units in 2010.

The demand for EPS packaging products among the four types of electrical appliances (Television, refrigerator, washing machine, and air-conditioner) is expected to show an optimistic growing trend because of (i) the replacement from urban households and new demand from rural households in China, (ii) the expansion of electrical appliances sales network by retailers in China, (iii) the increase in income level and living standard in China, and (iv) the increase in export to overseas. The table below sets out the estimated number of electrical appliances that need EPS packaging products by product type in China from 2011 to 2013.

**Number of Electrical Appliances that Need EPS Packaging Products by Product Type in China (2011-2013)**

| Rank | 2011 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Electrical appliances products | No. of products (thousand units) | Percentage to the total (%) | Electrical appliances products | No. of products (thousand units) | Percentage to the total (%) |
| 1 | Air-conditioner | 103,738 | 34.9 | Air-conditioner | 114,861 | 34.1 |
| 2 | Refrigerator | 76,636 | 25.8 | Refrigerator | 81,557 | 24.2 |
| 3 | Washing machine | 62,608 | 21.1 | Washing machine | 77,538 | 23.0 |
| 4 | Television | 54,100 | 18.2 | Television | 62,928 | 18.7 |
| Total | | 297,082 | 100.0 | | 336,884 | 100.0 |

| Rank | 2013 | | |
|---|---|---|---|
| | Electrical appliances products | No. of products (thousand units) | Percentage to the total (%) |
| 1 | Air-conditioner | 127,160 | 33.5 |
| 2 | Refrigerator | 95,501 | 25.1 |
| 3 | Washing machine | 84,356 | 22.2 |
| 4 | Television | 73,164 | 19.2 |
| Total | | 380,181 | 100.0 |

*Notes: The above data and analysis is focused on 4 categories of the electrical appliances including (1) Television, (2) refrigerator, (3) washing machine and (4) air-conditioner*

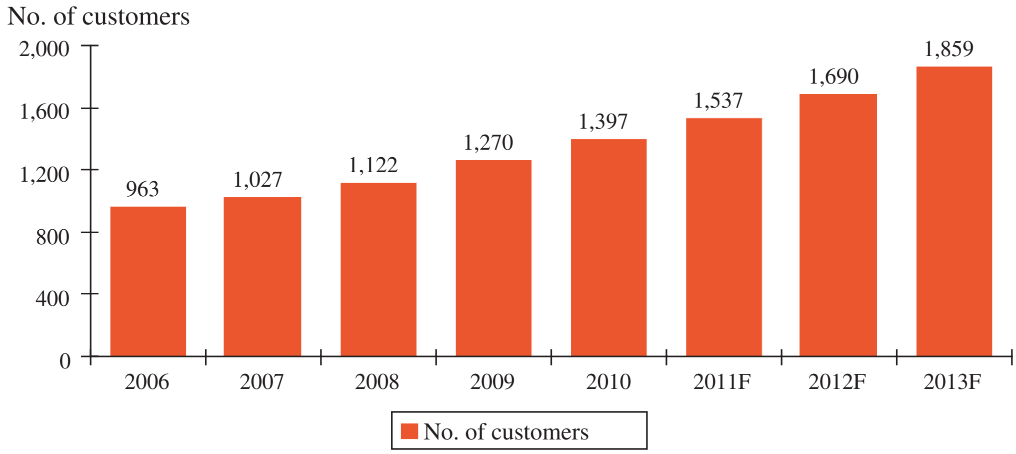
*Sources: National Statistics Bureau of PRC; Synovate report*

During the period of 2006 to 2013, refrigerator and washing machine have shown the most muscular growth in demand for EPS packaging products in China, at CAGR of about 26.2% and 17.6% respectively. The ownership of refrigerator and washing machine per 100 rural households was only about 37.1 and 53.1 respectively in 2009. As the income level of Chinese in rural area increases and subsidized electrical appliances purchase policy is executed, it is expected the demand for refrigerator and washing machine will grow further among the rural households.

**Electrical Appliances Customer Base of EPS Packaging Products**

The size of electrical appliances customer base of EPS packaging products grew steadily, with the number of customers, electrical appliances manufacturers, increasing from about 963 players in 2006 to about 1,397 players in 2010, at the CAGR of about 9.8%. The size will further increase to about 1,859 players in 2013, at the CAGR of about 10.0% from 2011 to 2013. The graph below sets out the number of customers (electrical appliances manufacturers) that need EPS packaging product in China from 2006 to 2013.

**Number of Customers (Electrical Appliances Manufacturers) that Need EPS Packaging Product in China**




*Notes: The above data and analysis is focused on 4 categories of the electrical appliances including (1) Television, (2) refrigerator, (3) washing machine and (4) air-conditioner*

*Sources: National Statistics Bureau of PRC; Synovate report*

The huge domestic demand size and the sufficient supply of labors induced from about 1.3 billion Chinese population attracted the move and setup of electrical appliances production bases in China, which caused the growth of number of customers for EPS packaging products from 2006 to 2010. These production bases are mostly located at Pearl River Delta, Yangtze River Delta, Bohai regions including Anhui, Hefei, Nanchong, Jiangxi, Hubei, and Wuhan, Chengdu, Sichuan, Chongqing. Due to the continuous trend of huge domestic demand in the future, the number of customers for EPS packaging products for electrical appliances will grow steadily by following the current trend.

Customers expect EPS packaging product manufacturers to provide lower cost with qualified and consistent EPS packaging products, timely services, total EPS packaging solution, and localized supply. They have high concern about the operation cost control without the quality distortion to their electrical appliances products.

**Market Competition and Trend of EPS Packaging Products**

The market of EPS packaging products for electrical appliances is fragmented with many packaging products manufacturers in place. The top 10 market leaders shared about 35.0% of the total market share in China in 2010, as they were able to gain their places through their advantage in production capacity, technology and capital power to compete on network of distribution, price, and stable quality. They have squeezed the smaller-sized players to face greater challenges on survival and maintaining good operation. In particular, there are about 30 packaging manufacturers in Chuzhou City, Anhui Province, 150 packaging manufacturers in Sichuan Province and Chongqing municipality. According to Synovate, we accounted for approximately 47% of the EPS packaging for electrical appliances in Chuzhou City, Anhui Province approximately 70% in Sichuan Province and Chongqing municipality and approximately 4.3% in the PRC. Given that EPS packaging products are relatively large and rigid, the transportation cost over long distance can be high. As such, electrical appliances manufacturers will likely select EPS packaging product suppliers near to their production base. The table below sets out the revenue of the top 10 EPS packaging product suppliers for electrical appliances in China in 2010.

**Market Share of the Top 10 EPS Packaging Products Suppliers in terms of Revenue for Electrical Appliances in China in 2010**

| Rank | Name of Company | Revenue (RMB million) | Market Share of Revenue (%) |
|---|---|---|---|
| 1 | Company A | 447 | 11.6% |
| 2 | Company B | 316 | 8.2% |
| 3 | Our Company | 166 | 4.3% |
| 4 | Company C | 128 | 3.3% |
| 5 | Company D | 90 | 2.3% |
| 6 | Company E | 70 | 1.8% |
| 7 | Company F | 54 | 1.4% |
| 8 | Company G | 50 | 1.3% |
| 9 | Company H | 48 | 1.3% |
| 10 | Company I | 47 | 1.2% |
| | Subtotal of top 10 companies | 1,416 | 36.7% |
| | Others | 2,428 | 63.3% |
| | Total | 3,844 | 100.0% |

*Notes: The above data and analysis is focused on 4 categories of the electrical appliances including (1) Television, (2) refrigerator, (3) washing machine and (4) air-conditioner*

*Sources: Synovate report*

The EPS packaging product manufacturers for electrical appliances will go for international by increasing the interactions with international packaging manufacturers to develop the business cooperation relationship, and to introduce the foreign capital, advanced technology, and management experiences to accelerate the enhancement of EPS packaging industry for electronic appliances in China. As the electrical appliances manufacturers are exporting their products outside China, their products including the packages of electrical appliances must meet the international standards or the standards of the importing countries.

The role of EPS packaging product manufacturers in China are turning from purely manufacturers to total EPS packaging solution providers, by providing an integrated production and services from packaging product design, production, packaging the electrical appliances products, warehousing and storage of packed electrical appliances products, and transporting and distributing these packed products to the assigned destinations.

As the production technology has been enhanced, the advancement of lightweight EPS product has been one of the key focuses for the electrical appliances packaging. For example, the EPS packaging for a window air-conditioner has been improved to save the weight of the EPS packaging product by about 50%. The other important focus has been on the products and production of 'low-carbon, eco-design' for the electrical appliances packaging, which the products are in recyclable and biodegradable materials, in order to maintain the sustainability of the business.

As advised by Synovate, packaging products that meet any of the characteristics namely, 'reduce' (減量化), 'reuse' (復用), 'recover' (回收) and 'recycle' (再生) are considered, to be friendly to the environment. Enhancement EPS packaging production and recyclability of EPS packaging products will be tried and used to compete with the alternative materials such as plant fiber and paper. Lighter materials such as EPO, will be tried and used in the future to reduce the delivery cost, and the new ingredients added to EPS will be used to shorten the production time.

EPO has been developed to be the alternatives to EPS in packaging electrical appliances, mainly for the packaging of LCD and plasma televisions and other high-end fragile electrical appliances, and be the alternative component in air conditioners and washing machines to absorb shock. EPO maximizes the advantages of EPS to possess the toughness and multi-shock resistance, which reduces the package volume; it has higher reusing and recycling rates. However, the price of EPO packaging products is usually 3 to 4 times higher than that of EPS packaging products, and thus, EPS will still be in the mainstream and growing usage for the electronic appliances packaging for the next 3 to 5 years.

*Note*

On 5 January 2011, we engaged Synovate to undertake a market survey on the packaging products manufactured for packaging consumer electrical appliances including televisions, air conditioners, washing machines and refrigerators in the PRC at a fee of approximately HK$[328,000]. The findings of the market survey are set out in a report issued by Synovate. Our Directors confirm that Synovate, including all of its subsidiaries, divisions and units, is independent of and not connected with us in any way. Synovate, on behalf of itself, its subsidiaries, divisions and units, confirms that the market survey report was prepared in its ordinary course of business, and has given its consent for us to quote from the market survey report and to use information contained in the report in this document.

The information contained in the Synovate report is derived by means of data and intelligence gathering methodology which includes (i) desk research conducted by Synovate including specialised industry literature, government/regulatory sources, online data sources, third-party reports and surveys, industry reports and analyst reports, industry associations and the database maintained by Synovate; and (ii) primary research by having interviews with key stakeholders and industry experts, including consumer electrical manufacturers, packaging materials suppliers and packaging products manufactures in the PRC.

Synovate was formed in 2003 and is a research institute with close to 6,000 employees worldwide and coverage in over 100 cities spanning over 62 countries. It is a market research unit of Aegis Group plc, a company listed on the London Stock Exchange. Synovate engaged in the provision of various services including market survey, market profiling, market sizing, share and segmentation analysis, distribution and value analysis, competitor tracking and corporate intelligence.

We have disclosed certain information extracted from the market survey report in the sections headed "Summary", "Industry overview", "Business" and "Financial information" in this document.

## REGULATORY OVERVIEW

Our business and operations are principally based in the PRC. This section sets forth a summary of the most significant regulations or requirements that affect our Group's business activities in the PRC and the Shareholders' right to receive dividends and other distributions from our Group.

The PRC legal advisor of the Company, Shu Jin Law Firm, is of opinion that, each of our PRC subsidiaries are required to comply with the Company Law of the PRC (中華人民共和國公司法), the Law on Foreign-owned Enterprises of the PRC (中華人民共和國外資企業法), the Guidance Catalog of Industries for Foreign Investment (外商投資產業指導目錄), the Regulation on Guiding the direction of Foreign Investment (指導外商投資方向規定), the Regulation of the PRC on Foreign Exchange Administration (中華人民共和國外匯管理條例), the Product Quality Law of the PRC (中華人民共和國產品質量法), the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) and the Environmental Protection Law of the PRC (中華人民共和國環境保護法) in respect of our operations in the PRC. Any non-compliance with these laws and regulations could result in [confiscation of illegal income, payment of penalty of up to RMB500,000, revocation of business license or criminal prosecution].

The PRC legal advisor of the Company, Shu Jin Law Firm, is of opinion that, save as disclosed in the section headed "Business – Regulatory compliance – Social security insurance and housing provident fund contributions", our PRC subsidiaries have complied in all material aspects with relevant regulatory requirements set out below.

## LAWS AND REGULATIONS RELATING TO FOREIGN INVESTMENT

The establishment and management of companies in the PRC are governed by the Company Law of the PRC (中華人民共和國公司法) (the "Company Law") which was enacted by the Standing Committee of the National People's Congress (全國人民代表大會常務委員會) (the "Standing Committee of NPC") on 29 December 1993 and was implemented on 1 July 1994. The Standing Committee of NPC amended the Company Law on 25 December 1999, 28 August 2004 and 27 October 2005 respectively. The Company Law provides the establishment, corporate structure and corporate management of companies. The Company Law also applies to foreign-invested enterprises. Where laws and regulations relating to foreign-invested enterprises otherwise stipulate, such stipulations shall apply.

Wholly foreign-owned enterprises are governed by the Law on Foreign-owned Enterprises of the PRC (中華人民共和國外資企業法) (the "Foreign-owned Enterprise Law") and its implementation rules. The Foreign-owned Enterprises Law was adopted at the 4th Meeting of the Sixth National People's Congress (第六屆全國人民代表大會第四次會議) on 12 April 1986 and was amended by the Standing Committee of NPC on 31 October 2000. The establishment procedures, approval procedures, registered capital and corporate structure of sino-foreign equity joint ventures and wholly foreign-owned enterprises are regulated by the above mentioned laws and regulations.

Foreign investors shall also abide by Guidance Catalog of Industries for Foreign Investment (外商投資產業指導目錄) (the "Catalog") and the Regulation on Guiding the Direction of Foreign Investment (指導外商投資方向規定) (the "Regulation"). The Catalog was promulgated on 28 June 1995 and was revised in 1997, 2002 and 2004. The currently effective Catalog was promulgated by the Ministry of Commerce of the PRC (中華人民共和國商務部) and the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) (the "NDRC") on 31 October 2007, while the Regulation was promulgated by the State Council on 11 February 2002 and effective as of 1 April 2002. The Regulation classifies industries into four categories: encouraged, permitted, restricted and prohibited. Except otherwise stipulated by other laws and regulations, foreign investors are permitted to invest in industries which are not in the restricted or prohibited categories.

The Ministry of Commerce or the relevant local authorities are responsible for approving the relevant joint venture contracts, articles of association of the foreign invested enterprises and other substantial changes to the foreign-invested enterprises, such as changes in capital, equity transfer and consolidation.

## LAWS AND REGULATIONS RELATING TO FOREIGN EXCHANGE

The principal law governing foreign currency exchange in the PRC is the Regulation of the PRC on Foreign Exchange Administration (中華人民共和國外匯管理條例) (the Foreign Exchange Rules). The Foreign Exchange Rules was enacted by the State Council of the PRC (中華人民共和國國務院) (the State Council) on 29 January 1996 and implemented on 1 April 1996. On 14 January 1997 and 1 August 2008 the State Council amended the Foreign Exchange Rules. According to the currently effective Foreign Exchange Rules, international payment in foreign exchange and transfer of foreign exchange under current items shall not be restricted. The foreign exchange income of a domestic institution or individual may be transferred back into the PRC or deposited overseas, the specific conditions and term requirements of which shall be determined by the foreign exchange administrative department of the State Council in light of the balance of payments and the foreign exchange administrative requirements. An overseas institution or individual that makes direct investments in the PRC shall handle the registration formalities at a foreign exchange administrative organ upon the approval of the competent department. A domestic institution or individual that makes direct investment or issues or trades negotiable securities or derivative products overseas shall handle the registration formalities at the foreign exchange administrative department of the State Council. If the relevant state provisions require the approval or registration of the competent department, such approval or registration shall be obtained before handling the registration formalities. As the capital injection from foreign shareholders into our PRC subsidiaries involves foreign exchange and the Company is engaged in exporting, the PRC legal advisor of the Company, Shu Jin Law Firm, is of opinion that such laws and regulations relating to foreign exchange shall apply to us and our PRC subsidiaries.

## LAWS AND REGULATIONS RELATING TO DIVIDEND DISTRIBUTION

The principal regulations governing distribution of dividends paid by PRC enterprise include (i) the Company Law; (ii) the Foreign-owned Enterprise Law; (iii) the Rules for Implementation of the Law of PRC on Foreign-owned Enterprise (中華人民共和國外資企業法實施細則); (iv) the JV Law and the Rules for Implementation of the Law of PRC on Sino-Foreign Equity Joint Ventures. Under the above laws and regulations, domestic companies and foreign-owned enterprises in the PRC may pay dividends only from accumulated after-tax profits, if any, determined in accordance with the PRC accounting standards and regulations. In addition, such enterprises are required to set aside at least 10% of their after-tax profits each year, if any, to fund certain reserve funds. These reserves are not distributable as cash dividends. Under the relevant PRC laws, no net assets other than the accumulated after-tax profits can be distributed in the form of dividends.

## LAWS AND REGULATIONS RELATING TO PRODUCT QUALITY

On 22 February 1993 the Standing Committee of NPC enacted Product Quality Law of the PRC (中華人民共和國產品質量法), which was revised on 8 July 2000 by the Standing Committee of NPC. The said law stipulates that producers shall be responsible for compensating for damages to the person or property caused by the following defective products. Where the case is severe enough to constitute a crime, criminal responsibility shall apply.

(a) The product sold does not have the attribute or function that it should have, and there was no advance explanation or statement made to that effect;

(b) The product sold does not comply with the adopted standards indicated on the product or its package; or

(c) The product sold does not comply with similar product quality as indicated by means of product instruction or sample.

On 7 November 1997 the former bureau of technical supervision of the State issued the Product Labeling Requirement (the "Requirement"). Pursuant to the Requirement manufacturers and sellers of products must properly label their products, for example, in respect of information on quality inspection certificates and address of the major manufacturing facilities.

## LAWS AND REGULATIONS RELATING TO TAXATION

### Income Tax

Prior to 1 January 2008, Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises (中華人民共和國外商投資企業和外國企業所得稅法) and its implementation rules applied to foreign-invested enterprises. According to the said law, any enterprise with foreign investment of a production nature scheduled to operate for a period of not less than ten years shall, from the year beginning to make profit, be exempted from income tax in the first and second years and allowed a fifty percent reduction in the third to fifth years.

Pursuant to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the "New Tax Law") and its implementation rules, which became effective on 1 January 2008, tax payers are divided into resident enterprise and non-resident enterprise. A resident enterprise refers to an enterprise that is established inside the PRC, or which is established under the law of a foreign country (region) but whose actual institution of management is inside the PRC. A resident enterprise shall pay the enterprise income tax on its incomes derived from both inside and outside the PRC at the rate of 25%. A non-resident enterprise refers to an enterprise established under the law of a foreign country (region), whose actual institution of management is not inside the PRC but which has offices or establishments inside the PRC; or which does not have any offices or establishments inside the PRC but has income sources in the PRC. A non-resident enterprise having offices or establishments inside the PRC shall pay enterprise income tax on its incomes derived from the PRC as well as on incomes derived from outside the PRC but which has real connection with the said offices or establishments at the rate of 25%. A non-resident enterprise having no office or establishment inside the PRC, or whose incomes have no actual connection to its institution or establishment inside the PRC shall pay enterprise income tax on the incomes derived from the PRC at the rate of 10%.

Pursuant to the Notice on the Policy of Enforcing Transitional Preferential Treatment of Enterprise Income Tax (國務院關於實施企業所得稅過度優惠政策的通知) promulgated on 26 December 2007, for the enterprises that were established prior to the promulgation of the New Tax Law and enjoyed lower tax rates according to the provisions of the previous tax laws and regulations, their income tax rates shall be gradually transferred to the tax rate provided in the New Tax Law within five years after the New Tax Law taking effect. The enterprises that have enjoyed the preferential treatment of tax exemption for a fixed term may, according to the provisions of the State Council, continue to enjoy such treatment after the promulgation of the New Tax Law until the fixed term expires. In particular, enterprises which were subject to an income tax rate of 15% would be subject to an income tax rate of 18% in 2008, increasing to 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012. Enterprises which are enjoying two years of 100% exemption and three years of 50% reduction on tax payments may continue to enjoy such exemption and reduction until the term of such privilege expires. However, for those that have failed to enjoy the preferential treatment due to failure to make profits, the term of preferential treatment may be counted as of the year when the New Tax Law takes effect.

## VAT

On 13 December 1993 the State Council promulgated Interim Regulation of the PRC on Value Added Tax (中華人民共和國增值稅暫行條例) (the "VAT Interim Regulation"). On 5 November 2008 the State Council amended the VAT Interim Regulation which became effective on 1 January 2009. Pursuant to the VAT Interim Regulation, entities and individuals engaged in the sale of goods, supply of processing, repair and replacement services, and import of goods in the PRC are taxpayers of value added tax and shall pay value added tax at the rate of 17% unless otherwise stipulated.

## LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

The principal laws and regulations governing environmental protection in the PRC that are applicable to the Company's PRC subsidiaries are Environmental Protection Law of the PRC (中華人民共和國環境保護法) and the Administrative Regulations on Environmental Protection for Construction Project (建設項目環境保護管理條例). Construction projects shall conduct assessment of environmental impact, obtain approval on such assessment and be examined and considered up to the environmental protection standard. Prior to the construction of new facilities or expansion or transformation of existing facilities that may cause a significant impact on the environment, a report on the environmental impact of the construction project shall be submitted to the relevant environmental protection authority. The newly constructed production facilities cannot operate until the relevant department is satisfied that such facilities are in compliance with all relevant environmental protection standards. Environmental protection facilities shall be designed, constructed and put into use simultaneously with the main project construction.

Government authorities may impose different penalties against persons or enterprises in violation of environmental protection laws and regulations. The penalties include warnings, fines, decisions to impose deadlines for cure, orders to stop production and imposition of administrative actions against relevant responsible individuals. Any entity whose construction projects fail to satisfy the requirements of pollution prevention may be ordered to suspend its production or operation and be subject to a fine.

As of the Latest Practicable Date, our Directors are not aware of any regulations prohibiting the manufacturing and sale of EPS and EPO packaging products for packaging of consumer electrical appliances in the PRC.

## LAWS AND REGULATIONS RELATING TO INTELLECTUAL PROPERTY

### Laws on Patents

China began reviewing patent applications and granting patents under the PRC Patent Law (中華人民共和國專利法) adopted in 1984 and revised in 1992, 2000, 2008 respectively. Under the PRC Patent law, invention patents are valid for twenty years and external design patents and utility model patents are valid for ten years, in each case commencing on their respective application dates. Persons or entities who use patents without the consent of the patent owners, make counterfeits of patented products, or engage in activities that infringe upon patent rights are held liable to the patent owner for compensation and may be subject to fines and even criminal punishment.

The patent prosecution system in China is different in many ways from that in other countries. The patent system in China uses the principle of first to file. This means that when more than one person file a patent application for the same invention, the patent will be granted to the person who files the application first. In addition, China requires absolute novelty in order for an invention to be patentable. Therefore, in general, a patent will be denied if it is publicly known in or outside of China. Furthermore, patents issued in China are not enforceable in Hong Kong, Taiwan and Macau, each of which has an independent patent system.

### Utility patent

The products seeking utility patent protection must also possess such characteristics as novelty, practicability and innovation. Utility patent is granted and registered upon application unless there are reasons for the patent administrative authority to reject the application after its preliminary review. The utility patent is also subject to the registration and publication requirement upon application. The term of protection is ten years from the date of application. Once an utility patent is granted, unless otherwise permitted by law, no individuals or entities are permitted to engage in the manufacture, use, sale or import of the product protected by such patent or otherwise engage in the manufacture, use, sale or import of the product directly derived from applying the production technology or method protected by such patent, without consent of the patent holder.

## LAWS AND REGULATIONS RELATING TO PRODUCTION SAFETY

On 29 June 2002 the Standing Committee of NPC promulgated Production Safety Law of the PRC (中華人民共和國安全生產法), which became effective on 1 November 2002. The production and business operation entities shall observe the said law and other relevant laws, regulations concerning the production safety, strengthen the administration of production safety, establish and perfect the system of responsibility for production safety, perfect the conditions for safe production, and ensure the safety in production. The major person-in-charge of the production and business operation of the entities shall take charge of the overall work of the production safety of the entity concerned.

## LAWS AND REGULATIONS RELATING TO LABOR AND SOCIAL INSURANCE

On 5 July 1994 the Standing Committee of NPC promulgated the Labor Law of the PRC (中華人民共和國勞動法), which became effective on 1 January 1995. On 29 June 2007 the Standing Committee of NPC promulgated Labor Contract Law of the PRC (中華人民共和國勞動合同法), which became effective on 1 January 2008. Pursuant to the said laws, a written labor contract shall be concluded within one month from the date when the employee commence working. Labor contract is divided into two types, namely labor contract with fixed term and labor contract without fixed term. Where the employee has already worked for the employer for 10 full years consecutively or meet other conditions required by the laws, a labor contract without fixed term shall be concluded.

Pursuant to the Interim Regulations Concerning the Levy of Social Insurance Fees (社會保險費申報繳納管理暫行辦法) adopted on 14 January 1999 and promulgated as well as implemented on 22 January 1999 by the State Council, the Regulation Concerning the Administration of Housing Fund (住房公積金管理條例) promulgated and implemented on 3 April 1999 and amended on 24 March 2002 by the State Council, the employer shall pay pension insurance fund, basic medical insurance fund, unemployment insurance fund, occupational insurance fund, maternity insurance fund and housing fund for the employees.

## POLICIES ON HOUSEHOLD APPLIANCES

### Rural Area Subsidized Electrical Appliances Purchase Policy (家電下鄉)

On 28 November 2008, the Ministry of Finance of the PRC (財政部), the Ministry of Commerce of the PRC (商務部), the National Development and Reform Commission (國家發展改革委) and the Ministry of Industry and Information Technology of the PRC (工業和資訊化部) promulgated the notice of Promotion of Home Appliances in Rural Area (關於全國推廣家電下鄉的通知). The PRC government grants a subsidy of 13% of selling price of the home appliances under this program. The subsidized household appliances include television, refrigerator, washing machine and mobile phone. On 16 April 2009, relevant PRC government authorities further issued the Guidance for Rural Area Subsidized Electrical Appliances (家電下鄉操作細則) pursuant to which the number of subsidized home appliances was extended to cover, computer, air conditioner, hot water heater, microwave oven and induction cooker.

### Home Appliances Replacement Policy (家電以舊換新)

On 28 June 2009, the Ministry of Finance of the PRC (財政部), the Ministry of Commerce of the PRC (商務部), the National Development and Reform Commission (國家發展改革委), the Ministry of Industry and Information Technology of the PRC (工業和信息化部), the Ministry of Environmental Protection of the PRC (環境保護部), the State Administration for Industry and Commerce of the PRC (工商總局) and the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (質檢總局) promulgated the Home Appliances Replacement Policy, which became effective on the same date. A qualified person under this policy could enjoy a subsidy of 10% selling price of the home appliances, subject to limit, if he purchases new home appliances in replacement of the old home appliances. The subsidized home appliances include television, refrigerator, washing machine, air conditioner and computer. Subsidies cannot be claimed under the Home Appliances Replacement Policy and the Rural Area Subsidized Electrical Appliances Purchase Policy simultaneously.

### Energy Efficient Product Subsidy Policy (節能產品惠民工程)

On 18 May 2009, the Ministry of Finance of the PRC (財政部) and the National Development and Reform Commission (國家發展改革委) promulgated the notice of Launch of Energy Efficient Product Subsidy Policy (關於開展節能產品惠民工程的通知). The PRC government grants subsidy for purchase of energy efficient products. The subsidized energy efficient products include but not limited to air conditioner, refrigerator, television and washing machine.

Under the above policies, consumers may purchase consumer electrical appliances at lower and subsidized prices and more consumers may find such electrical appliances affordable which in turn encouraged the sales of such consumer electrical appliances. The increase in sales of consumer electrical appliances also encouraged the demand for packaging products and to a certain extent our packaging products for consumer electrical appliances namely, televisions, air conditioners, washing machines and refrigerators in the PRC. The above policies will likely expire by [2013], being four years from date of implementation of the respective policies, and upon the expiry which, consumer electrical appliances will no longer be available at lower and subsidized prices and the demand for which together with packaging products in the PRC may decrease, which may have an adverse impact on the demand for our products.

## HISTORY AND DEVELOPMENT

### Introduction

[In 1995, the founder of our Group, Mr. Chao and his spouse, Ms. Zhou, set their feet in the PRC packaging industry by establishing a joint venture in Heilongjiang, the PRC which was owned as to [60]% by a holding company controlled by Mr. Chao and [40]% by an [Independent Third Party, and such equity interests held by the Independent Third Party were subsequently transferred to other Independent Third Parties.] The joint venture engaged principally in the supply of building materials made of, among other things, EPS for construction purpose only, in Heilongjiang, the PRC. In 2009, as Mr. Chao and the other shareholders (which are Independent Third Parties) of the joint venture did not share the same view in terms of business strategy and future development of the joint venture, one of the aforesaid other shareholders of the joint venture decided to take full control and purchased all the outstanding equity interests in the joint venture not already owned by it. Mr. Chao disposed of all his interests in the joint venture in 2009.

Mr. Chao and his elder brother established Qingdao Haijing Packaging Products Company Limited (青島海景包裝制品有限公司) and Hefei Haijing Packaging Products Company Limited (合肥海景包裝制品有限公司) in 2000 and 2001, respectively. In 2001, Mr. Chao further established Qingdao Xinhaijing Packaging Products Company Limited (青島新海景包裝制品有限公司), in which he disposed of all his interests to his elder brother in 2002. The aforesaid companies are subsidiaries of Sino Haijing which is principally engaged in manufacture and sale of packaging materials, including EPS packaging products, paper honeycomb products. The elder brother of Mr. Chao is a controlling shareholder (as defined under the [•••]) of Sino Haijing. In order to focus on our Group’s business, Mr. Chao disposed of all his interests in the aforesaid subsidiaries of Sino Haijing in 2002 so as to focus on the development of his own business and of our Company.

In the past and during the Track Record Period, there were business dealings between our Group and Sino Haijing, further details of which are set out in the paragraph headed “Interest of other family member” under the section headed “Business” of this document. [As at the Latest Practicable Date], there were no business dealings between our Group and Sino Haijing and our Directors did not envisage that there would be any material business dealings between our Group and Sino Haijing or its subsidiaries after the [•••].]

Our history dates back to 1997 when Chuzhou Chuangce was established in the PRC.

We are principally engaged in the design, manufacture and sale of packaging products primarily made of EPS and EPO for packaging of consumer electrical appliances such as televisions, air conditioners, washing machines and refrigerators in the PRC.

In preparation for the [•••], our Group underwent the Reorganization and as part of the Reorganization, our Company was incorporated in the Cayman Islands on 4 January 2011 as the holding company of our Group.

*Chuzhou Chuangce*

Chuzhou Chuangce (formerly known as Chuzhou Jingda Package Company Limited (滁州景達包裝有限公司)) was established in Chuzhou City, Anhui Province, the PRC on 5 October 1997 as a sino-foreign joint venture with a registered capital of RMB3.2 million which was contributed by Conca Investments as to RMB1.76 million in cash and by Chuzhou Television Factory (滁州電視機總廠) ("Chuzhou Television"), a State-owned enterprise, as to RMB1.44 million in cash. At the time of its establishment, Chuzhou Chuangce was owned as to 55% by Conca Investments and as to 45% by Chuzhou Television.

On 23 September 1997, the Foreign Economic and Trading Committee of Chuzhou (滁州市對外經濟貿易委員會) approved the establishment of Chuzhou Chuangce. On 29 September 1997, the People's Government of Anhui Province (安徽省人民政府) issued the approval certificate for the establishment of Chuzhou Chuangce.

On 5 October 1997, Administration for Industry and Commerce of the State (中華人民共和國國家工商行政管理局) issued a business license to Chuzhou Chuangce. As confirmed by a capital verification report issued by a PRC accounting firm on 9 March 1998, the registered capital of Chuzhou Chuangce of RMB3.2 million had been fully paid up by way of cash and in specie as at 9 March 1998.

As advised by Shu Jin Law Firm, although the registered capital of Chuzhou Chuangce should be contributed in cash only pursuant to the joint venture agreement entered into between Conca Investments and Chuzhou Television, such discrepancy with regard to the form of capital contribution did not affect the due establishment and valid existence of Chuzhou Chuangce as the relevant administration for industry and commerce had subsequently issued the business licenses to Chuzhou Chuangce to confirm the capital contribution made by its shareholders.

[As a means to settle part of the debts owed by Chuzhou Television,] pursuant to the resolutions of the board of directors of Chuzhou Chuangce dated 18 September 1999, the Civil Ruling of the Intermediate People's Court of Xiamen, Fujian Province (1999) (Xia Jing Zhi Zi No. 297) (福建省廈門市中級人民法院(1999)廈經執字第297號民事裁定書) dated 8 September 1999 and the Notice of Assistance in Enforcement of the Intermediate People's Court of Xiamen (99) (Xia Jing Zhi Zi No. 297-2) (廈門市中級人民法院(99)廈經執字第297–2號協助執行通知書) dated 9 September 1999, Conca Investments acquired 45% of the equity interests in Chuzhou Chuangce held by Chuzhou Television at a consideration of RMB1.44 million, equivalent to the contribution by Chuzhou Television to the registered capital of Chuzhou Chuangce, of which, RMB1 million and RMB440,000 were paid to Xiamen Chengda Industrial and Development Company Limited (廈門市成達實業發展有限公司) and Chuzhou Trust Company (滁州信託公司), respectively as settlement of debts owed by Chuzhou Television to the aforesaid two companies.

After the aforesaid transfer of equity interests, Chuzhou Chuangce became a wholly foreign-owned enterprise and was wholly-owned by Conca Investments. As advised by Shu Jin Law Firm, the aforesaid transfer of equity interests was legal, valid and binding.

On 31 October 2001, Conca Investments entered into an equity transfer agreement with Shenzhen Chuangce Investment and Development Company Limited (深圳市創策投資發展有限公司) ("Shenzhen Chuangce Investment") pursuant to which, Conca Investments transferred 74% of the equity interests in Chuzhou Chuangce held by it to Shenzhen Chuangce Investment at a consideration of RMB2,368,000 which was determined with reference to 74% of the capital contribution made by Conca Investments to Chuzhou Chuangce.

After the aforesaid transfer of equity interests, Chuzhou Chuangce became a sino-foreign joint venture and was owned as to 74% by Shenzhen Chuangce Investment and as to 26% by Conca Investments.

Shenzhen Chuangce Investment is a domestic enterprise established in the PRC. As confirmed by our Directors after having made all reasonable enquiries, save that Mr. Zhou Penghong (周鵬鴻), a remote relative of Mr. Chao, is the chairman of the board of directors, the general manager, the authorised representative of and owns 89% of the equity interests in Shenzhen Chuangce Investment, Shenzhen Chuangce Investment and its ultimate beneficial owners have no other relationship with our Company or any of its connected persons.

On 12 September 2002, Shenzhen Chuangce Investment entered into an equity transfer agreement with Conca Investments pursuant to which, Shenzhen Chuangce Investment transferred 74% of the equity interests in Chuzhou Chuangce held by it to Conca Investments at a consideration of RMB2,368,000 which was determined with reference to the amount of the registered capital held by Shenzhen Chuangce Investment in Chuzhou Chuangce.

After the aforesaid transfer of equity interests, Chuzhou Chuangce became a wholly foreign-owned enterprise and was wholly-owned by Conca Investments. [As confirmed by Mr. Chao, the aforesaid transfers of equity interests in Chuzhou Chuangce between Conca Investments and Shenzhen Chuangce Investment were due to the agreement between the parties to convert Chuzhou Chuangce into a subsidiary of Shenzhen Chuangce Investment in contemplation of listing of the shares of Shenzhen Chuangce Investment in the PRC. The proposed listing of Shenzhen Chuangce Investment did not proceed after further consideration of the results of the preliminary work and feasibility of the proposed listing by the parties. No formal listing application regarding Shenzhen Chuangce Investment had been made to the responsible PRC authority.]

On 12 April 2004, Conca Investments resolved to increase the registered capital of Chuzhou Chuangce from RMB3.2 million to RMB12.7 million. The capital increase in the amount of RMB9.5 million was contributed by Conca Investments by the dividends receivable from Chuzhou Chuangce. Such capital increase was approved by the Foreign Trading and Economic Cooperation Bureau of Chuzhou (滁州市對外貿易經濟合作局) and the People's Government of Anhui Province (安徽省人民政府) on 25 May 2004. Administration for Industry and Commerce of Chuzhou (滁州市工商行政管理局) issued a new business license to Chuzhou Chuangce on 9 June 2004. As confirmed by a capital verification report issued by a PRC accounting firm on 28 May 2004, the contribution of capital in Chuzhou Chuangce of RMB9.5 million by Conca Investments had been fully paid up as at 26 May 2004.

On 17 March 2005, Conca Investments resolved to increase the registered capital of Chuzhou Chuangce from RMB12.7 million to RMB25 million. The capital increase in the amount of RMB12.3 million was contributed by Conca Investments by the dividends receivable from Chuzhou Chuangce. Such capital increase was approved by the Bureau of Commerce of Chuzhou (滁州市商務局) and the People's Government of Anhui Province (安徽省人民政府) on 12 May 2005 and 23 May 2005, respectively. Administration for Industry and Commerce of Chuzhou (滁州市工商行政管理局) issued a new business license to Chuzhou Chuangce on 13 June 2005. As confirmed by a capital verification report issued by a PRC accounting firm on 24 June 2005, the contribution of capital in Chuzhou Chuangce of RMB12.3 million by Conca Investments had been fully paid up as at 17 June 2005.

***Chongqing Guangjing***

Chongqing Guangjing was established in Chongqing, the PRC on 20 October 2003 as a wholly foreign-owned enterprise with a registered capital of US$1.3 million which was contributed solely by Conca Investments in cash. At the time of its establishment, Chongqing Guangjing was wholly-owned by Conca Investments.

On 29 September 2003, the Foreign Trading and Economic Committee of Yubei District, Chongqing (重慶市渝北區對外貿易經濟委員會) approved the establishment of Chongqing Guangjing. On 30 September 2003, the People's Government of Chongqing (重慶市人民政府) issued the approval certificate for the establishment of Chongqing Guangjing.

On 20 October 2003, Administration for Industry and Commerce of Chongqing (重慶市工商行政管理局) issued a business license to Chongqing Guangjing. As confirmed by two capital verification reports issued by a PRC accounting firm on 30 October 2003 and 17 December 2003, respectively, the registered capital of Chongqing Guangjing of US$1.3 million had been fully paid up by Conca Investments in cash as at 3 December 2003 which complied with the requirement of the Foreign Trading and Economic Committee of Yubei District, Chongqing (重慶市渝北區對外貿易經濟委員會) that the registered capital had to be fully paid up within 6 months after the establishment of Chongqing Guangjing.

On 20 April 2006, Conca Investments resolved to increase the registered capital of Chongqing Guangjing from US$1.3 million to US$3.3 million. The capital increase in the amount of US$2 million was contributed by Conca Investments as to US$1.85 million in cash and as to US$150,000 from the dividends receivable from Chongqing Guangjing. Such capital increase was approved by the Foreign Economic and Trading Committee of Jiangjin (江津市對外經濟貿易委員會) and the People's Government of Chongqing (重慶市人民政府) on 18 May 2006. Administration for Industry and Commerce of Chongqing (重慶市工商行政管理局) issued a new business license to Chongqing Guangjing on 27 June 2006. As confirmed by a capital verification report issued by a PRC accounting firm on 15 June 2006, the contribution of capital in Chongqing Guangjing of US$2 million by Conca Investments had been fully paid up as at 15 June 2006.

***Sichuan Jinghong***

Sichuan Jinghong was established in Mianyang City, Sichuan Province, the PRC on 15 September 2005 as a sino-foreign joint venture with a registered capital of RMB40.88 million which was contributed by Conca Investments as to RMB26.572 million in cash and by Sichuan Changhong Electric as to RMB14.308 million in specie. At the time of its establishment, Sichuan Jinghong was owned as to 65% by Conca Investments and as to 35% by Sichuan Changhong Electric.

On 14 September 2005, the Foreign Trading and Economic Cooperation Bureau of Mianyang (綿陽市對外貿易經濟合作局) approved the establishment of Sichuan Jinghong. On 21 September 2005, the Foreign Trading and Economic Cooperation Bureau of Mianyang (綿陽市對外貿易經濟合作局) issued the approval certificate for the establishment of Sichuan Jinghong.

On 15 September 2005, Administration for Industry and Commerce of Mianyang of Sichuan Province (四川省綿陽市工商行政管理局) issued a business license to Sichuan Jinghong. As confirmed by two capital verification reports issued by a PRC accounting firm on 12 October 2005 and 12 December 2005, respectively, the registered capital of Sichuan Jinghong of RMB40.88 million had been fully paid up by way of cash and in specie as at 5 December 2005 which complied with the requirement of the Foreign Trading and Economic Cooperation Bureau of Mianyang (綿陽市對外貿易經濟合作局) that the registered capital had to be fully paid up within 6 months after the issue of the business license.

Sichuan Changhong Electric is a domestic enterprise established in the PRC. As confirmed by our Directors after having made all reasonable enquiries, Sichuan Changhong Electric and its ultimate beneficial owners are Independent Third Parties.

On 22 January 2007, Sichuan Changhong Electric entered into an equity transfer agreement with Sichuan Changhong Chuangxin Investment Company Limited (四川長虹創新投資有限公司) ("Sichuan Changhong Chuangxin") pursuant to which, Sichuan Changhong Electric transferred 35% of the equity interests in Sichuan Jinghong held by it to Sichuan Changhong Chuangxin at a consideration of RMB14,411,600 which was determined with reference to the amount of the registered capital held by Sichuan Changhong Electric in Sichuan Jinghong.

After the aforesaid transfer of equity interests, Sichuan Jinghong was owned as to 65% by Conca Investments and 35% as to Sichuan Changhong Chuangxin.

Sichuan Changhong Chuangxin is a domestic enterprise established in the PRC. As confirmed by our Directors after having made all reasonable enquiries, Sichuan Changhong Chuangxin and its ultimate beneficial owners are Independent Third Parties.

On 25 July 2008, Sichuan Changhong Chuangxin entered into an equity transfer agreement with Conca Investments pursuant to which, Sichuan Changhong Chuangxin transferred 35% of the equity interests in Sichuan Jinghong held by it to Conca Investments at a consideration of RMB32 million which was determined with reference to the net asset valuation of Sichuan Jinghong as at 30 June 2008 which amounted to RMB60,646,100 based on a valuation report issued by a PRC valuer on 15 July 2008.

After the aforesaid transfer of equity interests, Sichuan Jinghong became a wholly foreign-owned enterprise and was wholly-owned by Conca Investments.

## REORGANIZATION

Our Company completed the Reorganization on 9 March 2011 in preparation for the [•••] pursuant to which our Company became the ultimate holding company of our Group. The following sets out certain major steps involved in the Reorganization:

### Incorporation of holding companies structure

On 4 January 2011, our Company was incorporated under the laws of the Cayman Islands as an exempted company. One Share was allotted and issued fully paid to the subscriber to the Memorandum and the Articles on 4 January 2011, which was subsequently transferred to Rich Gold at a consideration of HK$0.01 on the same date.

On 6 January 2011, Cheng Hao was incorporated in the BVI with limited liability with an authorized capital of US$50,000 divided into 50,000 shares of US$1.00 each, one of which was allotted and issued fully paid to Mr. Chao on 21 January 2011.

On 15 February 2011, Mr. Chao transferred the one share he held in Cheng Hao, which represented the entire issued share capital of Cheng Hao, to our Company at a consideration of US$1.00.

On 22 December 2010, Metro Master was incorporated in Hong Kong with limited liability with an authorized capital of HK$10,000 divided into 10,000 shares of HK$1.00 each, one of which was allotted and issued fully paid to the subscriber to its memorandum and articles of association on the same date. On 15 February 2011, Cheng Hao acquired from the subscriber to the memorandum and articles of association of Metro Master the one share it held in Metro Master, which represented the entire issued share capital of Metro Master, at a consideration of HK$1.00.

After the aforesaid share transfers, Cheng Hao and Metro Master became wholly-owned subsidiaries of our Company.

### Acquisition of the equity interests in our PRC subsidiaries

As part of the Reorganization, on 22 February 2011, Metro Master entered into an equity transfer agreement with Conca Investments, pursuant to which Conca Investments transferred 100% of the equity interests in Chongqing Guangjing to Metro Master at a consideration of RMB27.5 million, which was determined with reference to the net asset value of Chongqing Guangjing as at 31 January 2011 which amounted to RMB 27.527 million based on the management account of Chongqing Guangjing for January 2011.

On 2 March 2011, the Bureau of Commerce of Jiangjin District, Chongqing (重慶市江津區商務局) approved the aforesaid equity transfer. On 3 March 2011, the People's Government of Chongqing (重慶市人民政府) granted an approval certificate to Chongqing Guangjing for the equity transfer mentioned above. On 9 March 2011, Administration for Industry and Commerce of Chongqing (重慶市工商行政管理局) issued a new business license to Chongqing Guangjing. Chongqing Guangjing became a wholly-owned subsidiary of Metro Master.

As part of the Reorganization, on 22 February 2011, Metro Master entered into an equity transfer agreement with Conca Investments, pursuant to which Conca Investments transferred 100% of the equity interests in Chuzhou Chuangce to Metro Master at a consideration of RMB40 million, which was determined with reference to the net asset value of Chuzhou Chuangce as at 31 January 2011 which amounted to RMB36.1766 million based on the management account of Chuzhou Chuangce for January 2011.

On 1 March 2011, the Bureau of Commerce of Chuzhou (滁州市商務局) approved the aforesaid equity transfer. On 1 March 2011, the People's Government of Anhui Province (安徽省人民政府) granted an approval certificate to Chuzhou Chuangce for the equity transfer mentioned above. On 1 March 2011, Administration for Industry and Commerce of Chuzhou (滁州市工商行政管理局) issued a new business license to Chuzhou Chuangce. Chuzhou Chuangce became a wholly-owned subsidiary of Metro Master.

As part of the Reorganization, on 22 February 2011, Metro Master entered into an equity transfer agreement with Conca Investments, pursuant to which Conca Investments transferred 100% of the equity interests in Sichuan Jinghong to Metro Master at a consideration of RMB52.29 million, which was determined with reference to the total investment amount contributed by Conca Investments to Sichuan Jinghong as at 31 December 2010 which amounted to approximately RMB52 million.

The Committee of Economic and Informatization of Mianyang (綿陽市經濟和信息化委員會) and the Bureau of Commerce of Mianyang (綿陽市商務局) approved the aforesaid equity transfer on 2 March 2011 and 3 March 2011, respectively. On 3 March 2011, the People's Government of Sichuan Province (四川省人民政府) granted an approval certificate to Sichuan Jinghong for the equity transfer mentioned above. On 3 March 2011, Administration for Industry and Commerce of Mianyang of Sichuan Province (四川省綿陽市工商行政管理局) issued a new business license to Sichuan Jinghong. Sichuan Jinghong became a wholly-owned subsidiary of Metro Master.

In order to provide the necessary funding to Metro Master for the acquisition of the equity interests of Chuzhu Chuangce, Chongqing Guangjing and Sichuan Jinghong from Conca Investments, Mr. Chao, through Rich Gold, subscribed one Share at a consideration of HK$142,316,243 on 4 April 2011. Such subscription proceeds were applied by Metro Master to finance its payment obligations under the equity transfer agreements entered into with Conca Investments and the aforesaid payments had been fully settled on [4 April] 2011.

[On [•••], Rich Gold executed a deed of release in favour of our Company, pursuant to which Rich Gold unconditionally and irrevocably, among other matters, released and discharged the repayment of a shareholder's loan from Rich Gold to our Company in the amount of HK$[•••] and any claim regarding such repayment. The shareholder's loan represented mainly the advances from Rich Gold to our Company for payment of expenses for the [•••].]

Shu Jin Law Firm has confirmed that we have obtained all necessary approvals, licenses and permits under relevant PRC laws and regulations in connection with the Reorganization.

Further details of the Reorganization are set out in the paragraph headed "Corporate Reorganization" in Appendix V to this document.

## SAFE REGISTRATION

According to the Notice on Issues Relating to the Administration of Foreign Exchange in Financing and Return Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Vehicle (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) (the "SAFE Circular 75"), which was issued by SAFE on 21 October 2005, and effective on 1 November 2005:

(i) domestic residents who plan to establish or control an offshore special purpose vehicle must conduct foreign exchange registration with the local foreign exchange authority;

(ii) domestic residents who have contributed their assets or shares of a domestic enterprise into an offshore special purpose vehicle, or have raised funds offshore after such contribution, must conduct foreign exchange registration for the modification of the record concerning the offshore special purpose vehicle with the local foreign exchange authority; and

(iii) domestic residents who are the shareholders of an offshore special purpose vehicle are required to go through registration for the modification of the record with the local foreign exchange authority within 30 days from the date of any major capital change event, such as an increase/decrease of capital, share transfer, share swap, merger or division, long term equity or debt investment or foreign guarantee where no round-trip investment is involved.

Shu Jin Law Firm has advised that Mr. Chao, being the relevant beneficial shareholder of our Group, is a permanent resident of Macau instead of a "domestic resident" of the PRC who conducts return investment activities, and is not required to file foreign exchange registrations of overseas investments with SAFE under the SAFE Circular 75.

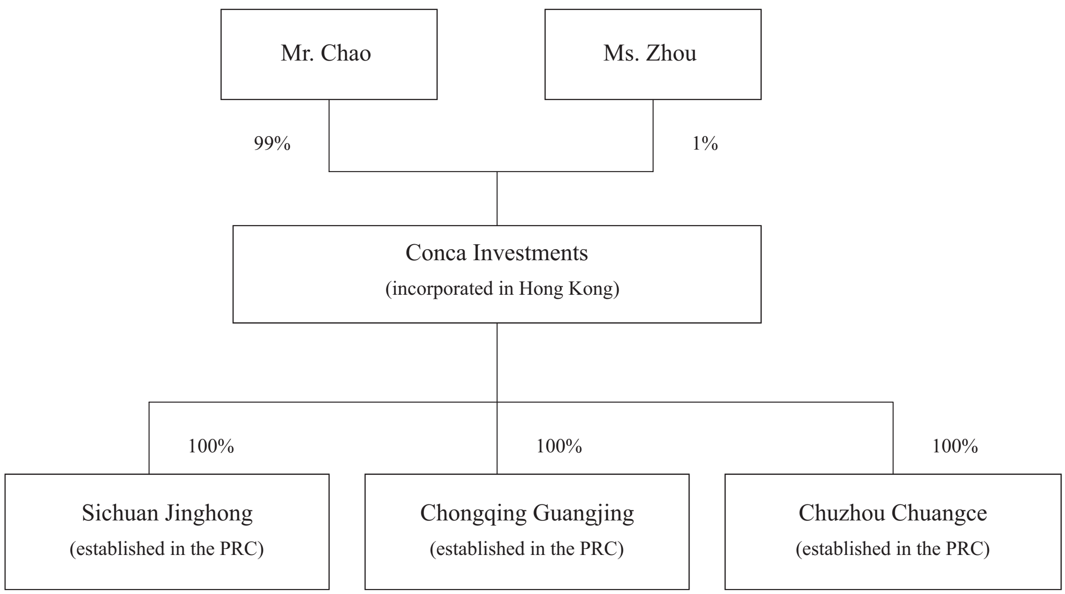
## OUR CORPORATE REORGANIZATION AND THE RULES ON THE MERGER AND ACQUISITION OF DOMESTIC ENTERPRISES BY FOREIGN INVESTORS

Under the Rules on the Merger and Acquisition of Domestic Enterprises by Foreign Investors in the PRC (關於外國投資者併購境內企業的規定) (the "M&A Rules"), which was issued by MOFCOM on 8 August 2006, effective on 8 September 2006 and further amended on 22 June 2009, a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity in a domestic company thereby converting it into a foreign-invested enterprise, or subscribes for new equity via an increase of registered capital thereby converting it into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise. The acquisition shall be based on the results of the appraisals on the equity or assets to be acquired. According to Article 15 of the M&A Rules, where parties to an acquisition of domestic enterprises are related including where the control is only de facto, the parties must "provide an explanation on the purpose of the acquisition and whether the results of the appraisals are consistent with fair market value". Avoidance of this requirement by using trusts, nominees, or other means is prohibited.

Shu Jin Law Firm has advised that the acquisitions by Metro Master of equity interests in Chongqing Guangjing, Chuzhou Chuangce and Sichuan Jinghong do not fall within the scope of the above regulated activities stipulated under the M&A Rules as Chongqing Guangjing, Chuzhou Chuangce and Sichuan Jinghong have been foreign-invested enterprises since their establishment several years before the M&A Rules became effective on 8 September 2006.

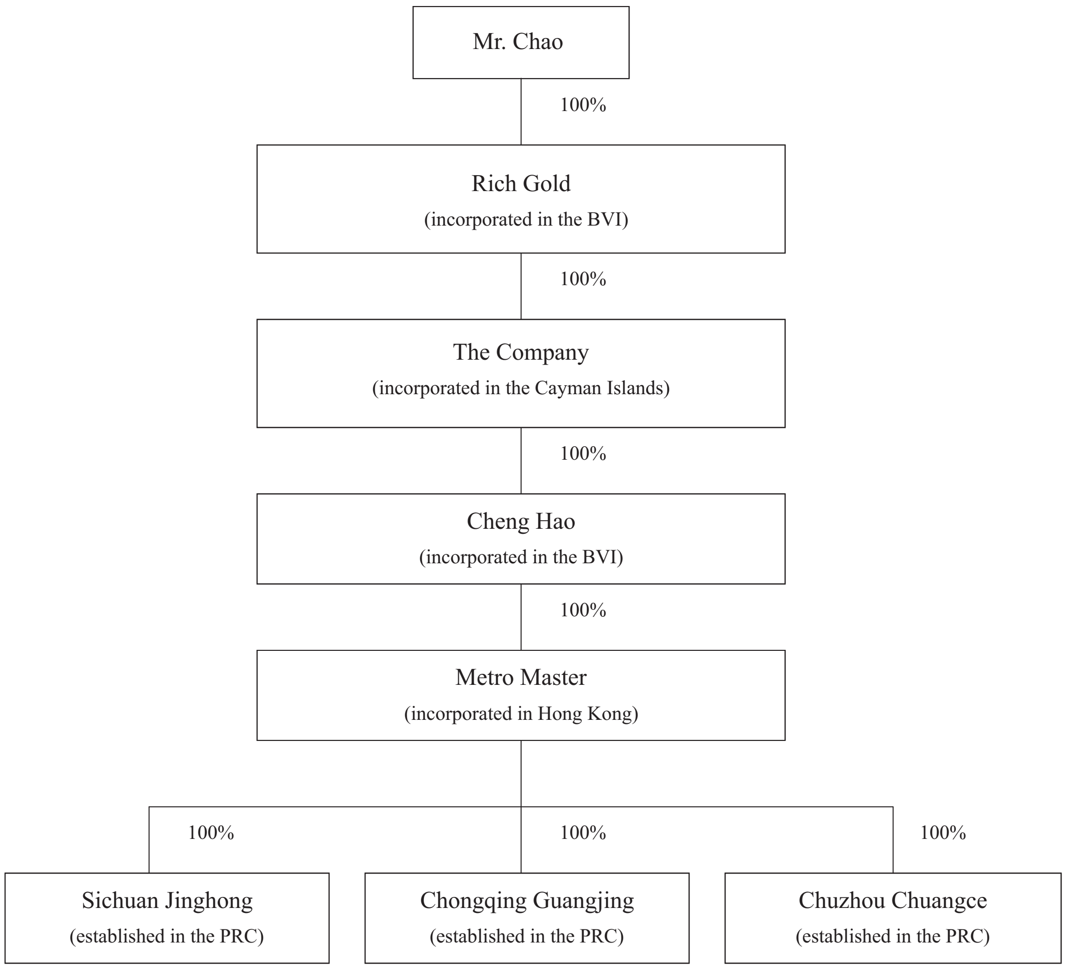
**Corporate and shareholding structure immediately before the Reorganization**

The following chart sets forth the shareholding and corporate structure of our Group immediately before the Reorganization:



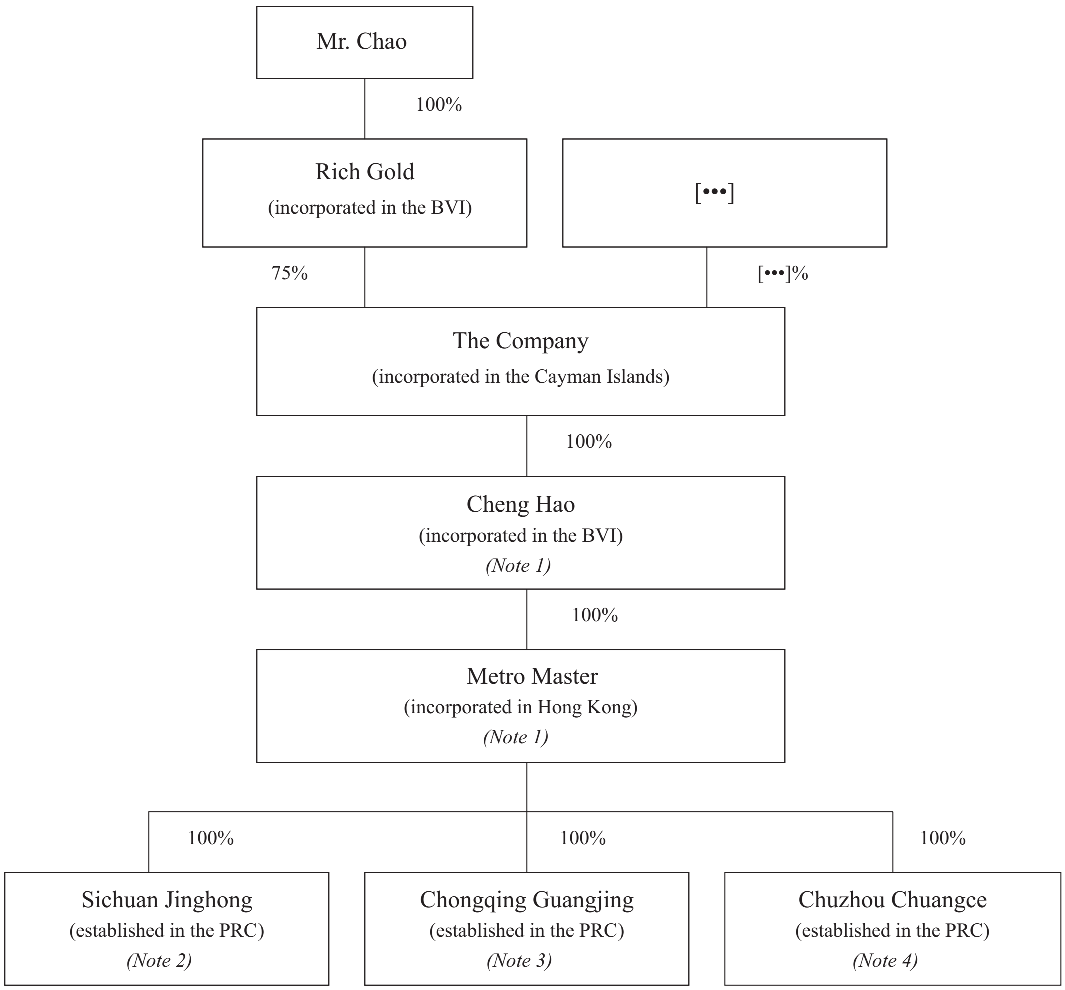
**Corporate and shareholding structure upon completion of the Reorganization**

The following chart sets forth the shareholding and corporate structure of our Group immediately upon completion of the Reorganization:



**Corporate and shareholding structure upon completion of the [•••]**

The following chart sets forth the shareholding and corporate structure of our Group immediately after completion of the [•••] (without taking into account any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme):




*Notes:*

(1) Cheng Hao and Metro Master are principally engaged in investment holding. Metro Master will also carry out certain administrative functions in Hong Kong for our Group.

(2) The business scope of Sichuan Jinghong includes: Research and development in, manufacture and sale of shock-resistant packaging pads using macromolecular materials, and plastic engineering and structural components as steel-substitutes for home electrical appliances such as televisions and air-conditioners, and other products; design, development and sale of various moulds.

(3) The business scope of Chongqing Guangjing includes: Manufacture and sale of plastic engineering and structural components, and plastic foam packaging components for various home electrical appliances and other products; providing after-sale services of its products.

(4) The business scope of Chuzhou Chuangce includes: Manufacture and sale of self-made plastic engineering and structural components as steel-substitutes and plastic foam packaging products for home electrical appliances and other products.

## OVERVIEW

We are a provider of packaging products and structural components in the PRC. We specialise in the design, manufacture and sale of packaging products made primarily of EPS and EPO for packaging of consumer electrical appliances such as televisions, air conditioners, washing machines and refrigerators in the PRC. Our packaging products exhibit chemical, thermal and shock resistivity and offer protection against damages in transit and storage. In addition, we undertake the design and manufacture of structural components (結構件) in various shapes and sizes that are often used as components inside consumer electrical appliances manufactured by our customers in the PRC. We are therefore able to offer our customers an integrated solution for their packaging needs.

We design and manufacture all our packaging products and structural components in the three factories located respectively in [Chuzhou Economic Development Zone in Chuzhou City, Anhui Province], [Pengqiao Economic Development Zone in Guangxing Town, Jiangjin District, Chongqing Municipality] and Sichuan Province Miangyang State High Technology Industrial Development Zone in [Mianyang City, Sichuan Province] in the PRC.

We exercise close management and supervision on the manufacturing processes, product quality and delivery schedules of our packaging products. We upgrade and improve our manufacturing facilities and processes in order to improve manufacturing efficiency and stay competitive in the packaging industry in the PRC. The factories are strategically located close to our major customers and for this reason we can arrange for timely delivery and control the related transportation costs of our products. The close proximity to our major customers also allows us to maintain regular communications with them, understand their latest products and packaging requirements, industry trends and provide them prompt service and support.

The three factories are capable of a maximum annual manufacturing capacity, in aggregate, of 15,100 tonnes of packaging products and structural components. For the three financial years ended 31 December 2008, 2009 and 2010, the three factories manufactured packaging products and structural components per annum, in aggregate, of [9,478] tonnes, [6,683] tonnes and [8,156] tonnes respectively. For the three financial years ended 31 December 2008, 2009 and 2010, the annual average utilization rates of our manufacturing capacity were approximately 64.8%, 45.2% and 54.0% respectively, while the maximum monthly utilization rates were approximately 87.2%, 71.9% and 72.3% respectively.

We are committed to developing efficient and effective packaging products and structural components for our customers. We believe that our strong product [design and development] capability, our diverse range of packaging products, our continuous focus on improving product quality and efficient product delivery arrangement are our competitive advantages in the packaging industry in the PRC. We have established strong and long term relationships with our customers and some of whom have been customers of our packaging products for nearly 14 years. For the Track Record Period, the sales to our five largest customers were approximately RMB230.9 million, RMB121.3 million, RMB164.7 million, RMB98.5 million representing approximately 98.5%, 99.5%, 99.2% and 97.9% of our turnover for the respective periods.

In particular, we are the [sole] supplier of packaging products to Anhui Konka for their [televisions] and [refrigerators]. We are also the major supplier of packaging products to Sichuan Changhong Electric for their televisions. We are the [major] supplier of packaging products to Chongqing Haier for their air conditioners, washing machines and electric water boilers. We are one of the [major] suppliers of packaging products to Chongqing Gree for its air conditioners.

We were either the sole or major supplier, or one of the largest suppliers of packaging products and structural components to [Anhui Konka], [Chongqing Haier], [Chongqing Gree] and [Sichuan Changhong Electric], the major consumer electrical appliance manufacturers in the PRC, who were our four major customers for the Track Record Period. We are selected as a core supplier to these manufacturers for the following reasons: (i) our comprehensive range of packaging products; (ii) our capability to provide suitable packaging products to meet the specific packaging requirements of our customers; (iii) our ability to deliver packaging products promptly; and (iv) our provision of integrated solutions for our customer's packaging needs.

According to the market survey report dated [•••] from Synovate: (i) our target [packaging product] market for consumer electrical appliances namely, televisions, refrigerators, washing machines and air conditioners in the PRC which amounted to about RMB3.8 billion in 2010; and (ii) we ranked the third amongst the largest packaging product providers in the PRC in terms of revenue in 2009. According to this market survey report, the market of EPS packaging products for electrical appliances is fragmented with many packaging products manufacturers in place. The top 10 largest market leaders shared about 36.7% of the total market share in the PRC in 2010. For further details of the market survey report, please refer to the section headed "Industry Overview" in this [•••].

During the period between 2007 and 2009, the PRC Government promulgated various policies in respect of the consumer electrical appliance industry namely, the "Rural Area Subsidized Electrical Appliances Purchase Policy", the "Home Appliances Replacement Policy" and the "Energy Efficient Product Subsidy Policy", which encouraged, to a certain extent, the demand for consumer electrical appliances and packaging products in the PRC.

For the three financial years ended 31 December 2008, 2009 and 2010 and the two six months ended 30 June 2010 and 2011, we recorded revenue of approximately RMB234.5 million, RMB121.9 million, RMB166.1 million, RMB77.3 million and RMB100.6 million respectively whilst we recorded profit attributable to owners of our Company of approximately RMB31.3 million, RMB23.6 million, RMB35.7 million, RMB12.3 million and RMB20.3 million for the respective periods.

Our revenue increased by approximately RMB[23.3] million or [30.0]% to approximately RMB[100.6] million in first half of 2011 from approximately RMB[77.3] million in the first half of 2010. The increase in revenue was caused mainly by the overall increase in customer demand for consumer electrical appliances and in turn our products in the PRC. We recorded an increase in revenue derived from the sale of all our products save and except packaging products for cathode ray tube television in the first half of 2011. In particular, we recorded an increase in revenue derived from the sale of packaging products for air conditioners of approximately RMB9.0 million or 54.2%, for flat panel and plasma televisions of approximately RMB8.6 million or 40.6% and for washing machines of approximately RMB1.5 million or 19.2% in the first half of 2011 as compared to the first half of 2010.

Our revenue increased by approximately RMB44.2 million or approximately 36.3%, from approximately RMB121.9 million for the financial year 2009 to approximately RMB166.1 million for the financial year 2010. The increase was primarily due to an overall increase in purchase orders placed to us by our customers as the PRC economy together with the consumer electrical appliance industry and packaging industry in the PRC continued to recover from the global financial tsunami. In particular, we recorded increase in revenue from the sales of packaging products for air conditioners, washing machines and refrigerators. Chongqing Gree, one of our major customers, had expanded their manufacturing base and purchased more packaging products and structural components for their air conditioners. Revenue derived from the sales of our structural components for air conditioners increased notably for the financial year 2010.

In 2009, the consumer electrical appliance industry and in turn the packaging industry in the PRC were affected by the global financial tsunami. Our revenue decreased by approximately RMB112.6 million or approximately 48.0%, from approximately RMB234.5 million for the financial year 2008 to approximately RMB121.9 million for the financial year 2009. The decrease was primarily due to an overall decrease in purchase orders placed by our customers as some of them had shifted focus away from the production of cathode ray tube televisions to flat panel & plasma televisions. Some of our customers reduced production of traditional cathode ray tube televisions in favour of the production of flat panel and plasma televisions, which in comparison required lesser amount of packaging products given that they were typically more compact in size and lighter in weight. The decrease in revenue derived from our sale of packaging products for cathode ray tube televisions was offset, to an extent, by the increase in revenue derived from our sales of packaging products for flat panel and plasma televisions.

Notwithstanding the fluctuations in sales activities, we continued our effort to monitor and manage closely our manufacturing operations and to ensure manufacturing efficiency and product quality. For the three financial years ended 31 December 2008, 2009 and 2010, and the two six months ended 30 June 2010 and 2011, our gross profit were approximately RMB58.4 million, RMB34.9 million, RMB53.6 million, RMB24.4 million and RMB30.1 million respectively while gross profit margins were approximately 24.9%, 28.6%, 32.3%, 31.6% and 29.9% respectively. For the three financial years ended 31 December 2008, 2009 and 2010, and the two six months ended 30 June 2010 and 2011, profits attributable to owners of our Company ("net profits") were approximately RMB31.3 million, approximately RMB23.6 million, approximately RMB35.7 million, approximately RMB12.3 million and approximately RMB20.3 million respectively while net profit margins were approximately 13.3%, 19.4%, 21.5%, 15.9% and 20.2% respectively.

For further details of our financial performance for the Track Record Period, please refer to the section headed "Financial Information" in this document.

## COMPETITIVE STRENGTHS

We consider that our principal competitive strengths are as follows:

### Our quality products

We are of the view that the quality of our packaging products and structural components is important to the success of our business. We put emphasis on the maintenance of our product quality such that our products continue to meet the demands of our customers. Our quality control personnel carry out tests of raw materials used in the manufacturing of our products and at various stages of the manufacturing processes, select semi-finished products for reviews and carry out final inspections before product delivery to our customers. Our quality management systems installed for the manufacturing of our packaging products and structural components at the three factories have been awarded certificates in respect of the compliance with the international standards of ISO9001:2008 and GB/T19001:2008.

### Personnel with knowledge of and experience in the packaging products

Members of our senior management team have in-depth knowledge of and extensive experience in the packaging industry for consumer electrical appliances in the PRC. In particular, Mr. Chao, our chairman and chief executive officer, an executive Director and a Controlling Shareholder who is responsible for overall strategic planning and business development of our Group, has over 14 years of experience in the packaging industry. Our senior management team is vigilant of the changing industry landscape and demands of our customers. They provide guidance to our Group and lead us in various aspects of our operations including modifying and enhancing our packaging products, improving our overall manufacturing efficiency such that our packaging products remain competitive in the packaging industry in the PRC.

### A broad range of packaging products

We offer a broad range of packaging products and structural components to suit the various requirements and specifications of our customers in the PRC. The availability of a broad range of packaging products allows us to better serve our customers by providing readily available solutions to our customers who often have changing packaging requirements due to their business developments and new product introductions. We believe that our broad range of packaging products allows us to compete successfully in the packaging industry in the PRC.

### Integrated solution for customers' packaging needs

We adopt a [fully] integrated manufacturing process starting from the design of packaging solutions to the manufacturing of packaging products that suits the specific requirements of our customers.

We believe that our fully integrated manufacturing process allows us to enhance our overall competitiveness in the packaging industry as we have the ability to carry out the design and development of packaging products for our customers in a cost effective and timely manner. We exercise stringent supervision and control over the entire manufacturing processes through regular checks on our products by our [quality control personnel] throughout the manufacturing process to ensure product quality.

**Strategic locations of the factories**

We have strategically located our manufacturing facilities in the three factories that are close to our major customers in [Chuzhou Economic Development Zone, Chuzhou City, Anhui Province], [Pengqiao Economic Development Zone , Guangxing Town, Jiangjin District, Chongqing Municipality] and [Mianyang City, Sichuan Province], the PRC. The close proximity of our manufacturing operations with our customers allows us to respond promptly to the specific needs and requirements of our customers, understand the latest industry trends and provide better service. We are able to keep the delivery time and transportation cost of our packaging products to our customers in check.

## BUSINESS STRATEGIES

**Further expand our market position and increase our market share**

According to the market survey report dated [•••] from Synovate, we ranked the third, in terms of revenue, amongst the EPS packaging product providers for consumer electrical appliances namely televisions, air conditioners, washing machines and refrigerators in the PRC in 2010.

We intend to further strengthen our market position through: (i) further strengthening our product design and development capability; (ii) expansion of our manufacturing capacity; and (iii) recruitment of quality personnel and continuous training of our staff.

**Further strengthening our [product design and development] capability**

We will continue to strengthen our product design and development capability by further investment in improving our manufacturing process and technique through utilizing machineries and testing apparatus to ensure product quality and cost effective manufacturing processes. We believe strong product design and development capability is essential for us to remain competitive in the packaging industry in the PRC. By working closely with our customers on product design and development at early stage, we may offer better packaging products to our customers and foster stronger commercial ties with them.

**Expansion of our manufacturing capacity**

We will expand our manufacturing capacity to cater for the growing demand for packaging products from our customers and to achieve better economies of scale. In order to expand the manufacturing capacity of our packaging products, we may elect to add more assembly lines in our existing three factories and/or establish new manufacturing factory in new locations. We will study and evaluate the merits of possible ways to increase manufacturing capacity of our packaging products in a cost efficient manner. We consider the locations of our new manufacturing plants important and our preference are those locations within close proximity to our potential customers. The close distance between the manufacturing plant and our customers will shorten the delivery time and minimize related transportation costs of our packaging products to our customers. Our three factories located within close proximity to our major customers and are commercially viable to serve customers in their respective neighborhoods only and therefore spare manufacturing capacity of one factory may not be used by another. Notwithstanding the spare manufacturing capacities of the three factories, the establishment of our new factory in Wuhu City, Anhui Province, the PRC is to serve potential customers in the city. By reason of geographical delineation above, our Directors are of the view that the appropriate suppliers of packaging products available to our major customers may be restricted to those located close to their manufacturing bases.

Packaging products for consumer electrical appliances such as televisions, air conditioners, refrigerators and washing machines are typically large in size and relatively rigid in property and therefore, making long distance transportation of which, in large quantities, is not very attractive from cost control perspective. We believe that our manufacturing facilities shall be established near the manufacturing bases of our potential customers namely consumer electrical appliance manufacturers in the PRC to remain competitive. Packaging products suppliers with manufacturing bases far away from our potential customers may encounter difficulty in keeping pricing of their packaging products competitive in view of the transportation costs to be incurred by delivery of packaging products to customers. As such, it is an industry pattern that the number of potential customers of packaging product suppliers may be restricted by the travel distance between them and as to what length is acceptable, in general, depends on circumstances in which such supplier operates, which may differ from supplier to supplier. By the same token, each of our three existing factories is established to serve potential customers in nearby areas and thus the spare capacity of one factory may not be utilized by another factory. The new factory we intend to establish is designed to serve potential customers namely consumer electrical appliances manufacturers with manufacturing bases in Wuhu city, Anhui province, the PRC.

According to Synovate, Wuhu City is the water and land transportation hub of East China. As at the Latest Practicable Date, there are around [60] electronic and electrical appliances enterprises in Wuhu City which realized about RMB[13] billion, RMB[16] billion and RMB[24] billion total output value respectively in 2008, 2009 and 2010. By 2015, the total output value is expected to reach about RMB[100] billion of which electrical appliances is expected to make up about RMB[80] billion. The city has been focusing on the development of consumer electrical appliances manufacturers industry and in particular, the development as a regional manufacturing base of such consumer electrical appliances. Our Directors are of the view that Wuhu City is an appropriate location for the establishment of our new factory as it is the manufacturing base of many consumer electrical appliances with renowned brand names in the PRC, some of which are public listed companies in the PRC. Our Directors are of the view that there is a demand for packaging products made of EPS and EPO in Wuhu City given the number of manufacturers of consumer electrical appliances such as televisions, air conditioners, washing machines and refrigerators in the city. In addition, the establishment of a new factory in Wuhu City allows our Company to conduct business with new customers and avoid over reliance on our existing customers. Our Directors consider that the establishment of new manufacturing facilities in another area with potential customers is beneficial to the long term development of our Group. As at the Latest Practicable Date, our Group has [not] entered into any agreements in respect of supply of products to any potential customers in Wuhu City, acquisition of land and machinery for the new factory in the city.

We intend to establish a new factory in Wuhu City equipped with the necessary machineries and equipment capable of an annual maximum manufacturing capacity of approximately 5,000 tonnes of [EPS/EPO] packaging products and structural components. Upon commencement of production of the new factory in Wuhu City, we will have an annual maximum manufacturing capacity of approximately 20,100 tonnes of packaging products and structural components. Despite the good properties of EPO, products made of EPO can cost 3 to 4 times more than products made of EPS, which may limit the popularity of EPO as the choice of material for packaging products and in turn, purchase orders for them. Nonetheless, our manufacturing facilities are capable of manufacturing products made of both EPS and EPO and can be adjusted to manufacture the products made of the EPS or EPO in accordance with the demand from our customers. For further details, please refer to the section headed "Future plans" in this [•••].

### Recruitment of quality personnel and continuous training of our staff

We believe that the recruitment, training and retention of high caliber personnels are important to the success of our business and to achieve our business objectives. We will seek to recruit both domestically and internationally management personnel and engineers with appropriate qualifications and talents and offer them competitive compensation packages including bonus programs, share option schemes and education and training allowances. We believe that providing training to our staff is also an important factor in attracting and retaining employees. We plan to arrange for in-house training programs, on a regular basis, to our employees as well as to provide financial support to those seeking external educational programs. Further, we plan to arrange gatherings and social events for all our employees, on a regular basis, to encourage communications between members of our senior management team and general staff and to foster employee loyalty to our Group. We believe that a team of highly trained personnels will enhance our overall manufacturing efficiency, improve our product design and development and help achieve our business objectives effectively.

## OUR BUSINESS

We are a provider of packaging products and structural components in the PRC. We specialise in the design, manufacture and sale of packaging products made primarily of EPS and EPO for packaging of consumer electrical appliances such as televisions, air conditioners, washing machines and refrigerators in the PRC. Our packaging products exhibit chemical, thermal and shock resistivity and offer protection against damages in transit and storage. In addition, we undertake the design and manufacture of structural components in various dimensions that are often used inside the consumer electrical appliances manufactured by our customers in the PRC. We are therefore able to offer our customers an integrated solution for their packaging needs.

During the Track Record Period, all our packaging products were primarily made of raw materials comprising mainly EPS and EPO while our structural components were made of EPS.

The raw materials are preprocessed, conditioned and moulded through our manufacturing facilities into our packaging products. We carry out regular tests and checks throughout the manufacturing processes to ensure quality of our packaging products before delivery to our customers. The raw materials we used in the manufacturing operations exhibit various characteristics such as the ability to resist shock and moisture, having thermal and electrostatic discharge insulation, being lighter in weight and being easier to be handled by automated machines.

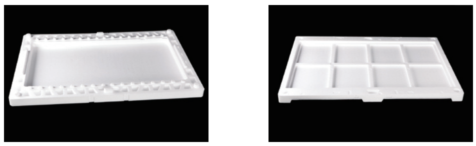
We do not apply chlorofluorocarbons as blowing agents in the manufacturing of our products and therefore making the manufacturing process more benign to the environment. Given the stable nature of EPS products, the proper handling and storage of which will not cause them to produce harm that contaminates the air and underground water.

Packaging products made of EPS and EPO can be recycled and reused. Their scraps can be reprocessed in our manufacturing facilities for production of packaging products and structural components. Nonetheless, the rigidity and low value of the scraps made of EPS make it not too commercially attractive to collect, transport and recycle them in the PRC. Please refer to the section headed "Glossary" for more information.

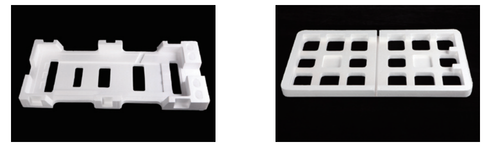
We will continue our effort on improving the quality and specifications of our products such that our products will meet the expectations of our customers, some of whom may prefer the use of more environmental friendly materials in the packaging products. EPO is an alternative to EPS as it possesses superior toughness and shock absorbing properties and therefore the use of EPO may reduce the overall quantity of packaging material required for packaging and protection purposes. EPO also has comparatively higher reusing and recycling rates. Nonetheless, the costs of EPO products can be 3 to 4 times higher than EPS products, which may limit the popularity of EPO as the choice of material for packaging products. Our manufacturing facilities are capable of manufacturing products made of both EPS and EPO and may be adjusted to manufacture the quantity of products made of the material in accordance with the requirements of our customers. In our selection for suppliers of, among other things, raw materials used in the manufacturing of our products, we will give priority to those who support for environmental protection. In addition, we will continue to monitor and ensure compliance with all relevant environmental production related regulations as may be promulgated by regulatory authorities in the PRC.

**Our packaging products**

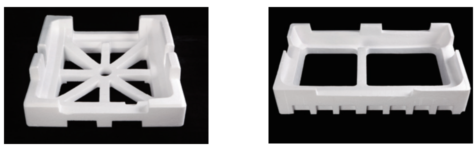
Flat panel and plasma



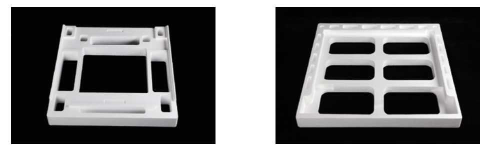
Air conditioners



Washing machines



Refrigerators



We offer packaging products for packaging consumer electrical appliances such as cathode ray tube, flat panel and plasma televisions, air conditioners, washing machines, refrigerators and other electrical appliances such as electrical water boilers and satellite television receivers. Our packaging products are fabricated into moulds to hold and protect the contents before being inserted into corrugated outer boxes. Our consumer packaging products withstand moisture and humidity well and absorb shocks and therefore offering protection in delivery of the products. Our packaging products may be used alone or in combination with other packaging materials such as corrugated paper, wood or other materials.

*Electrostatic discharge insulation*

Our packaging products are particularly suitable for packaging a wide range of consumer electrical appliances that require electrostatic discharge insulation. Some of the consumer electrical appliances may have electronics like integrated circuits that are prone to electrostatic discharge which can be rendered malfunction if exposed to high voltages from static electricity or other sources. Our packaging products are made of materials that insulate the electrical appliances contained within the packaging against static electricity. Static electricity can be caused by a myriad of factors including interference from other electronic devices, friction or even the weather.

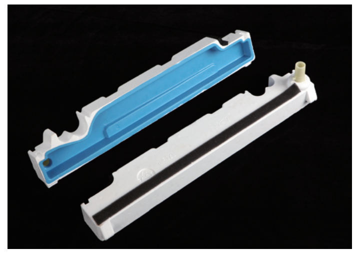
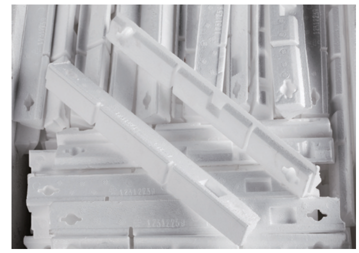
*Shock absorption*

Our packaging products are resistant to shock and can be deployed to cushion and protect the products packaged by our products in transit. Our packaging products are moulded into the specific shapes and dimensions so as to hold and protect the products packaged by our products properly during transportation. Our trained personnel carry out tests and evaluations to ensure adequate protection being provided such that products using our packaging products will reach its destination in pristine condition.

*Thermal insulation*

Our packaging products have thermal insulation property and are suitable for packaging temperature-sensitive products.

**Structural components (結構件)**

**Structural components for air-conditioner**

We offer structural components in various shapes and sizes that are often used as substitutes for components inside the consumer electrical appliances manufactured by our customers in the PRC. Our structural components are designed and manufactured to the specifications of our customers. Our structural components are manufactured with EPS at higher density as compared to our packaging products. Our structural components are chemical resistant, very light in weight and are economical to be produced and replaced. Our structural components are used inside air conditioners manufactured by our customers. Our structural components for air-conditioners may be used to replace certain parts made of metal inside air-conditioners such as metal frames and other metal parts, and offer support and connection points to other parts inside air-conditioners. Our structural components are preferred by our customers as the manufacturing costs and weight of which are comparatively lower than those of the parts made of metal and therefore contributing to the overall savings in manufacturing and transportation costs of our customers' air-conditioners.

During the Track Record Period, we had supplied structural components to 3 customers.

## MANUFACTURING

We specialise in the design, manufacture and sale of packaging products and structural components in the PRC. We also purchase ancillary parts for integration into our packaging products for our customers. The manufacturing of ancillary parts requires specialized machinery and specific knowledge that are outside the scope of our principal business.

We are of the view that the purchase of ancillary parts allows us to utilize our manpower and resources more efficiently and reduce our labour and related costs.

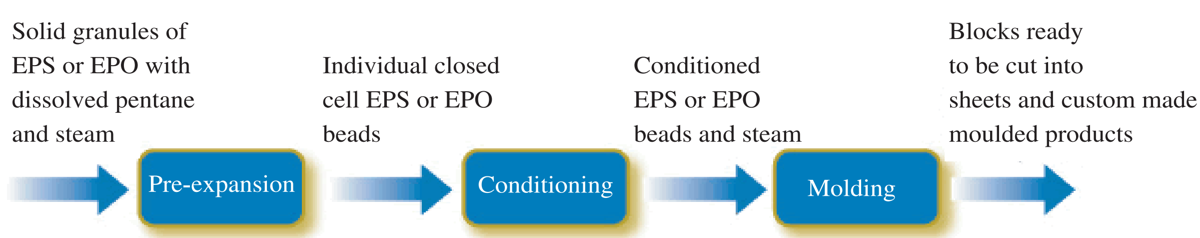
### Manufacturing Planning

We, in general, devise our annual manufacturing plan on the basis of our annual manufacturing forecasts and purchase orders placed by our major customers. We procure raw materials in accordance with our annual manufacturing plan and our inventory level. The actual quantities of packaging products to be manufactured and our manufacturing schedules are determined based on the purchase orders placed by our customers.

We also plan and determine in advance the quantities of ancillary parts required to be purchased based on our annual manufacturing plan and purchase orders placed by our customers. Our own quality control personnel examine, on a regular basis, the quality of the ancillary parts purchased. We, in general, made purchases of all ancillary parts that are required to be integrated with our packaging products so as to offer better packaging and protection for our customers' products. We are of the view that our manufacturing facilities should specialize in the manufacturing of packaging products made of EPS and EPO and structural components made of EPS as it is not cost effective, at this stage, to expand the scope of our manufacturing capacity to the production of the ancillary parts. We place purchase orders to the ancillary parts manufacturers depending on our production demand. The ancillary parts suppliers are required to supply ancillary parts based on our requirements. The purchase orders normally specify the purchasing amount, price, delivery time, payment terms and allocation of transportation costs. After receipt of the ancillary parts from our suppliers, we carry out further review process and tests to ensure such products are suitable for our use. For the Track Record Period, our purchases of the ancillary parts amount to approximately RMB3.5 million, RMB4.3 million, RMB6.2 million and RMB3.1 million respectively. We have engaged 14, 13, 15 and 22 ancillary parts suppliers respectively during the same periods.

**Manufacturing process**

We purchase raw materials namely EPS and EPO, in form of beads, and pass them through the following manufacturing process to produce our packaging products made of EPS and EPO:




**Pre-expansion**

The beads are heated by hot steam in a batch or continuous operation. Upon contact with steams the pre-foaming agent found within the beads (usually a hydrocarbon such as pentane) starts to boil and the beads are expanded to between [40 to 50] times their original volume and their densities are reduced. Bulk density of pre-expansion beads varies with the equipment, temperature and time.

**Conditioning**

After expansion, the beads are conditioned at room temperature in a ventilated area which allows beads to dry and aerate. The conditioning generally requires [24] hours and is essential to the quality of the beads which will reach an equilibrium temperature and pressure.

### Moulding

The beads are placed within a mould and again reheated with steam. The pre-expanded beads expand further, completely fill the mould cavity and fuse together. The beads are moulded to form boards, blocks or customised products.

There are two moulding processes:

- Block moulding produces large blocks of EPS or EPO which can then be cut into shapes or sheets for use in both packaging and construction applications.

- Shape moulding produces parts which have custom designed specifications. Electronic product packaging in particular is where shape moulded EPS or EPO is used extensively.

### Manufacturing facilities and capacity

The locations of our three factories, namely, Chuzhou Factory, Sichuan Factory and Chongqing Factory, have been chosen to be strategically close to our major customers. The close proximity of the factories to our major customers allows us to respond promptly to changing packaging requirements of our customers and deliver our products to them in a timely and efficient manner.

The following table sets out the standard and actual annual manufacturing capacity, and utilization rate of our manufacturing facilities in the Chuzhou Factory for the periods stated:

| | For the financial year ended 31 December | | |
|---|---|---|---|
| **Chuzhou Factory** | **2008** | **2009** | **2010** |
| Manufacturing output (tonnes) | 3,038 | 1,767 | 2,121 |
| Manufacturing capacity (tonnes) | 4,620 | 4,800 | 4,800 |
| Approximate average annual utilization rate | 65.8% | 36.8% | 44.2% |
| Approximate maximum monthly utilization rate | [93.1]% | [59.7]% | [61.1]% |

Chuzhou Chuangce carries out business and manufacturing operations in the Chuzhou Factory that stands on a piece of land with an area of approximately 18,142 $m^2$ and offers a gross floor area of approximately 9,939.05 $m^2$.

The utilisation rate of the manufacturing facilities in the Chuzhou Factory decreased from approximately [65.8]% in 2008 to approximately [36.8]% in 2009 mainly as a result of the decrease in our output of products as our customers placed fewer purchase orders for our products and in particular our packaging products for cathode ray tube televisions in 2009 than in 2008. The utilisation rate increased from approximately [36.8]% in 2009 to approximately [44.2]% in 2010 mainly as a result of the increase in our output of products as our customers placed more purchase orders for our products and in particular, our packaging products for flat panel and plasma televisions and refrigerators in 2010 than in 2009. Please refer to the paragraph headed "Financial information – Principal income statement components – Revenue" for further information.

The following table sets out the standard and actual annual manufacturing capacity, and utilization rate of our manufacturing facilities in the Chongqing Factory for the periods stated:

| | For the financial year ended 31 December | | |
|---|---|---|---|
| **Chongqing Factory** | **2008** | **2009** | **2010** |
| Manufacturing output (tonnes) | 2,085 | 2,322 | 3,353 |
| Manufacturing capacity (tonnes) | 5,000 | 5,000 | 5,300 |
| Approximate average annual utilization rate | 41.7% | 46.4% | 63.3% |
| Approximate maximum monthly utilization rate | [72.0]% | [77.6]% | [88.0]% |

Chongqing Guangjing carries out business and manufacturing operations in the Chongqing Factory that stands on a piece of land with an area of approximately [17,601] $m^2$ and offers a gross floor area of approximately 15,874 $m^2$.

The utilisation rate of the manufactory facilities in Chongqing Factory increased from approximately [41.7]% in 2008 to approximately [46.4]% in 2009 mainly as a result of the increase in our output of products as our customers placed more purchase orders for our products and in particular, our packaging products for air conditioners and washing machines in 2009 than in 2008. The utilisation rate increased further from approximately [46.4]% in 2009 to approximately [63.3]% in 2010 mainly as a result of the increase in our output of products as our customers placed more purchase orders for our products and in particular, packaging products and structural components for air conditioners and washing machines. Please refer to the paragraph headed "Financial information – Principal income statement components – Revenue" for further information.

The following table sets out the standard and actual annual manufacturing capacity, and utilization rate of our manufacturing facilities in the Sichuan Factory for the periods stated:

| | For the financial year ended 31 December | | |
|---|---|---|---|
| **Sichuan Factory** | **2008** | **2009** | **2010** |
| Manufacturing output (tonnes) | 4,354 | 2,594 | 2,682 |
| Manufacturing capacity (tonnes) | 5,000 | 5,000 | 5,000 |
| Approximate average annual utilization rate | 87.1% | 51.9% | 53.6% |
| Approximate maximum monthly utilization rate | [95.2]% | [78.0]% | [70.0]% |

Sichuan Jinghong carries out business operations and manufacturing operations in the Sichuan Factory that offers a gross floor area of approximately 17,294 $m^2$.

The utilisation rate of the manufacturing facilities in the Sichuan Factory decreased from approximately [87.1]% in 2008 to approximately [51.9]% in 2009 mainly as a result of the decrease in our output of products as our customers placed fewer purchase orders for our products and in particular, our packaging products for cathode ray tube televisions in 2009 than in 2008. The utilisation rate increased from approximately [51.9]% in 2009 to approximately [53.6]% in 2010 mainly as a result of the increase in our output of products as our customers placed more purchase orders for our products and in particular, packaging products for flat panel and plasma televisions, air conditioners and refrigerators in 2010 than in 2009. Please refer to the paragraph headed "Financial information – Principal components of statement of comprehensive income – Revenue" for further information.

On 12 May 2008, an earthquake measured 8.0 on the Richter scale hit Wenchuan County. Sichuan Province, the PRC and caused wide spread damages to infrastructures and buildings in the region. The Sichuan Factory is approximately 264 kilometers away from the earthquake epicenter and was affected by the earthquake and suffered a loss of approximately RMB[2.9] million primarily as a result of damages to certain manufacturing machineries and equipments and the operations in the factory were suspended for seven days. There was no compensation paid to our customers as a result of the earthquake.

In an attempt to minimise risk of loss arising from earthquakes that may occur near where the Sichuan Factory is located in the future, we [intend to take out] insurance policy to cover against risk of loss arising from, among other things, damages made to material fixed assets and machineries necessary for the business and manufacturing operations of the Sichuan Factory.] We also [intend to adopt] earthquake drill policy and procedure for all staffs in the Sichuan Factory and require all occupants to participate in the drill and vacate the factory in an orderly fashion when required. The object of the drill is to prepare the factory occupants for exiting a factory quickly during an earthquake or related emergency.

Further, we will monitor and follow closely any earthquake warning notices issued by the China Earthquake Administration (中國地震局) and/or other relevant authorities in Sichuan Province, the PRC and take appropriate actions such as suspending operations and vacating the Sichuan Factory, and other actions considered appropriate by our management.

The following table sets out the standard and actual manufacturing capacity, and utilization rate of our manufacturing facilities of our Group for the periods stated.

| | For the financial year ended 31 December | | |
|---|---|---|---|
| **Manufacturing output (tonnes)** | **2008** | **2009** | **2010** |
| ***Packaging products*** | | | |
| Televisions | **6,779** | **3,109** | **2,650** |
| Cathode ray tube | 6,115 | 1,312 | 555 |
| Flat panel & Plasma | 664 | 1,797 | 2,095 |
| Air conditioners | 880 | 1,101 | 1,993 |
| Washing machines | 641 | 1,215 | 1,386 |
| Refrigerators | 457 | 855 | 1,491 |
| Others | 419 | 141 | 119 |
| ***Structural components*** | | | |
| *Air conditioners* | 302 | 262 | 517 |
| **Total** | **9,478** | **6,683** | **8,156** |
| **Manufacturing capacity (tonnes)** | **14,620** | **14,800** | **15,100** |
| **Approximate average annual utilization rate** | **64.8%** | **45.2%** | **54.0%** |
| **Approximate maximum monthly utilization rate** | **87.2%** | **71.9%** | **72.3%** |

The demand for our packaging products depends on the sales or expected sales of our customers. The demand for our packaging products and structural components are affected by the seasonality of the purchase orders placed by our customers. In general, there is expectation of higher sales of consumer electrical appliances around major festive holidays such as the Chinese New Year and the summer season requires stocking of consumer electrical appliances which in turn encourage the purchases of our packaging products and structural components.

For further details about factors that affect our results of operations, please refer to paragraph headed "Financial information – Factors affecting our results of operations" in this [•••].

*Relationship with Sichuan Changhong Electric*

We, in general, owned all our factories and the site on which they stand save and except the Sichuan Factory. The Sichuan Factory is situated within the manufacturing base of Sichuan Changhong Electric and was set up, at the outset, to manufacture and supply packaging products for packaging televisions, air conditioners and to manufacture structural components.

Sichuan Jinghong was established jointly by Conca Investments and Sichuan Changhong Electric on 15 September 2005 and owned as to 65% by Conca Investments and 35% by Sichuan Changhong Electric.

As part of the terms of the investment agreed upon between Conca Investments and Sichuan Changhong Electric, Sichuan Changhong Electric agreed to offer and Sichuan Jinghong agreed to lease a parcel of land on which the Sichuan Factory stands for business and manufacturing operations of Sichuan Jinghong. In addition, Sichuan Changhong Electric agreed to supply and Sichuan Jinghong agreed to purchase power resources including electricity, water, steam and pressurized air in an amount adequate for the business and manufacturing operations of the Sichuan Factory at predetermined rates. The close proximity to Sichuan Changhong Electric allowed Sichuan Jinghong to minimise transportation costs and delivery time of the packaging products and quicken the response time to its customer requests. Since commencement of operation in 2005, Sichuan Changhong Electric has provided to Sichuan Jinghong a stable supply of power resources including electricity, water, steam and pressurized air and offer the Sichuan Factory to Sichuan Jinghong for its business and manufacturing operations. The above arrangements allowed Sichuan Jinghong to dispense with the requirement for the outlay of initial capital expenditure and resources for setting up a factory equipped with the necessary equipment for supply of power resources and expedite its commencement of operations.

On 26 September 2008, Sichuan Jinghong became a wholly-owned subsidiary of Conca Investments. For details, please refer to the section headed "History, Reorganization and Group Structure – Sichuan Jinghong" in this [•••].

Sichuan Changhong Electric and Sichuan Jinghong entered into a renewed leasing agreement on 27 December 2010 pursuant to which Sichuan Changhong Electric agreed to offer and Sichuan Jinghong agreed to lease the Sichuan Factory for business and manufacturing operations for a term of three years commencing on 1 January 2011 and ending on 31 December 2013, subject to renewal, at a rental of approximately RMB121,000 per month or approximately RMB1.5 million per year. Our Directors are of the view that the leasing agreement was based on normal commercial terms after arm's length negotiations between Sichuan Changhong Electric and Sichuan Jinghong. As confirmed by Asset Appraisal Limited, our property valuer, the rental payable by Sichuan Jinghong to Sichuan Changhong Electric for leasing of the Sichuan Factory under the leasing agreement is reasonable and comparable to market rental prices of similar industrial properties located nearby. In light of the above, the Sponsor concurs with our Directors' view that the leasing agreement was based on normal commercial terms that are reasonable and comparable to market rental prices of similar industrial properties located in nearby region. In addition, Sichuan Changhong Electric and Sichuan Jinghong entered into an agreement on 13 February 2011 pursuant to which Sichuan Changhong Electric agreed to supply and Sichuan Jinghong agreed to purchase power resources including electricity, water, steam and pressurized air for business and manufacturing operations of Sichuan Jinghong, for a term of three years commencing on 13 February 2011 and ending on 13 February 2014, subject to renewal, at predetermined rates with reference to prevailing market rates and manufacturing capacity of the Sichuan Factory. Our Directors are of the view that the rates payable by Sichuan Jinghong to Sichuan Changhong Electric for the purchase of power resources under the abovementioned agreement are reasonable and based on the prevailing market rates of such power resources, the materials and operating costs incurred in the provision of such power resources by Sichuan Changhong Electric, and that the agreement was based on normal commercial terms after arm's length negotiations between Sichuan Changhong Electric and Sichuan Jinghong. In light of the above, the Sponsor concurs with our Directors' view that the agreement was based on normal commercial terms that are reasonable and reflected the prevailing market rates of such power resources, the materials and operating costs incurred in the provision of such power resources by Sichuan Changhong Electric.

For the Track Record Period, Sichuan Jinghong continued to lease the manufacturing space and purchase necessary power resources from Sichuan Changhong Electric. For the Track Record Period, our rental payments for the Sichuan Factory were approximately RMB1.3 million, RMB1.3 million, RMB1.5 million and RMB726,000 whilst payments for purchase of the power resources above were approximately RMB12.0 million, RMB6.3 million, RMB4.4 million and RMB518,000 for the respective periods. The quantities of the power resources namely, electricity, water, steam and pressurized air purchased by Sichuan Jingong from Sichuan Changhong Electric decreased from 2008 to 2009 amidst a lackluster business performance and the general decrease in manufacturing output and revenue of our Group during the period. In 2010, Sichuan Jinghong completed the enhancement of the power supply system in the Sichuan Factory and in particular, the refurbishment of some steam pipes through which pressurized steam required for manufacturing of our products was transported. The refurbishment of steam pipes increased the efficiency of utility usage and lowered the consumption of steam in the manufacturing operations. In addition, Sichuan Jinghong installed machines for production of pressurized air in 2010. Sichuan Jinghong managed to consume much less steam and pressurized air provided by Sichuan Changhong Electric in 2010 as compared to 2009, which contributed to the decrease in payments for the purchase of power resources by Sichuan Jinghong to Sichuan Changhong Electric in 2010 as compared to 2009. Please also refer to the paragraph headed "Financial information – Principal components of statement of comprehensive income – Gross profit" for further information.

Sichuan Jinghong (as licensee) has entered into two patent licensing agreements with Sichuan Changhong Electric (as licensor) pursuant to which: (i) we are granted the use in the PRC of two patents owned by Sichuan Changhong Electric for a term of 5 years from 22 August 2008 at a total consideration of RMB8,000 per year; and (ii) we are granted the use in the PRC of four patents owned by Sichuan Changhong Electric for a term of 5 years from 20 October 2009 at a total consideration of RMB12,000 per year. The considerations for the licensing of the patents under the abovementioned agreements are reasonable and based on arm's length negotiation between the respective parties. Our PRC Legal Advisor is of the opinion that [there is no restrictive clause in the patent licensing agreements prohibiting the use of the above patents by the Company in the manufacturing of products for customers other than Sichuan Changhong Electric.] The patents were related to the design of packaging products for certain versions of [flat panel and plasma televisions]. For the Track Record Period, our Group did not rely on the application of the patents referred to in the patent licensing agreements as we did not derive revenue from sale of packaging products on which such patents were directly applied. In view of the above, our Directors considered that the patents were not crucial to the operations of our Group during the Track Record Period. For further details, please refer to the paragraph headed "Appendix V – Intellectual property rights" in this [•••].

For the Track Record Period, we derived revenue from the sale of products to Sichuan Changhong Electric of approximately RMB[126.0] million, RMB[43.5] million, RMB[40.8] million and RMB25.0 million respectively, which accounted for our total revenue of approximately [53.7]%, approximately

[35.7]%, approximately [24.6]% and approximately 24.9% respectively. The pricing for the sales of our products to Sichuan Changhong Electric was based on market rates and fall within our price range for such products. For the Track Record Period, the Company paid compensation of approximately RMB[6,000] in 2010 and approximately RMB[3,000] in the first half 2011 to Sichuan Chonghong Electric in connection with supply of defective products. Our Directors are of the view that such compensation was immaterial as compared to revenue derived from the sales of products to Sichuan Changhong Electric, which has continued to place purchase orders for our products.

In addition, we manufactured and sold our packaging products and structural components to Sichuan Changhong Electric and its related companies during the Track Record Period. For further details, please refer to the paragraph headed "Customers" of this [•••].

Sichuan Jinghong relies on Sichuan Changhong Electric for the purchase of its products and the following arrangements: leasing of the Sichuan Factory, the supply of power supply and the licensing of patents in connection with its business and manufacturing operations carried out in Mianyang City, Sichuan Province, the PRC. Notwithstanding our cordial commercial relationship with Sichuan Changhong Electric, there can be no assurance that the above arrangements will not be terminated before or will be renewed further upon their respective expiry dates. In the event of early termination or the non renewal of the above arrangements upon expiry, we will have to execute a contingency plan and secure another factory and alternative source of power supply or produce such power supply on our own in Mianyang City, Sichuan Province, the PRC at manageable costs and within a reasonable timeframe in order to continue our business and manufacturing operations there. We may have to adjust the product mix of Sichuan Jinghong such that its manufacturing operations will not require the applications of the above patents owned by Sichuan Changhong Electric. Based on our contingency plan, we identified factories available for leasing at appropriate locations in Mianyang City within reasonable distance from our existing and potential customers offering gross floor areas ranged from approximately [14,000] sq.m. to approximately [16,000] sq.m. at asking rents comparable to the rent for the leasing of the Sichuan Factory. The factories were installed with equipment for the supply of power resources necessary for our operations at rates comparable to that payable by Sichuan Jinghong to Sichuan Changhong Electric for purchase of power resources. The execution of the contingency plan will likely incur expenses including, among other things, relocation expenses and renovation expenses and such expenses were estimated, in aggregate, to be approximately RMB[2 million]. The whole relocation process was expected to take around [30] days while the installation of machines and equipment for the manufacturing of our products was expected to take around [7] days and during which the operations of Sichuan Jinghong would be suspended and as such, Sichuan Jinghong would suffer a loss of revenue of approximately RMB[5.4 million] estimated on a pro rata basis of the revenue contributed by Sichuan Jinghong for the financial year ended 2010. The estimated loss of revenue represented approximately 3.3% of the total revenue of our Company for the financial year ended 2010. Our Directors are of the view that the execution of the relocation process will have an impact on the operations of our Group and based on the number of days of operation suspension of Sichuan Jinghong, the related expenses to be incurred and loss of revenue as estimated on the basis above, such impact is not excessive and is manageable. The Sponsor concurs with our Directors' view in this regard. In order to manage disruption to Sichuan Jinghong and to remain as a supplier of packaging products to Sichuan Changhong Electric, we will continue to monitor commercial relationship and maintain regular communication with Sichuan Changhong Electric and in addition, review the above arrangements prior to their respective expiry dates and evaluate options available to us including acquisition of land and self production of power supply and in doing so, consider relevant factors such as the funding requirement, working capital requirement and business expansion of our Group, and further, our sales and marketing staff will continue to focus on Sichuan Changhong Electric so as to understand its latest product requirements, and our product design and development staff and quality control staff will continue to maintain product quality or modify product specifications such that we may continue to supply products to its satisfaction. Please refer to the paragraph headed "Risk factor – Our reliance on Sichuan Changhong Electric" for risks arising from our reliance on Sichuan Changhong Electric. Nonetheless, we will continue our effort to increase our customer base. In particular, our plan to establish a new factory in Wuhu City, which upon completion, will likely expand our customer base and reduce our reliance on Sichuan Changhong Electric in the future.

**Maintenance**

We carry out inspection and maintenance on our manufacturing facilities on a regular basis. We have internal procedures for carrying out inspection and maintenance on our manufacturing facilities in accordance with the requirements and conditions of particular machineries so as to ensure their proper functioning. Our technicians carry out inspection and maintenance in respect of a particular set of machinery or part of our manufacturing lines upon request and, in general, carry out maintenance examinations in respect of the whole of manufacturing lines on a [weekly] basis. For the Track Record Period and up to the Latest Practical Date, we did not experience any material or prolonged suspension of manufacturing operations arising from failures or breakdowns of machineries and equipment.

**Quality Control**

Our customers require our packaging products and structural components to be of good quality. Quality control is considered an important aspect of our manufacturing operations as adequate quality control can lower defects and returns of defective products which in a long run can fortify our position as a core supplier to our major customers. We have implemented a set of stringent quality control and testing procedures designed to ensure that our products meet the quality requirements of our customers. We have invested and acquired machineries and testing apparatuses for the purposes of ensuring that testing and checking of our product quality is conducted in accordance with rigorous technical criteria.

Our quality control department is responsible for quality control of our products. We have strengthened our quality control capacity by recruiting more quality control personnel. As of 30 June 2011, we have a total of 102 quality control personnel and the [majority] of whom have obtained appropriate technical skills and experiences in the packaging industry in the PRC. Furthermore, our quality control personnel have received in house vocational training in connection with their quality control work. Our quality control team monitors and controls the quality of our operations. We closely monitor the manufacturing processes from the sourcing of raw materials to the production of our products to ensure product quality and safety prior to delivery to our customers. Before delivery of our products to the customers, the quality control personnel will ensure that our products are in compliance with the customers' specifications and are without any patent defects. Our quality control team also actively takes part in product design and development thus ensuring that quality considerations are addressed at an early stage and thereby minimizing subsequent revisions to product design and the number of faulty products. Our quality control team carries out quality control inspection throughout the manufacturing process, including:

- **Quality control for raw materials.** We select suppliers of our raw materials based on, among other things, quality and reliability assessments of their raw materials and we maintain a list of qualified suppliers and only purchase raw materials from suppliers in this list. We carry out reviews of the raw materials on a sampling basis. Before the raw materials are utilized in the manufacturing process, a sample of each type of raw materials will be examined to ensure that their quality meets our specifications. Raw materials that failed our inspection test are returned to suppliers. We also review, on a regular basis, the suppliers in our list and will remove from our list any supplier who fails our evaluations.

- **Quality control during manufacturing.** Our quality control team carries out testing at various stages of the manufacturing processes and select semi-finished products for review testing in accordance with our internal procedures and technical criteria. Our quality control team ensures that any quality related issues revealed under such testing is promptly addressed and resolved.

- **Final testing before delivery.** Our quality control team carries out final inspections to ensure that our products comply with specifications of our customers before arranging delivery of our products to them.

Our quality management systems installed for the manufacturing of our packaging products and structural components at our three factories have been awarded certificates in respect of the compliance with the international standards of ISO9001:2008 and GB/T19001:2008.

In general, we do not have specific sales return and compensation policy. We evaluate claims for compensations by our customers on a case by case basis. We replace defective products with products in good condition. In the event that our customers considered our products deviated from their specified requirements, they serve with us a defect notice. We will carry out product investigation after receipt of such defect notice; and if upon investigation, it is confirmed that our products did deviate from the specified requirements of the customers, we will in general pay compensation in accordance with terms of the sales arrangements with the respective customers and replace such defective products with products in good condition.

For the Track Record Period, in respect of the sale and delivery of products to customers that were considered subsequently to be defective:

– no sales return and no sale proceeds were refunded to the customers;

– compensations paid to the customers were approximately RMB[251,000], RMB[188,000], RMB[628,000] and RMB46,000 respectively while the defective ratios of our products, being the ratio of compensation payments to revenue, were approximately [0.1]%, [0.2]%, [0.4]% and 0.04% respectively;

– compensations above were not sales return in nature and were recorded as expenses in our financial statement; and

– products in good conditions were delivered to replace the defective products and the costs of such replacement products were recorded in our cost of sales.

The increase in compensation payments to our customers in 2010 was caused mainly by the return of structural components for air conditioners by our customers as they considered the structural components did not comply, in full, with their specifications. The structural components were used as parts inside air-conditioners and required to meet high level of precision. As such, our customers may return structural components to us if they consider such components deviate [but not to a large extent] from their specifications. In general, our customers were satisfied with the way we handled products returned by them and they had continued to place purchase orders for our products at [similar level and terms as before]. We continue to put emphasis on product quality and have continued to enhance and update our quality control policy and procedures in accordance with the latest product requirements and specifications of our customers with an aim to ensuring our products' compliance with specifications before delivery to our customers. Further, we have increased the average headcount of our quality control department from [74] employees in 2008 to [82] employees in 2009 and further to [101] employees in 2010 so as to strengthen our quality control effort.

## PRODUCT DESIGN & DEVELOPMENT

We design and manufacture packaging products in accordance with the specifications provided by our customers such that our packaging products fit properly with the target contents and offer adequate protection required for various delivery and storage conditions. We emphasis on enhancing our design and manufacturing capabilities such that our products can be used for broader range of hardware and objects and offer better protection under more harsh and difficult conditions. Our staff works closely with our customers and understands their requirements before designing appropriate packaging products. We believe thorough understanding of our customers' requirements and careful planning before manufacturing allow us to avoid subsequent amendments or interruptions to our manufacturing process and incurring unnecessary costs. In particular, we continue our efforts on utilizing equipment and testing apparatuses as well as making improvements on our moulding tools and processing technologies for our packaging products. We also focus our efforts on ways to streamline our manufacturing processes, reduce manufacturing costs and increase our manufacturing efficiency.

As of 30 June 2011, we had a total of 12 personnel in our product design and development team.

## CUSTOMERS

We supply packaging products and structural components to our customers in the PRC. We have established strong and long term relationships with our customers and some of whom have been our customers for around 14 years. Our major customers namely, Anhui Konka, Sichuan Changhong, Chongqing Haier and Chongqing Gree are larger-scale manufacturers with leading brand names in the consumer electrical appliance markets in the PRC and some of whom engaged in development and production of a diversified portfolio of products. Our major customers or their parent companies are publicly listed on stock markets in the PRC [and/or Hong Kong]. Based on the financial statements published by our major customers in 2010, the financial status of our major customers were solid as they recorded turnovers in billions of RMB and total assets in multi billions of RMB. Our Directors are of the view that all of our major customers are creditworthy commercial counter parties and are confident that all of them will honour their obligations including but not limited to settlement of trade receivables due to our Company in accordance with the terms of the respective sales agreements and purchase orders entered into between our major customers and our Company. For the Track Record Period, the number of customers with whom we had business dealings was [28] customers, [31] customers, [32] customers and 27 customers respectively. We had lost certain customers as some of them had [adjusted the product mix and moved manufacturing lines of certain products away while others had decided to close down businesses]. We intend to retain, to the extent possible, our existing customers and gain new customers, relying on, among other things, our competitive strengths namely, our quality products, knowledge of and experiences in the packaging products, broad range of packaging products, integrated solution for customers' packaging needs, and strategic locations of our factories. Please refer to the paragraph headed "Business – Competitive strengths" for details of our competitive strengths.

We also intend to expand our manufacturing capacity, as part of our business objectives, and establish a new factory in Wuhu City so as to expand our business and customer base geographically into the region. Please refer to the paragraph headed "Business – Business objectives" for details of our business objectives. There is no assurance that we can continue to maintain cordial commercial relationships with our customers or establish commercial relationships with new customers. Should our customers decrease purchase order size or stop placing order with us, our revenue and profit might be reduced notably and in which case, our business, operations and financial performance could be adversely affected.

**Chuzhou Factory**

Chuzhou Chuangce began the production of EPS packaging products for consumer electrical appliances shortly after its establishment and in October 1997 successfully obtained purchase orders for provision of EPS packaging products to Anhui Konka Electronic Co., Ltd (安徽康佳電子有限公司) for its cathode ray tube televisions and in August 2005 for its plasma televisions. In June 2003, Chuzhou Chuangce began provision of EPS packaging products to Anhui Konka Household Appliances Co., Ltd. (安徽康佳電器有限公司) for its refrigerators.

Chuzhou Chuangce has been the sole supplier of EPS packaging products to Anhui Konka for its cathode ray tube televisions since October 1997, refrigerators since [June 2003] and plasma televisions since [August 2005].

**Chongqing Factory**

In October 2003, Chongqing Guangjing commenced the manufacturing and sale of packaging products made of EPS and in May 2005 obtained purchase orders for provision of EPS packaging products and EPS structural components to Chongqing Gree for its air conditioners.

Since then, Chongqing Guangjing has become one of the [major] suppliers of EPS packaging products and EPS structural components to Chongqing Gree for air conditioners.

In [January 2007], Chongqing Guangjing had obtained purchase orders for provision of EPS packaging products to Chongqing Haier for its electrical water boilers. In [February 2007], Chongqing Guangjing began the supply of EPS packaging products to Chongqing Haier for its washing machines, in [March 2007] for its air conditioners, in [July 2007] for its refrigerators and in [October 2007] for its cathode ray tube televisions.

[Chongqing Guangjing provides after-sale services to our customers by stationing personnel at the production premises of our customers. The aforesaid personnel are responsible for: (i) delivering our products to our customers' production lines; (ii) organizing and taking records of returned products; (iii) on-site handling of any issue or problem raised by our customers regarding our products; and (iv) collecting feedbacks and identifying needs of our customers.]

For the Track Record Period, Chongqing Guangjing was the [largest supplier] of EPS packaging products to Chongqing Haier for its air conditioners, washing machines and electrical water boilers; and the [sole] supplier for its cathode ray tube televisions for the three financial years ended 31 December 2008, 2009 and 2010.

**Sichuan Factory**

Sichuan Jinghong was established jointly by us together with Sichuan Changhong Electric, one of our major customers, for the manufacturing of packaging products for packaging of televisions and [air conditioners] and structural components. In October 2005, Sichuan Jinghong commenced manufacturing and sale of EPS packaging products to Sichuan Changhong Electric for its cathode ray tube, flat panel and plasma televisions and in August 2008, EPO packaging products for its flat panel and plasma televisions.

In September 2005, Sichuan Jinghong commenced the manufacturing and sale of EPS packaging products to [Sichuan Changhong Air Conditioners Company Limited] (四川長虹空調有限公司) for its air conditioners and [Sichuan Changhong Web Technology Limited Liability Company] (四川長虹網絡科技有限責任公司) for its satellite television receivers. In January 2007, Sichuan Jinghong began the manufacturing and sale of EPS packaging products to [Sichuan Changhong Moulding Technology Company Limited] (四川長虹模塑科技有限公司) for its plasma televisions and [Sichuan Changhong Good Technology Precision Engineering Company Limited] (四川長虹技佳精工有限公司) for its various consumer electrical appliances.

In March 2010, Sichuan Jinghong began the manufacturing and sale of EPS packaging products to [Guangyuan Changhong Electronics Company Limited] (廣元長虹電子科技有限公司) for its flat panel televisions and cathode ray tube televisions.

Sichuan Jinghong has maintained a cordial commercial relationship with Sichuan Changhong and since 2005 has been its largest supplier of EPS packaging products for [flat panel televisions and since August 2008, has been the largest supplier of EPS and EPO packaging products for its [plasma] television.

Sichuan Changhong, Anhui Konka, Chongqing Haier and Chongqing Gree fell within our top five customers for the Track Record Period.

We work with our major customers, at early stage, to understand and analyze their products and requirements for packaging solutions such that our products can be devised to comply with their specific requirements and be available promptly and within schedules. Our practical approach to our packaging operations allows us to foster close commercial ties with our major customers and therefore gaining the opportunities to become a [core] supplier to them. In keeping regular communications with our customers, we have gained industry knowledge as to the technical requirements and the trends in packaging industry in the PRC. The exchanges of industry related information with our customers enable our product design and development team to improve the design, quality and technological standards of our packaging products which, in turn, fortify our position as a reputable supplier of packaging products in the PRC.

The following table sets out our major customers and types of packaging products provided to them for the Track Record Period.

| Names of major customers | Types of packaging solution and packaging products |
|---|---|
| Anhui Konka | Cathode ray tube televisions, plasma televisions and refrigerators |
| Sichuan Changhong | Cathode ray tube televisions, flat panel and plasma televisions and others |
| Chongqing Haier | Cathode ray tube televisions, air conditioners, washing machines, refrigerators and others |
| Chongqing Gree | Air conditioners |

We, in general, do not enter into long term sales and purchase agreements with our customers as they normally place purchase orders with us for our products based on their estimated sales and production needs. We typically enter into sales agreements with and receive purchase orders from our customers, which set out, among other things, the following:

– the scope of our supplier-customer relationship

– the procedures for placing purchase orders;

– the pricing (including price adjustment mechanism);

– the product quality;

– the payment method;

– the procedures for product delivery, examination and acceptance;

– the return of defective products, if any;

– [the termination and related notice period]; and;

– the parties' confidentiality obligations in respect of the commercial transactions.

[There are no specific requirements on duration and minimum purchase amount in our typical sales agreements and purchase orders.]

We communicate with our customers, in advance, in respect of their packaging requirements such as the quantities of packaging products and delivery timeframes in order to plan for our manufacturing schedules and inventory level. We believe that advanced planning for manufacturing schedules and inventory level enables us to keep down our manufacturing costs and related expenses and allows us to remain competitive in setting our price terms. Our pricing policy, in general, takes into account various factors namely, the complexity of the packaging products required by our customers, the cost of raw materials, the cost of transportation and customer relations. Our pricing policy allows us to pass the changes in costs of raw materials used in the manufacturing of EPS products to our customers. In the event that the costs of raw materials used in the manufacturing of EPS products increase, the selling price of which will increase and vice versa. The pricings for our EPO products are predetermined and set at fixed sums which cover, among other things, the costs of raw materials and manufacturing overhead expected to be incurred in relation to the manufacturing of the EPO products. We typically deliver our packaging products to the destinations required by our customers and the transportation cost is covered in the price for any purchase order placed by our customers. For any delivery to a destination that is far away from our production facility, we typically engage external logistics and transportation companies for delivering our packaging products to the destinations required by our customers. For the Track Record Period, all purchases placed by our customers and the corresponding settlements were made in RMB. We generally give our customers 30 to 180 days' credit upon issuance of invoice and the actual credit terms depend on, among other things, the history of commercial relationships and records of purchases and settlement history of the respective customers.

For the Track Record Period, revenues derived from the sales of our packaging products and structural components to the top five customers were approximately RMB230.9 million, RMB121.3 million, RMB164.7 million and RMB98.5 million representing approximately 98.5%, 99.5%, 99.2% and 97.9% respectively of our total revenues. As at the Latest Practicable Date, we have business relationship with our five largest customers ranging from about two to thirteen years.

For the Track Record Period, the largest customer accounted for approximately 55.3%, 46.1%, 38.2% and 41.9% of our revenues for the respective periods. None of our Directors, their respective associates or Shareholders who hold more than 5% of our issued share capital prior to the completion of the [•••] has any interest in any of our five largest customers.

As of the Latest Practicable Date, our Directors, to the best of their knowledge after making reasonable enquiries, are not aware of any pending or threatened litigation between our Group and any of our top five customers arising from the performance of our Group's obligations under sales contracts entered into between our Group and any of them; and settlement of the outstanding balances of our Group's trade receivables by any of them.

## SALES AND MARKETING

Our sales and marketing department sets the overall marketing strategies with reference to the types of our packaging products, our business areas and the general market dynamics.

Our sales and marketing personnel regularly contact our existing and potential customers for our product development plans. They also pay visit to our existing customers once every week. Our sales and marketing personnel also contact target potential customers by paying visit to them and by emails and phone calls. Our sales and marketing personnel are available onsite at the manufacturing facilities of our major customers to provide detailed information of our packaging products and provide necessary evaluation to assist our major customers in deciding on the appropriate packaging products for their products. The communications with major customers provide our sales and marketing personnel with important feedbacks, requirements of our customers and the latest industry trends.

In general we rely on, among other things, our sales and marketing department and word-of-mouth referral for sales and marketing of our products. Prior to placing purchase orders with us, potential customers will typically inquire about our reputation in the packaging industry and make physical inspection on our factories to satisfy themselves regarding our production capacity and production facilities. The potential customers will also require sample packaging products for their inspection. Until the potential customers are satisfied with our capacity to supply quality products, they will then start placing purchase orders on a recurrent basis with us.

As of 30 June 2011, we had a sales and marketing team of 127 personnel working on sales and customer coverage and services. For the Track Record Period, our selling and distribution expenses were approximately RMB4.8 million, RMB4.3 million, RMB6.3 million and RMB3.9 million respectively.

## SUPPLIERS

We purchase raw materials and components necessary for the manufacturing of our packaging products and structural components from independent third parties. The raw materials mainly include EPS and EPO. We retain a list of approved suppliers of raw materials and components and only make our purchases from the list. We subject potential suppliers to series of evaluations to determine the variety and quality of their raw materials and timeliness of their deliveries of raw materials. Raw materials and components delivered by potential suppliers are analysed and tested with machineries and testing apparatus to determine their quality and standards. We initially make purchases of limited amount of raw materials and components from newly approved suppliers and over time make purchases of larger amount if they have proved themselves to be stable suppliers of raw materials and components of good quality. We believe reliable suppliers of raw materials and components are essential for our business and operations to remain competitive in the packaging industry in the PRC.

We have established long-term commercial relationships with our major suppliers for stable supply and timely delivery of high quality raw materials and components. For the Track Record Period, we did not experience any major difficulties in procuring raw materials and components necessary for the manufacture of our packaging products. We continue to diversify our suppliers of raw materials and components to avoid overly reliance on a single supplier for any type of raw materials and components. Our suppliers typically offer us credit terms of up to 90 days from the time when the raw materials are received by us. For the Track Record Period, the payments to our suppliers were settled in RMB.

For the Track Record Period, the prices of raw material offered by our suppliers reflected, in general, the fluctuations of market prices of EPS and EPO in the PRC. The increases in price of the raw materials are passed, to an extent, to our customers in accordance with the price adjustment mechanism stipulated in our typical sales agreements with customers. Such adjustment to selling price is the normal market practice in packaging industry in the PRC.

For the Track Record Period, purchases from our top five suppliers of raw materials were approximately RMB97.7 million, RMB45.7 million, RMB63.1 million and RMB42.0 million respectively while the largest supplier accounted for approximately 57.7%, 25.7%, 32.5% and 41.7% of our total purchases for the respective periods. As at the Latest Practicable Date, we had business relationship with our five largest suppliers of raw materials ranging from about one to twelve years. A majority of our five largest suppliers of raw materials are EPS or EPO producers in the PRC. For the Track Record Period, purchases from our top five suppliers of ancillary parts were approximately RMB[3.1] million, RMB[3.5] million, RMB[5.1] million and RMB2.4 million respectively.

None of our Directors or their respective associates or Shareholders who own more than 5% of our issued share capital immediately prior to the completion of the [•••] has any interest in any of our five largest suppliers.

## INVENTORY MANAGEMENT

We monitor and control our inventory level to facilitate smooth manufacturing operations while avoiding stock-out or over-stocking of inventory. Our inventory control department is responsible for keeping track of our inventory level and related information. We manage our inventory of raw materials and components and finished products based on the amount of the purchase orders placed by our customers, our delivery schedules, and our procurement cycle for raw materials and components.

We, in general, inform our suppliers the expected demands and schedules of delivery for raw materials and components, in advance, such that they can make appropriate arrangements for timely delivery of raw materials and components. Finished products are stocked in our warehouses after passing our quality inspection and testing procedures. The finished products will be checked and numbered by our personnel for product delivery in accordance with our customer delivery notice and packing note. The finished products that have been packed will be delivered to the locations designated by customers in accordance with the delivery schedules.

We follow a stock-take policy and carry out stock-taking process. Our routine stock-taking is conducted on a monthly basis. We assess periodically if our inventories have suffered from any impairment and there is the need to set aside provision for such inventories. In general, we make provisions in the event that the anticipated realizable selling prices of our products are lower than their costs.

For the Track Record Period, provision for inventory impairment were nil, nil, approximately RMB322,000 and approximately RMB[76,000] respectively. We made provision for inventory impairment in the respective financial years as the actual realizable values of the inventories were lower than their net realizable values. In 2010 and the first half 2011, excessive packaging products for a customer (including cathode ray tube televisions) were manufactured in anticipation of further demand from the customer and as the products no longer being produced or being produced as many as before by the customer, the anticipated purchase order for these excess packaging products was not fulfilled by the customer and thus, we made inventories provision of approximately RMB322,000 in the year ended 31 December 2010 and approximately RMB[76,000] in the six months ended 30 June 2011 in respect of such specific packaging products.

**Shift of demand for packaging products for cathode ray tube televisions to those for flat panel and plasma televisions**

The shift in our customers' production mix from cathode ray tube televisions to flat panel and plasma televisions may affect their choice of packaging products and in turn demand for our packaging products. Our products and inventories may also become obsolete as a result of adverse changes in market demands. Our Directors are of the view that the market trend for flat panel and plasma televisions will likely continue and as such, the demand for packaging products for cathode ray tube televisions will likely continue to decline as a result. For the Track Record Period, we made provisions for obsolete products of nil, nil, approximately RMB322,000 and approximately RMB76,000 respectively. We will capitalize on the market trend and increase our sales and marketing effort for the sale of packaging products for flat panel and plasma televisions instead of cathode ray tube televisions. Revenue derived from the sales of packaging products for flat panel & plasma televisions increased notably during the Track Record Period. We will also focus on the sale of our packaging products and structural components for other electrical appliances. Revenue derived from the sales of packaging products for washing machines and refrigerators and sales of structural components for air conditioners increased during the Track Record Period. In addition, our future plan to establish a new factory in Wuhu City, Anhui province, the PRC, if successful, will likely expand our customer base and result in an overall increase in revenue. Nonetheless, there is no assurance that our sales and marketing effort and the future plan will result in an increase in revenue adequate to compensate for the loss of revenue arising from the decrease in the demand for packaging products for cathode ray tube televisions. Should we fail to compensate for the loss in revenue arising from the above, our total revenue and in turn our profit might decrease notably, and in which case our business, operations and financial performance could be adversely affected. Our staff from sales and marketing department, inventory control department and product design and development team will step up their effort and carry out regular meetings to determine the appropriate level of inventory for particular types of our products so as to avoid building up of excess and obsolete inventory.

## COMPETITION

We operate in a competitive packaging industry in the PRC. The EPS packaging industry for electrical appliances including televisions, air-conditioners, refrigerators, washing machines is fragmented with more than 500 EPS packaging product manufacturers in the PRC. Many of the packaging product manufacturers are located around the electrical appliances manufacturing bases in Pearl River Delta, Yangtze River Delta and Bohai regions in the PRC. The regions combined accounted for approximately 70% of the total television production, approximately 84% of the total air-conditioner production, approximately 71% of the total refrigerator production and approximately 75% of the total washing machine production in the PRC in 2009. The top 10 largest market leaders shared approximately 36.7% of the total market share in the PRC in 2010, as they were able to take advantage of their production capacity, technology and capital power to compete on network of distribution, price, and stability of product quality. In particular, there are about [30] packaging manufacturers in Chuzhou City, Anhui Province, [150] packaging manufacturers in Sichuan Province and Chongqing municipality. According to Synovate, we accounted for approximately [47]% of the EPS packaging for electrical appliances in Chuzhou City, Anhui Province, approximately [70]% in Sichuan Province and Chongqing municipality and approximately [4.3]% in the PRC in 2010. Given that EPS packaging products are relatively large and rigid, the transportation cost over long distance can be high. As such, electrical appliances manufacturers will likely select EPS packaging product suppliers near their production base.

Our competitors are EPS packaging product manufacturers for electrical appliances in the PRC, who may cooperate with international packaging products manufacturers and utilize advanced technology and management experiences to enhance EPS packaging products for electrical appliances in the PRC. The competitors may use products that are recyclable and biodegradable for packaging electrical appliances. They may also use lighter materials such as EPO as raw material for packaging products so as to reduce the weight and delivery cost. EPO has been developed for packaging electrical appliances mainly flat panel and plasma televisions and other high-end fragile electrical appliances, and as substitute for components used inside air conditioners and washing machines so as to absorb shock. Given the notably lower manufacturing cost as compared to EPO and good shock absorbing property, our Directors believe that EPS is among the preferred choices of materials for packaging products in the PRC.

**Interests of Other Family Member**

As advised by the Controlling Shareholders and our Directors, the elder brother of Mr. Chao, an executive Director and one of the Controlling Shareholders, held interests in entities which engaged in businesses that may compete, directly or indirectly, with our Group's business. The elder brother of Mr. Chao is a controlling shareholder (as defined under the Listing Rules) of Sino Haijing, which is engaged in manufacture and sale of packaging materials, including EPS packaging products and paper honeycomb products. For the financial year ended 31 December 2010, Sino Haijing reported revenue of approximately HK$514.3 million, profit for the year of approximately HK$32.9 million and net assets of approximately HK$350.7 million. Please refer to the paragraph headed "Targetting different customers in terms of product types and geographical markets" below for details of target customers. Nevertheless, all the production premises of Sino Haijing and its subsidiaries are located in cities different from those in which our Group carries out operations.

EPS packaging products are relatively bulky and hence transportation costs of EPS packaging products are very high. As such, the EPS industry is a localized industry where each EPS factory serves its customers located nearby. Given the geographical limitations for the EPS packaging industry, our Directors consider that there is no competition between our Group and Sino Haijing for EPS in different localities.

Mr. Chao, through Conca Industries, had been [one of the founding members] of Hefei Haijing Packaging Products Company Limited (合肥海景包裝制品有限公司) (“Hefei Haijing”), Qingdao Haijing Packaging Products Company Limited (青島海景包裝制品有限公司) (“Qingdao Haijing Packaging”) and Qingdao Xinhaijing Packaging Products Company Limited (青島新海景包裝制品有限公司) (“Qingdao Xinhaijing”), which are subsidiaries of Sino Haijing. Mr. Chao had disposed of all his interests in the aforesaid companies in 2002 so as to focus on the development of his business.

Our Company has confirmed that none of our Directors or senior management is a director or senior management of Sino Haijing and none of our senior management has participated in the management of operations of Sino Haijing.

Save as disclosed above, our Company has confirmed that Mr. Chao and Ms. Zhou, the spouse of Mr. Chao and an executive Director, had no direct or indirect equity interest in Sino Haijing and were not involved in any management of its businesses, which is separate and independent from the business of our Group.

In the past, Chongqing Guangjing and Chuzhou Chuangce had various business dealings with Hefei Haijing, Qingdao Haijing, Qingdao Xinhaijing and Qingdao Haijing Moulds Products Company Limited (青島海景模具制品有限公司) (“Qingdao Haijing Moulds”), a wholly owned subsidiary of Sino Haijing. Prior to the Track Record Period, Chuzhou Chuangce had provided to Hefei Haijing moulds and machines used in the manufacture of packaging products and EPS packaging products; and acquired from it raw materials used in the manufacture of EPS packaging products.

During the Track Record Period, Chongqing Guangjing had business dealings with Qingdao Haijing and Qingdao Xinhaijing, which were considered by our Directors as [immaterial in terms of their aggregate monetary value]. For the Track Record Period, the aggregate monetary value of the business dealings between our Group and Qingdao Haijing, Qingdao Xinhaijing and Qingdao Haijing Moulds was approximately RMB[17,900], approximately RMB[2,900], approximately RMB[88,000] and [nil] respectively.

In 2008, Chongqing Guangjing had acquired moulds from Qingdao Xinhaijing at a consideration of approximately RMB[17,900]. Our Directors considered that the acquisition of moulds could save our effort in the design and manufacture of moulds which are necessary for the manufacture of certain of our packaging products.

In 2009, Chongqing Guangjing received reimbursement of approximately RMB[2,900] in connection with the repair expenses of the moulds acquired previously from Qingdao Xinhaijing.

In 2010, Chongqing Guangjing had acquired moulds from Qingdao Haijing Moulds for the manufacture of packaging products at a consideration of approximately RMB[32,000] and models from Qingdao Haijing that would facilitate the design of moulds at a consideration of approximately RMB[300]. In addition, Chongqing Guangjing had sold to Qingdao Haijing EPS packaging products, ancillary parts and moulds required for the manufacture of packaging products at an aggregate consideration of approximately RMB[56,000]. The provision of packaging products, parts and moulds was mainly a commercial decision arrived at after taking into consideration of, among other things, the shift of the manufacturing base of a product type of a customer from Chongqing Municipality to Qingdao City, where Qingdao Haijing runs its manufacturing operation and management of excess packaging products and related parts and manufacturing equipment as a result of such development. In this connection, Qingdao Haijing had arranged, at its expense, the transportation for the delivery of the EPS packaging products and ancillary parts.

Our Directors considered the above transactions were entered into on commercial terms after arm's length negotiation with the counter parties, and were [immaterial in terms of the aggregate monetary value] of the transactions. Save and except the above, there were [no other business dealings] between our Group and Sino Haijing or its subsidiaries during the Track Record Period. Our Directors did not, at this stage, envisage that there would be any material business dealings between our Group and Sino Haijing or its subsidiaries after the [•••].

Our Group [had adopted] the following strategies to manage the potential competition with Sino Haijing after the [•••]:

(i) **Maintaining independence from Sino Haijing:** We are independent from Sino Haijing and we will maintain our independence from Sino Haijing. There is no overlap in members of the board of directors and senior management between our Group and Sino Haijing and we do not rely on Sino Haijing for any of our financing, administration or operation related matters. [We have an independent marketing team with experienced staff responsible for sourcing new customers.] For the Track Record Period, our Company sourced customers independently and did not make or receive business referrals to or from Sino Haijing. As at the Latest Practicable Date, our Group did not envisage that there will be any transaction with Sino Haijing or its subsidiaries after the [•••]. In case of any potential transaction with Sino Haijing or its subsidiaries arises, such transaction has to be approved by our Directors (including independent non-executive Directors) on the basis that such transaction is fair and reasonable so far as our Company and independent Shareholders are concerned. Any Director having conflicting or potential conflicting interests in the transaction will have to abstain from voting and will not be counted as quorum at the relevant meetings of the Board and in accordance with the provisions of the Articles and the applicable Listing Rules. We will also comply with all applicable Listing Rules in relation to any of such proposed transaction;

(ii) **Being geographically delineated from Sino Haijing:** We are of the view that the EPS packaging industry is a localized industry as EPS packaging products are typically large and rigid and therefore the transportation costs of EPS packaging products over long distance are expensive. As such, buyers of EPS packaging products and in our case, consumer electrical appliance manufacturers, will typically choose to purchase such EPS packaging products from suppliers which are nearby to their manufacturing bases. As disclosed in the section headed "Future Plans" in this [•••], we intend to focus on our existing geographical markets, which are in close proximity to where our three factories are located, namely, (i) Chuzhou City, Anhui Province, (ii) Guangxing Town, Jiangjin District, Chongqing municipality and (iii) Sichuan Province Mianyang State High Technology

Industrial Development Zone Mianyang City, Guaoxin District, Sichuan Province, the PRC and the new market in Wuhu City, Anhui Province, the PRC. Our Group has no immediate plan to build a material business presence in locations where Sino Haijing has major manufacturing operations in, namely, based on the information contained in its website as at [•••] 2011, Dalian City, Qingdao City, Hefei City and Huizhou City, the PRC. Our Directors are of the view that our existing and proposed manufacturing operations are geographically delineated from those of Sino Haijing, and given that EPS packaging is a localized industry, our Group is not in direct competition with Sino Haijing. Our Company or Mr. Chao has not entered into any agreement or arrangement with Sino Haijing in respect of the target geographical markets for establishment of business presence as we operate our businesses independently from Sino Haijing.

(iii) **Targeting different customers in terms of product types and geographical markets:** We understand that Sino Haijing, based on the information contained in its website as at [•••] 2011, manufactures and sells EPS and paper honeycomb packaging products instead of EPO packaging products, while our Group manufactures and sells EPS and EPO packaging products instead of paper-made packaging products. As at the Latest Practicable Date, our Group had no plan to manufacture and sell paper honeycomb packaging products. Given such difference in product types and the geographical delineation, our target customers are not likely to be exactly the same as those of Sino Haijing. We also understand from the website of Sino Haijing that there are business dealings between Sino Haijing and Haier group, which is related to Chongqing Haier, one of our top five customers based in Chongqing municipality, the PRC. During the Track Record Period, save as Chongqing Haier, our Group did not provide any packaging products to other related companies of Haier group. For the Track Record Period, our Company derived revenue of approximately RMB[15.4] million, RMB[23.1] million, RMB[14.7] million and RMB9.9 million from Haier group, respectively. As at the Latest Practicable Date, save as disclosed above, our Directors were not aware of any business dealings between our Group and any of our customers who were related to customers of Sino Haijing by way of common ownership and control. Having considered the above, our Directors are of the view that the target customers of our Company and Sino Haijing are different individual companies despite some of them may be related by way of common ownership and control.

(iv) **Ensuring fair competition in the best interests of our Shareholders:** Our Group is encountering competition or potential competition from many suppliers of packaging products (including but not limited to Sino Haijing) in the PRC market in the usual and ordinary course of business. As mentioned above, our existing and proposed operations are geographically delineated from those of Sino Haijing and as such, there is no direct competition between our Group and Sino Haijing at present. In determination of an appropriate area for establishment of our business presence, we will consider, among other things, potential demand for our products in the area namely, the number and size of consumer electrical appliance manufacturers in the area. We will also consider the potential competition in the area stemming from existing suppliers of packaging products and scale of their business operations. In general, we aim to avoid head-on competition with well-established and large scale suppliers of packaging products with ample financial resources in an area as we consider such strategy will yield comparatively higher chance of success and therefore limit the chance of investment loss. [Taking into account that (i) we have long business relationship (most of which had been started before the Track Record Period) with our major customers; (ii) we have an established sale network; and (iii) EPS packaging industry requires investment in terms of time and capital for providing tailor-made products to customers, our Directors are of the view that the aforesaid factors will provide us with competitive advantages over those EPS product suppliers (including but not limited to Sino Haijing) who may plan to establish business presence in areas we may have operations in future.] In addition, should any competition between our Group and Sino Haijing arises in the future, our Directors believe that by maintaining our independence from Sino Haijing as mentioned above, we are able to fully leverage on our competitive strengths (including our quality and diversified products, our personnel with knowledge of and experience in the packaging industry, our integrated solution for customers' needs and the strategic locations of our production bases) and implement our business strategies (including expanding our market position, market share and production capacity, strengthening our [product design and development] capability, and recruitment of quality personnel and providing continuous training to our staff) so as to ensure fair competition with Sino Haijing. Our Company or Mr. Chao has not entered into any agreement or arrangement with Sino Haijing in respect of the target geographical markets for establishment of business presence, business strategy and development, product type development, target customer types or business referral as we operate our business independently from Sino Haijing. Our Board will also act in the best interests of our Shareholders. In case of any potential transaction that may give rise to a reasonable perception of compromising our independence from Sino Haijing, such transaction has to be approved by our Directors (including independent non-executive Directors) on the basis that such transaction is fair and reasonable so far as our Company and independent Shareholders are concerned. Any Director having conflicting or potential conflicting interests in the transaction shall abstain from participating in and voting as well as not being counted as quorum at the relevant meetings of the Board and comply with the applicable requirements in accordance with the provisions of the Articles and the applicable Listing Rules. We will also comply with all applicable Listing Rules in relation to any of such proposed transaction. In addition, we will disclose in our annual reports details of such proposed transaction, including but not limited to, the background of such proposed transaction, basis of consideration and whether the Board considers such proposed transaction is fair and reasonable so far as our Company and independent Shareholders are concerned. For further details of our competitive strengths and business strategies, please refer to the sections headed "Business – Competitive Strengths" and "Business – Business Strategies" in this [•••].

In view of the above, the Sponsor concurs with our Company's view that as at the Latest Practicable Date (i) there is no competition for EPS products between our Group and the other above mentioned businesses of the Controlling Shareholder in different localities; and (ii) none of the Controlling Shareholders or our Directors has any interest in a business apart from our Group's business which competes or is likely to compete, directly or indirectly, with our Group's business and which falls under the ambit of Rule 8.10 of the Listing Rules.

Our manufacturing facilities are capable of producing packaging products made of EPS and EPO and can be adjusted to increase the output of EPO packaging products as may be required by our customers should they prefer EPO packaging products. The new factory we intend to establish in Wuhu City, Anhui Province, the PRC will also be equipped with the necessary manufacturing facilities for production of packaging products made of EPS and EPO. For the Track Record Period, EPO packaging products attracted comparatively higher gross profit margins than EPS packaging products as the manufacturing of EPO packaging products required additional procedures and planning and EPO packaging products were priced comparatively higher than EPS packaging products. On this basis, the increase in the sales of EPO packaging products may be beneficial to the profitability of our Company. We will continue to monitor the latest trends in the packaging industry and maintain regular communication with our customers in the PRC so as to understand the latest requirements for packaging products and continue modifying our product types and quality to the satisfaction of our customers.

Our Directors believe that we can compete with competitors based on our competitive strengths set out in the section headed "Business – competitive strengths" and business strategies set out in the section headed "Business – Business strategies" to this [•••].

## REAL PROPERTY

We carry out our business and manufacturing operations in Chuzhou City, Anhui Province, Jiangji District, Chongqing City and Mianyang City, Sichuan Province, the PRC and have maintained a principal place of business in Hong Kong.

### Our Owned Properties

As of the Latest Practicable Date, we held properties in Chuzhou City, Anhui Province and Jiangji District, Chongqing Municipality the PRC, which consist of: (i) the two parcels of industrial land with a total site area of approximately 35,743 sq.m. and (ii) the buildings with a total gross floor area of approximately 24,784 sq.m.. We have obtained all the relevant long term land use right certificates and building ownership certificates for our owned properties.

### Our Leased Properties

As of the Latest Practicable Date, we leased properties in Hong Kong as our principal place of business in Hong Kong and in Mianyang City, Sichuan Province, the PRC for our business and manufacturing operations carried out in the Sichuan Factory in the PRC. The leased property in Hong Kong comprises gross floor area of approximately 107.6 sq.m. The leased property in Mianyang City, Sichuan Province, the PRC comprises three contiguous factory buildings with a total gross floor area of approximately 17,294 sq.m.

On 27 December 2010, Sichuan Changhong Electric and Sichuan Jinghong entered into a renewed leasing agreement and pursuant to which Sichuan Changhong Electric agreed to offer and Sichuan Jinghong agreed to lease the Sichuan Factory for business and manufacturing operations for a term of three years commencing on 1 January 2011 and ending on 31 December 2013, subject to renewal, at a rental of approximately RMB121,000 per month or approximately RMB1.5 million per year. As of the Latest Practicable Date, the building ownership certificates in respect of the Sichuan Factory had not been provided by Sichuan Changhong Electric to prove its ownership titles to the property as required under the relevant PRC laws and regulations. The building ownership titles of the property have been registered with Changhong Machinery Factory (長虹機器廠), a related company of Sichuan Changhong Electric. On 25 January 2011, Changhong Machinery Factory issued a letter acknowledging Sichuan Changhong Electric's right to the disposition of the property. In consideration of the above, Shu Jin Law Firm are of the view that the leasing agreement entered into between Sichuan Changhong Electric and Sichuan Jinghong are legally binding to the respective parties and enforceable in the PRC and as such, Sichuan Jinghong has the right to utilize the property for its operations in accordance with the terms and conditions under the leasing agreement.

For further details of our properties, please refer to the valuation report set out in Appendix III to this [•••].

## INTELLECTUAL PROPERTY

For the purpose of minimizing our exposure to infringement or misappropriation claims in respect of intellectual property rights, we rely on, among other things, the proper registration of intellectual property rights with authorities in jurisdictions in which we carry out our business operations (in the case of our intellectual property rights); and the entering into legally binding patent licensing agreements with patents owners in respect of applications of their patents in our business operations (in the case of third party intellectual property rights).

As of the Latest Practicable Date, our Company had applied for the registration of the logo as our trademark in Hong Kong which was subsequently assigned to Metro Master. We have registered [jinbaobao.com.hk] as our domain name.

Our subsidiary, Sichuan Jinghong (as licensee) has entered into two patent licensing agreements with Sichuan Changhong Electric (as licensor) pursuant to which: (i) we are granted the use in the PRC of two patents owned by Sichuan Changhong Electric for a term of 5 years from 22 August 2008 at a total consideration of RMB8,000 per year; and (ii) we are granted the use in the PRC of four patents owned by Sichuan Changhong Electric for a term of 5 years from 20 October 2009 at a total consideration of RMB12,000 per year.

For further details, please refer to "Appendix V – Intellectual property rights" in this [•••].

## INSURANCE

We currently maintain insurance coverage on our fixed assets and other properties, plant and equipment, inventory and employee social security. For the Track Record Period and up to the Latest Practicable Date, we had not received any material claims from our customers or end-users of our packaging products in respect of faulty or defective products.

## EMPLOYEES

As of the end of three years ended 31 December 2008, 2009 and 2010 and 30 June 2011, we had 543, 529, 597 and 607 employees respectively. A breakdown of our employees by department as of 30 June 2011 is set forth below:

| | *Total number* | *%* |
|---|---|---|
| Management & administration | 35 | 6 |
| Finance | 12 | 2 |
| Manufacturing | 229 | 38 |
| Maintenance | 19 | 3 |
| Sales & marketing | 127 | 21 |
| Quality control | 102 | 17 |
| Inventory control | 83 | 13 |
| Total | 607 | 100 |

In addition, we have a product design and development team comprising certain management personnel and technicians from various departments who have extensive experience in and knowledge of the manufacturing of packaging products and structural components. The product design and development team is responsible for, among other things, improving the manufacturing process and enhancing the quality and functions of our products. For the Track Record Period, our staff expenses were approximately RMB11.9 million, RMB11.6 million RMB15.2 million, and RMB9.4 million respectively. The average annual wage per employee of our Group based on the number of employee as of the respective year end dates were approximately RMB[22,000] in 2008, approximately RMB[22,000] in 2009 and approximately RMB[25,000] in 2010. For the Track Record Period, we did not have any significant difficulty in recruiting employees or any labor disputes. We had not receive any demand for pay raise from our employees as a direct result of labor unrest which had been reported at several other PRC based manufacturing companies recently. We continue to determine our employee salaries with reference to the prevailing market salary rate of respective locations, experience as well as performance of such employees.

We place strong emphasis on training our employees such that they are equipped with the right set of skills and educated of the latest job requirements, industry knowledge and experience. We provide in house training to our employees regularly, including introductory training for new employees, technical training, team-building and communications training. We also encourage our staff to attend external training courses.

In order to motivate our employees and retain talent while keeping staff expenses in check, we have adopted the employee incentives, which include the Share Option Scheme and bonus sharing arrangement. The employee incentives are available to our employees who are considered qualified for such incentives by the management members of our Group based on their performances in the year under review. The employee incentives allow our Group to reward only the employees who have performed well in the year under review and keep all the employees motivated without having to commit on an overall pay rise for all the employees. [We may also consider to engage additional employees on a part-time basis in the future to work on some routine manufacturing processes in our factories, as and when required, so as to have enough workforce to cope with business requirements during the peak season in a year without incurring an overall increase in staff expenses for the whole of a year].

For details of the Share Option Scheme, please refer to Appendix V to this [•••].

## INTERNAL CONTROL

We put emphasis on maintaining adequate internal control and risk management systems. Our Board of Directors and senior management assume the overall responsibilities for overseeing the implementation of our internal control procedures and risk management systems of our Company. We engaged Baker Tilly Hong Kong, an independent internal control advisor, for an initial review of our overall internal control system in 2010. The scope of work included a review of our internal control over key business processes, including, among other things, financial reporting, sales, procurement, inventory management and fixed asset management. In the report issued by Baker Tilly Hong Kong to us, the internal control advisor did not identify any material weakness or deficiency in our internal control system, and recommended a number of actions to be taken to further improve our existing internal control process in various areas including better documentations of delegation of authority and credit approval for our customers, better record keeping of documents in relation to purchasing and sales activities and upgrading the user security function of our computer system. We have taken up the recommendations and implemented measures and the internal control advisor is satisfied that all the measures have been properly implemented.

### Our products and the environment

We manufacture and supply packaging products and structural components for packaging of consumer electrical appliances such as televisions, air conditioners, washing machines and refrigerators in the PRC. During the Track Record Period, all our packaging products were primarily made of raw materials comprising mainly EPS and to a lesser extent EPO while our structural components were made of EPS. The raw materials are preprocessed, conditioned and moulded through our manufacturing facilities into our packaging products. We do not apply chlorofluorocarbons as blowing agents in the manufacturing of our products and therefore making the manufacturing process more benign to the environment. Given the stable nature of EPS products, the proper handling and storage of which will not cause them to produce harmful substance that contaminates the air and underground water. Packaging products made of EPS and EPO can be recycled and reused. Their scraps can be reprocessed in our manufacturing facilities for production of packaging products and structural components. Nonetheless, the rigidity and low value of the scraps made of EPS make it not too commercially attractive to collect, and transport them over long distance for recycling in the PRC. We do not, in general, incinerate [EPS and EPO scraps] as such scraps are typically [stored in our storage facilities and may be mixed with raw materials and used in the manufacturing of packaging products in our existing manufacturing facilities]. [For the Track Record Period, the value of packaging products that were recycled in our manufacturing facilities was negligible in comparison with our revenue and total asset values.] Our Directors [are not aware of any harmful substances released during our manufacturing processes of packaging products that caused material adverse impact on the environment. In this connection, we had not been served official notice in respect of any material breach of applicable environmental regulations in the PRC during the Track Record Period]. We have no control over the end users as to their dispositions of our products. Given that products made of EPs and EPO tend to biodegrade slowly in an open environment, any disposal of such products, in an uncontrolled manner, may have a negative impact on the environment.

There are packaging products for electrical appliances that are considered environmental friendly and are recyclable and biodegradable. Customers who are conscious about environment protection may consider the use of environmental friendly packaging products. They may also use lighter materials such as EPO as raw material for packaging products so as to reduce the weight and delivery cost. EPO is an alternative to EPS as it possesses superior toughness and shock absorbing properties and therefore the use of EPO may reduce the overall quantity of packaging material required for packaging and protection purposes. EPO also has comparatively higher reusing and recycling rates. Our manufacturing facilities are capable of producing packaging products made of EPS and EPO and may be adjusted to increase the output of EPO packaging products as may be requested by our customers. In view of the above, our Directors consider that the EPO packaging products may allow us to accommodate the trend of using more environmentally friendly packaging products, if any, despite that EPO products are stable and degrade slowly and considered an environmental issue by some environmental organizations. We will continue to monitor the latest trends in the packaging industry and maintain regular communication with our customers in the PRC so as to understand the latest requirements for packaging products and continue modifying our product types and quality to the satisfaction of our customers.

As of the Latest Practicable Date, our Directors as advised by our PRC Legal Advisers, are not aware of any regulations prohibiting the manufacturing and sale of EPS and EPO packaging products for packaging consumer electrical appliances in the PRC. As advised by our PRC Legal Advisers and confirmed by our Directors, our PRC subsidiaries had obtained confirmations from relevant environmental bureau in respect of our compliance in all material aspects with the environmental laws in the PRC during the Track Record Period. In order to ensure on-going compliance with environmental protection related regulatory requirements applicable to our business activities in the PRC, our Group would designate [Ms. Chen Fen, an executive Director,] to supervise our compliance with the regulatory requirements and communicate with the relevant regulatory authorities and our PRC Legal Advisers, if necessary, with a view to keeping us abreast of the latest regulations and regulatory developments relating to our business, will circulate internal memo summarizing any new development to the regulatory requirements to our staff to ensure on-going compliance and the designated personnel is also responsible for reviewing compliance related work done and compliance records of our Group.

## LEGAL PROCEEDINGS

To the best knowledge of our Directors after making reasonable enquiries, as of the Latest Practicable Date, our Directors were not aware of any pending, threatened litigation or other proceedings that may, and are not involved in any litigation or other proceedings, the outcome of which our Directors believe might, cause material adverse effect on our operations or financial position.

## REGULATORY COMPLIANCE

### Licences and permits

As advised by our PRC Legal Advisers and confirmed by our Directors, save as disclosed in the section headed "Business – Regulatory compliance – Social security insurance and housing provident fund contributions" below, our PRC subsidiaries had (i) obtained all licences, permits or certificates necessary to conduct its business in the PRC; (ii) complied in its operations with all relevant laws and regulations in the PRC; and (iii) obtained confirmations from relevant environmental bureau in respect of the compliance in all material aspects with the environmental laws in the PRC during the Track Record Period.

### Social security insurance and housing provident fund contributions

Our PRC subsidiaries are required to make social security insurance and housing provident fund contributions for their respective employees in the PRC under the applicable laws and regulations in the PRC. Due to differences in local regulations and inconsistent implementation or interpretation of the relevant laws and regulations by local authorities in the PRC, different levels of acceptance of the social security system by their respective employees, as well as insufficient knowledge on our part of the social security system in the PRC, our PRC subsidiaries have not made full contributions in respect of social security insurance and the housing provident fund for their respective employees in the PRC before March 2011. Some of our employees came from rural areas out of where our PRC subsidiaries are located and such rural workers have their residence registered with the villages from which they came. The relevant local government authorities have different policies in respect of social security insurance contribution schemes for rural workers, who migrate from place to place. Thus it is difficult for rural workers to transfer their social security registrations to other localities and continue their social security contributions. Further, some of these rural workers are reluctant to participate in social security contribution schemes as they considered such contributions a financial burden given contributions are required to be paid by employees as well as employers, and their inability to transfer contributions previously made by them. We have also not been able to make housing provident fund contributions for our employees in circumstances where employees have not been willing to make corresponding contributions.

The outstanding amount of the social security insurance and housing provident fund contributions payable by our PRC subsidiaries to the relevant PRC authorities in respect of the above non-compliance with the social security system in the PRC were approximately RMB[850,000]. [Our PRC legal advisers are of the view that the chance for our PRC subsidiaries to settle a penalty or fine in connection with the outstanding amount of social and security insurance and housing provident fund contributions arising from the non-compliance with the social security system in the PRC was remote.] Each of our Controlling Shareholder has also agreed to indemnify our Group against all losses suffered or incurred by our Group as a result of or in connection with the failure of our PRC subsidiaries to make contribution in respect of the social security insurance and housing provident fund due to the relevant governmental authorities in the PRC prior to the [•••]. In view of the above, our Directors considered it is not necessary for the Company to set aside provision at this stage in connection with the non-compliance with the social security system in the PRC. As advised by Shu Jin Law Firm, the PRC legal advisor of the Company in accordance with applicable laws and regulations in the PRC, employers may not unilaterally pay their portion of the contribution to the relevant authority in circumstances where an employee's portion of the contribution has not been paid. As such, we will not be able to complete the payment of the outstanding contributions for those employees, who are no longer employed by us. Nonetheless, if such employees elect to make the payments for their own portion of the overdue contributions and request us, as an employer, to make up for such past overdue contributions, we undertake to pay the contributions in accordance with the applicable laws and regulations in the PRC. [Other than the outstanding contributions which we could settle only after the employees' request, all other outstanding contributions will be settled before the [•••].]

We have obtained confirmations from Chuzhou, Chongqing and Sichuan social security bureaus that they will not impose penalty on Chuzhou Chuangce, Chongqing Guangjing and Sichuan Jinghong. Our PRC legal advisor, Shu Jin Law Firm, is of opinion that, Chuzhou, Chongqing and Sichuan social security bureaus are the competent and appropriate authority to provide such confirmations.

Our Directors confirmed that all our PRC subsidiaries have complied with the relevant requirements of the social security system in the PRC and have made all necessary arrangement in respect of the full payment of social security insurance and housing contributions to the accounts for the benefit of all qualified PRC employees in a timely manner since March 2011.

Further, in order to ensure on-going compliance with regulations applicable to our business activities in the PRC namely, the social insurance and housing fund related regulatory requirements, and environmental protection related regulatory requirements ("Regulatory requirements"), our Directors confirmed that our Group would designate [Ms. Chen Fen, an executive Director,] to supervise our compliance with the Regulatory requirements and communicate with relevant regulatory authorities and our PRC Legal Advisers, if necessary, with a view to keeping us abreast of the latest regulations and regulatory developments relating to our business, and will circulate internal memo summarizing any new development to the Regulatory requirements to our staff to ensure on-going compliance and the designated personnel is also responsible for reviewing compliance related work done and compliance records of our Group.

## OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the [•••] and the [•••] (without taking into account the Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme), Rich Gold, which is wholly-owned by Mr. Chao, will be interested in 75% of the issued share capital of the Company. In view of the above, Mr. Chao and Rich Gold will be the Controlling Shareholders within the meaning of the Listing Rules. Each of Mr. Chao and Gold Rich has confirmed that he/it does not hold or conduct any business which competes, or is likely to compete, either directly or indirectly, with our Group's business.

## COMPETITION WITH THE CONTROLLING SHAREHOLDERS AND OUR DIRECTORS

Each of the Controlling Shareholders and our Directors has confirmed that it/he/she does not have any interest in a business apart from our Group's business which competes or is likely to compete, directly or indirectly, with our Group's business.

### Conca Investments

Conca Investments was a company incorporated in Hong Kong with limited liability on 23 January 1992 which is owned as to 99% by Mr. Chao and as to 1% by Ms. Zhou. Mr. Chao is our Chairman, chief executive officer, an executive Director and one of the Controlling Shareholders. Ms. Zhou is the spouse of Mr. Chao and an executive Director.

Conca Investments was principally engaged in investment holding. [As at the Latest Practicable Date, Conca Investments did not have any substantial operation or hold any investment.] During the Track Record Period and up to the Reorganization, Conca Investments had been the controlling shareholder (as defined under the Listing Rules) of all of our PRC subsidiaries namely, Chongqing Guangjing, Chuzhou Chuangce and Sichuan Jinghong. As confirmed by Mr. Chao and Ms. Zhou, after disposal of the interests held by Conca Investments in Chongqing Guangjing, Chuzhou Chuangce and Sichuan Jinghong, Conca Investments had ceased to engage in any business which competes or is likely to compete, directly or indirectly, with our Group's business.

### Conca Industries Limited

Conca Industries Limited ("Conca Industries") was a company incorporated under the laws of the Bahamas on 7 April 1994 which is owned as to 99% by Mr. Chao and as to 1% by an Independent Third Party. Conca Industries is principally engaged in investment holding and had held interests in three subsidiaries of Sino Haijing which were subsequently disposed of in 2002. Please refer to the section headed "Business – Interests of other family member" for further details. As confirmed by Mr. Chao, Conca Industries does not engage in any business which competes or is likely to compete, directly or indirectly, with our Group's business. As at the Latest Practicable Date, Conca Industries was the controlling shareholder (as defined under the Listing Rules) of the following PRC companies:

### *Chongqing Chuangce Packaging Material Company Limited (重慶創策包裝材料有限公司) ("Chongqing Chuangce Packaging")*

Chongqing Chuangce Packaging was established as a sino-foreign joint venture in the PRC on 8 January 1999 which is owned as to 76% by Conca Industries and as to 24% by Chongqing Wireless Electricity Testing Equipment Factory (重慶無線電測試儀器廠), an enterprise established in the PRC and an Independent Third Party. Chongqing Chuangce Packaging is principally engaged in the manufacture and sale of packaging materials. Chongqing Chuangce Packaging (as lessor) had entered into a lease agreement with an Independent Third Party (as lessee), which is principally engaged in printing business, regarding the leasing of the plant held by Chongqing Chuangce Packaging for a term from July 2009 to July 2011. [The aforesaid lease agreement has not been renewed.] Save as disclosed above, Chongqing Chuangce Packaging has ceased substantially all its operation [including its business in the manufacture and sale of packaging materials,] since 2005.

Our Directors have confirmed that the aforesaid leasing arrangement does not compete or is not likely to compete, directly or indirectly, with our Group's business. Our Directors have further confirmed that Chongqing Chuangce Packaging does not engage in any business which competes or is likely to compete, directly or indirectly, with our Group's business [and will not engage in such business after the [•••].]

[Our Directors have confirmed that as Chongqing Chuangce Packaging has ceased its business in the manufacture and sale of packaging materials since 2005, during the Track Record Period and up to the Latest Practicable Date, there was no competition between our Group and Chongqing Chuangce Packaging. As confirmed by Mr. Chao, Chongqing Chuangce Packaging will not engage in any business which competes or is likely to compete, directly or indirectly, with our Group's business after the [•••].

Taking into account that (i) Chongqing Chuangce Packaging has ceased its business in the manufacture and sale of packaging materials since 2005; (ii) Chongqing Chuangce Packaging and Chuzhou Chuangce are geographically separated; and (iii) our business in Chongqing has been conducted through Chongqing Guangjing, our Directors are of the view that our customers can distinguish Chongqing Chuangce Packaging from our Group even though Chongqing Chuangce Packaging has a similar name to Chuzhou Chuangce.]

### *Chongqing Jingkang Plastic Material Company Limited (重慶景康塑膠製品有限公司) ("Chongqing Jingkang Plastic")*

Chongqing Jingkang Plastic was established as a sino-foreign joint venture in the PRC on 8 June 1999 which is owned as to 68.75% by Conca Industries and as to 31.25% by Chongqing Konka Electric Company Limited (重慶康佳電子有限公司). Save as being one of our Group's customers during the Track Record Period, each of Chongqing Konka Electric Company Limited (重慶康佳電子有限公司) and its ultimate beneficial owners has no other relationship with our Company and its connected persons. Chongqing Jingkang Plastic is principally engaged in the processing and sales of plastic products. On 22 April 2009, the board of directors of Chongqing Jingkang Plastic resolved to, among others, dissolve Chongqing Jingkang Plastic [as its results were not satisfactory]. On 28

September 2009, the Foreign Trading and Economic Committee of Jiangbei District, Chongqing (重慶市江北區對外貿易經濟委員會) approved the termination of performance of the joint-venture agreement and the articles of Chongqing Jingkang Plastic. As confirmed by Mr. Chao, the local tax authority has been reviewing the accounts of Chongqing Jingkang Plastic before Chongqing Jingkang Plastic is to submit the formal application for dissolution to the local administration for industry and commerce. [As confirmed by Mr. Chao, the dissolution of Chongqing Jingkang Plastic has not resulted in any liability or obligation imposed against himself.]

Our Directors have confirmed that Chongqing Jingkang Plastic does not engage in any business which competes or is likely to compete, directly or indirectly, with our Group's business.

On [10 June 2011], each of Mr. Chao and Rich Gold entered into a deed of non-competition in favor of our Company (for itself and for the benefit of its subsidiaries). Further details of the aforesaid deeds of non-competition are set out in the paragraph headed "Non-Competition Undertaking" below.

**Shenzhen Qi Shun Trading Company Limited (深圳市啟順貿易有限公司) ("Shenzhen Qi Shun")**

[Shenzhen Qi Shun is a company with limited liability established in the PRC on 15 April 2006 which is principally engaged in trading purpose and is owned as to 90% by Ms. Zhou and 10% by an Independent Third Party. During the Track Record Period, there were amounts due from Shenzhen Qi Shun to our Group arising from fund transfers, which were non-trade in nature. Shenzhen Qi Shun had no business and had been inactive since establishment. As at the Latest Practicable Date, all the aforesaid amounts had been fully settled by Shenzhen Qi Shun. On 19 April 2011, Ms. Zhou disposed of all her interests in Shenzhen Qi Shun to an [Independent Third Party]. As confirmed by Ms. Zhou, during the Track Record Period and up to the date of the disposal of her interests in Shenzhen Qi Shun, Shenzhen Qi Shun had not engaged in any business which competes or is likely to compete, directly or indirectly, with our Group's business.]

## INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Our Directors considered that our Group is capable of carrying out its business independent of the Controlling Shareholders or their respective associates for the following reasons:

### Management independence and operational independence

Our Company has full rights to make all decisions on, and to carry out, our own business independently. In particular, our Company, through its subsidiaries, holds all relevant licenses necessary to carry on the business, and has adequate working capital, machineries and qualified staff to manage and operate the business independently from the Controlling Shareholders.

We have established our own organizational structure comprising individual departments, each with specific areas of responsibilities. Our Group has not shared our operational resources, such as suppliers, customers, marketing, sales and general administration resources with the Controlling Shareholders and/or their respective associates.

Our Directors have confirmed that none of the Controlling Shareholders, nor our Directors and their respective associates, has any relationship with the major suppliers of our Group (other than the business contacts in the ordinary and usual course of business of our Group) during the Track Record Period.

Our Directors have also confirmed that none of the Controlling Shareholders, nor our Directors and their respective associates, has any relationship with the major customers of our Group (other than the business contacts in the ordinary and usual course of business of our Group) during the Track Record Period.

[Our Directors have confirmed that our Group has independent access to its customers and suppliers, and there is no overlap in its customers and suppliers with that of the Controlling Shareholders or their respective associates.]

The management and operation of our Company have been delegated to our executive Directors and senior management, who have served our Company and/or its subsidiaries for a long time and/or have substantial experience and skill set in the industry in which our Company is engaged. In addition, the three independent non-executive Directors will provide independent judgement and advice to the decision-making process of the Board.

Our Company aims at establishing and maintaining a strong and independent Board to oversee our Group's business while preserving the management and operational continuity of our Group. The Board's main functions include approval of the overall business plans and strategies of our Group, monitoring the implementation of these policies and strategies and the management of our Company. Our Group has an independent management team, which is led by a team of senior management with substantial experience and expertise in our business, to implement our Group's policies and strategies. All our Directors (save as Mr. Chao and Ms. Zhou) and senior management are independent of the Controlling Shareholders or their respective associates.

As of the Latest Practicable Date, there was no transaction between our Group and any connected person of the Company which was expected to become a continuing connected transaction (as defined under the Listing Rules) upon the [•••].

Our Directors do not expect that immediately following the [•••] there will be any non-exempt continuing connected transactions between our Group and any of the Controlling Shareholders or their respective associates.

Based on the above, our Directors are of the view that our Company is independent of the Controlling Shareholders in terms of management and business operations.

**Administrative independence**

Our Group is capable of performing all essential administrative functions and has employed competent staff to manage such functions including financial and accounting management, inventory management and product design and development.

### Financial independence

Our Group has its own financial management system in place and the ability to operate independently of the Controlling Shareholders in the financial aspect. Our Directors believe that our Group is capable of obtaining adequate financing from external sources without reliance on the Controlling Shareholders. Our Directors have confirmed that all outstanding balances due from/to related parties of the Controlling Shareholders and/or any Director have been fully settled as of the Latest Practicable Date.

[Our Directors have confirmed that our Group has independent access to third party financing [as all our bank loans are secured by the assets of our Group and the only guarantee provided by Mr. Chao regarding the tenancy of our office premises in Hong Kong [had been] released before the [•••]. As at the Latest Practicable, there was [no] amount due to the Controlling Shareholders by our Group or amount due from the Controlling Shareholders to our Group.]]

## NON-COMPETITION UNDERTAKING

In order to avoid any possible future competition between our Group and each of Rich Gold and Mr. Chao (the "Covenantors"), the Covenantors have executed two deeds of non-competition ("Deeds of Non-competition") in favor of us (for ourselves and for the benefit of each member of our Group). Pursuant to the Deeds of Non-competition, during the period that the Deeds of Non-competition remain effective, each of the Covenantors irrevocably and unconditionally undertakes with us (for ourselves and for the benefit of each member of our Group) that he/it shall not, and shall procure any of his/its associates (other than members of our Group) not to, directly or indirectly engage, participate, hold any right or interest in hold any position in, render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of any member of our Group or any business activity to be conducted by any member of our Group from time to time in the future save for the holding of not more than 5% shareholding interests (together with his/its associates) in any company listed on a recognized stock exchange and at any time the relevant listed company shall have at least one shareholder (together with its associates, if applicable) whose shareholding interests in the relevant listed company is higher than that of the relevant Covenantor (together with his/its associates).

Where business opportunities which may compete with the business of our Group arise, the respective Covenantor(s) shall, and shall procure their respective his/its associates to, give us notice in writing and we shall have a right of first refusal to take up such business opportunities. We shall only exercise the right of first refusal upon the approval of our Board (where any Director who has any interest in such proposed transactions shall abstain from participating in and voting at the relevant meetings of our Board in accordance with our Articles and the Listing Rules). The relevant Covenantor(s) and the other conflicting Directors (if any) shall abstain from participating in and voting at and shall not be counted as quorum at all meetings of the Board where there is a conflict of interests or potential conflict of interests for considering whether or not to exercise the right of first refusal.

Our Board will establish a committee comprising all the independent non-executive Directors which will be delegated with the authority to review on an annual basis the above undertakings from the Covenantors. The Covenantors also undertake to provide all information necessary for the enforcement of the Deeds of Non-competition as requested by the committee from time to time. [Each of the Covenantors has undertaken to make an annual declaration on its/his compliance with the Deeds of Non-competition and our Company will disclose such annual declarations made by the Covenantors and the result of review by our independent non-executive Directors of the compliance with the Deeds of Non-competition by the Covenantors in our Company's annual report.]

## DIRECTORS

The Board comprises seven Directors, among whom there are four executive Directors and three independent non-executive Directors.

The following table sets forth information regarding our Directors:

| Name | Age | Position | Roles and responsibilities |
|---|---|---|---|
| Mr. Chao | [47] | Chairman, chief executive office, Executive Director | Overall strategic planning and business development of our Group. |
| Ms. Zhou | [47] | Executive Director | Operation of our Group and to assist Mr. Chao in formulating the overall strategic planning and business development of our Group. |
| Ms. Chen Fen (陳賁) | [43] | Executive Director | Financial management and operation of our Group. |
| Mr. Zuo Ji Lin (左際林) | [44] | Executive Director | Marketing management and operation of our Group. |
| Mr. Chan Chun Chi (陳駿志) | [32] | Independent non-executive Director | Chairman of the Audit Committee and a member of the Remuneration Committee |
| Mr. Yu Xi Chun (虞熙春) | [48] | Independent non-executive Director | Member of the Audit Committee and the Nomination Committee. |
| Mr. Wu Hao Tian (吳昊天) | [46] | Independent non-executive Director | Member of the Audit Committee, the Remuneration Committee and the Nomination Committee. |

## EXECUTIVE DIRECTORS

**Mr. Chao Pang Ieng (周鵬鷹)**, aged [47], is our Chairman, an executive Director and one of the founders of our Group. Mr. Chao was appointed as a Director on 4 January 2011 and redesignated as an executive Director on [10] June 2011. Mr. Chao is also the chairman of the Remuneration Committee and the chief executive officer of our Company. Mr. Chao has more than thirteen years of experience in packaging materials business. He has been the director of all our subsidiaries. Mr. Chao is the spouse of Ms. Zhou, an executive Director. Relying on his working experience in packaging materials industry, Mr. Chao is primarily responsible for the overall strategic planning and business development of our Group.

[Mr. Chao and [Ms. Zhou] set their feet in the PRC packaging industry in 1995 when they, through a holding company controlled by Mr. Chao, established a joint venture in Heilongjiang, the PRC with an [Independent Third Party]. Since then, Mr. Chao and [Ms. Zhou] had acquired the relevant industry experience and the said joint venture had generated investment return which provided the funding for founding our Group. In order to focus on our Group's business, Mr. Chao disposed of all his interests in the aforesaid joint venture in 2009.]

For the three financial years ended 31 December 2008, 2009 and 2010, Mr. Chao did not receive emoluments from our Company. [Mr. Chao did not enter into service contracts with and did not receive emoluments as an employee from any companies during the period]. For the Track Record Period, Conca Investments, a company controlled by Mr. Chao, received distribution of dividend of approximately RMB[8.3] million, approximately RMB[41.1] million, approximately RMB[23.9] million and approximately RMB[34.3] million respectively. In view of the above, no emoluments were paid to Mr. Chao during the three financial years ended 31 December 2008, 2009 and 2010. On [10 June 2011], Mr. Chao entered into a service contract with our Company in connection with his appointment as our Chairman, chief executive officer and an executive Director and [is entitled to receive basic salary of approximately RMB166,920 per annum. For the six months ended 30 June 2011, Mr. Chao received from our Company emoluments of approximately RMB[10,000].]

Save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, Mr. Chao did not hold any other directorships in public listed companies or any other major appointments.

**Ms. Zhou Zheng Bin (周鄭斌)**, aged [47], was appointed as an executive Director on 10 June 2011. Ms. Zhou is the spouse of Mr. Chao, our Chairman and an executive Director. Ms. Zhou obtained a bachelor of education from Guangzhou Physical Education Institute (廣州體育學院) in July 1985, and had been a teacher at Guangzhou Physical Education Institute (廣州體育學院) from July 1985 to May 1990. [Starting from 1995, Ms. Zhou has been assisting Mr. Chao in his packaging business,] and since January 2003, Ms. Zhou has been a director of Conca Investments. Relying on her working experience in packaging materials industry, Ms. Zhou is primarily responsible for the operation of our Group and to assist Mr. Chao in formulating the overall strategic planning and business development of our Group.

For the three financial years ended 31 December 2008, 2009 and 2010, Ms. Zhou did not receive emoluments from our Company. [Ms. Zhou did not enter into service contracts with and did not receive emoluments as an employee from any companies during the period.] Ms. Zhou depended on Mr. Chao in respect of financial support and requirements. In view of the above, no emoluments were paid to Ms. Zhou for the three financial years ended 31 December 2008, 2009 and 2010. On [10 June 2011], Ms. Zhou entered into a service contract with our Company in connection with her appointment as an executive Director and [is entitled to receive basic salary of approximately RMB166,920 per annum. For the six months ended 30 June 2011, Ms. Zhou received from our Company emoluments of approximately RMB[10,000].]

Save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, Ms. Zhou did not hold any other directorships in public listed companies or any other major appointments.

**Ms. Chen Fen (陳蕡)**, aged [43], was appointed as an executive Director on 10 June 2011. Ms. Chen is also the chairperson of the Nomination Committee. Ms. Chen obtained a bachelor of economics majoring in financial accounting from Shenzhen University (深圳大學) in June 1989. She was accredited as an assistant accountant by the Ministry of Finance, the PRC in December 1992, and then obtained a certificate of accounting professional issued by Ministry of Finance in Nan Shan

District, Shenzhen in May 2005. She was a director of Sichuan Jinghong from September 2005 to August 2008. Prior to joining our Group in September 2005, she had been the finance manager of Shenzhen Li Da Silk Garment Company Limited (深圳利達絲綢服裝有限公司) from July 1989 to October 1997. During the Track Record Period, Ms. Chen had also provided service for Mr. Chao in respect of supervising the financial aspects of certain companies held privately by Mr. Chao. Relying on her academic and professional qualification in accounting and finance, Ms. Chen is primarily responsible for the financial management and operation of our Group.

For the three financial years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, Ms. Chen did not receive emoluments from our Company. Ms. Chen received basic salary of approximately RMB[84,000], approximately RMB[84,000] and approximately RMB[84,000] from [Mr. Chao] respectively, and did not receive basic salary from our Company during the period. Save as disclosed above, Mr. Chao confirmed that he had not made payments of emoluments to any other staff of our Group during the Track Record Period. Mr. Chao further confirmed that he will not make payments of emoluments directly to any staff including Ms. Chen in the future. In addition, our Company reimbursed or paid all expenses incurred by Ms. Chen in performing her duties for our Group and such expenses included, among other things, [travelling, accommodation and other expenses related to business trips]. For the six months ended 30 June 2011, Ms. Chen received from our Company emoluments of approximately RMB[10,000].] On [10 June 2011], Ms. Chen entered into a service contract with our Company in connection with her appointment as an executive Director and [is entitled to receive basic salary of approximately RMB166,920 per annum.

Save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, Ms. Chen did not hold any other directorships in public listed companies or any other major appointments.

**Mr. Zuo Ji Lin (左際林)**, aged [44], was appointed as an executive Director on [10 June] 2011. Mr. Zuo is also the marketing director of our Group and the general manager of Chongqing Guangjing and Chuzhou Chuangce. Mr. Zuo graduated from Zhuzhou Metallurgical Industrial School (株州冶金工業學校), majoring in financial accounting of industrial enterprises in July 1992. He was a director of Sichuan Jinghong from September 2005 to August 2008. Prior to joining our Group in April 2001 as the general manager of Chuzhou Chuangce, Mr. Zuo had been the finance manager of Shenzhen Chuangce Investment Development Company Limited (深圳市創策投資發展有限公司) from June 1999 to June 2000, and had been the general manager of Mu Dan Jiang Hua Sheng Packaging Company Limited (牡丹江華升包裝有限公司) from June 2000 to April 2001. Relying on his academic qualification in relation to financial accounting and his working experience in packaging materials industry, Mr. Zuo is primarily responsible for the marketing management and operation of our Group.

For the three financial years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, Mr. Zuo received from our Company emoluments of approximately RMB[53,000], approximately RMB[68,000], approximately RMB[71,000] and approximately RMB[82,000] respectively.] On [10 June 2011], Mr. Zuo entered into a service contract with our Company in connection with his appointment as an executive Director and [is entitled to receive basic salary of approximately RMB166,920 per annum.

Save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, Mr. Zuo did not hold any other directorships in public listed companies or any other major appointments.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Chan Chun Chi (陳駿志)**, aged [32], is an independent non-executive Director, the chairman of the Audit Committee and a member of the Remuneration Committee. Mr. Chan joined our Company as an independent non-executive Director on [10 June 2011]. Mr. Chan obtained a degree of bachelor of arts in accounting from The Hong Kong Polytechnic University in November 2004 and is a member of The Hong Kong Institute of Certified Public Accountants. Since August 2010, Mr. Chan has been serving as an accounting manager of Shanghai Industrial Urban Development Group Ltd., a company whose shares are listed and traded on the Main Board of the Stock Exchange. Prior to this, Mr. Chan worked at several accounting firms, namely, K.S. Li & Company from August 2004 to March 2005, T.K. Lo & Company from March 2005 to April 2006, C. W. Leung & Co. from April 2006 to August 2007, and CCIF CPA Limited from August 2007 to July 2010, and was responsible for, among other things, audit works and preparation of financial statements for listed companies and tax related matters for clients.

For the six months ended 30 June 2011, Mr. Chan received from our Company emoluments of approximately RMB[6,000].]

Save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, Mr. Chan did not hold any other directorships in public listed companies or any other major appointments.

**Mr. Yu Xi Chun (虞熙春)**, aged [48], is an independent non-executive Director and a member of the Audit Committee and the Nomination Committee. Mr. Yu joined our Company as an independent non-executive Director on [10] June 2011. Mr. Yu has been a certified accountant in the PRC since October 1994. Mr. Yu joined Shenzhen CCTY Certified Public Accountants (深圳正大華明會計師事務所) in August 2005 and currently serves as a chief partner thereof, responsible mainly for management and audit related works. For the period between August 2004 and August 2005, Mr. Yu served in Shenzhen You Xin Certified Accountants (深圳友信會計師事務所) as a certified accountant. For the period between November 1994 to July 2004, Mr. Yu worked in Shenzhen Yong Ming Certified Public Accountants Company Limited (深圳市永明會計師事務所有限公司) as audit manager, chief auditor and partner, respectively. On 1 March 1999, Mr. Yu obtained the qualification of registered tax agent from State Administration of Taxation of the PRC. Since November 2008, Mr. Yu has been an independent director in Shenzhen Deren Electronic Company Limited (深圳市得潤電子股份有限公司), a company listed on the Shenzhen Stock Exchange.

In December 1989, Mr. Yu graduated from a telecourse in accounting from Anhui Finance and Trade College (安徽財貿學院). In addition, Mr. Yu had received forty hours of training in respect of independent director of public listed companies jointly organized by the China Securities Regulatory Commission and the School of Management of Fudan University, the PRC for the period between 14 January 2002 and 18 January 2002.

For the six months ended 30 June 2011, Mr. Yu received from our Company emoluments of approximately RMB[3,000].]

Save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, Mr. Yu did not hold any other directorships in public listed companies or any other major appointments.

**Mr. Wu Hao Tian (吳昊天)**, aged [46], is an independent non-executive Director and a member of the Audit Committee, the Remuneration Committee and the Nomination Committee. Mr. Wu joined our Company as an independent non-executive Director on [10] June 2011. Mr. Wu holds a bachelor's degree in finance (金融系) awarded by the Hunan College of Finance (湖南財經學院) in July 1986 and a master's degree in Economics awarded by Finance Institute of the People's Bank of China (中國人民銀行總行金融研究所) in April 1989. Since November 2009, Mr. Wu has been holding the position of a general manager in Shenzhen City Jin Li Chuang Xin Investment Company Limited (深圳市金立創新投資有限公司). For the period between August 2006 and May 2008, Mr. Wu held the position of the general manager in Shenzhen City Chuang Xin Investment Guarantee Company (深圳市創新投資擔保公司). For the period between November 2004 and December 2005, Mr. Wu held the position of the chief executive officer of Credit Orienwise Group Ltd. (中國中科智擔保集團股份有限公司). In addition, for the period between August 2007 and August 2010, Mr. Wu was a director in Shenzhen World Union Properties Consultant Co., Ltd. (深圳世聯地產顧問股份有限公司) and since March 2009, Mr. Wu has been a supervisor in Xiamen Savings Environmental Co., Ltd. (廈門三維絲環保股份有限公司), both companies are listed on the Shenzhen Stock Exchange.

For the six months ended 30 June 2011, Mr. Wu received from our Company emoluments of approximately RMB[3,000].]

Save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, Mr. Wu did not hold any other directorships in public listed companies or any other major appointments.

## SENIOR MANAGEMENT

**Mr. Jiang Xian Geng (江獻庚)**, aged [39], is the Production Director of our Group and the deputy general manager of Chongqing Guangjing. Mr. Jiang graduated from Hunan University (湖南大學), majoring in industrial management engineering, in June 1996, and from State-run Jiangnan Machinery Factory Middle Technical School (國營江南機器廠中等專業學校), majoring in machinery production, in July 1992. He was accredited as a business administration and economics specialist by the Ministry of Personnel, the PRC in November 2002. [From October 2004 to July 2008, he served as the head of office of Chuzhou Chuangce. He has been the deputy general manager of Chongqing Guangjing since July 2008. Relying on his academic qualification in relation to production operations and machinery management, Mr. Jiang is primarily responsible for the production management of our Group.

Save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, Mr. Jiang did not hold any other directorships in public listed companies or any other major appointments.

**Mr. Xia Hui Sheng (夏會生),** aged [43], is the Technical Director of our Group and the general manager of Sichuan Jinghong. Mr. Xia graduated from Chongqing Architectural Engineering Institute (重慶建築工程學院), majoring in applied computer technology, in July 1991. Mr. Xia served as the head of human resources department of Bo Xi Yang Refrigeration Company Limited (博西揚製冷有限公司) from June 1997 to [March 2001]. He then served as the head of office in Chuzhou Chuangce from April 2001 to June 2002. From June 2002 to October 2004, he served as the deputy general manager of Mu Dan Jiang Hua Sheng Packaging Company Limited (牡丹江華升包裝有限公司) and the deputy general manager of Chongqing Guangjing from November 2004 to August 2005. He has been the general manager of Sichuan Jinghong since August 2005. Relying on his working experience in packaging materials business, Mr. Xia is primarily responsible for the technical management of our Group.

Save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, Mr. Xia did not hold any other directorships in public listed companies or any other major appointments.

**Mr. Tsoi Ka Shing (蔡嘉誠),** aged 30, is the Company Secretary and Financial Controller of our Group. Mr. Tsoi obtained a bachelor of business from University of Technology, Sydney in July 2005. He was accredited as a Certified Public Accountant by CPA Australia and the Hong Kong Institute of Certified Public Accountants in November 2009 and May 2011, respectively. Prior to joining our Group in 2010 as the Company Secretary and Financial Controller, Mr. Tsoi had been [a senior accountant] and an assistant audit manager in SHINEWING (HK) CPA Limited from August 2009 to November 2010, an auditor in Deloitte Touche Tohmatsu, [CCIF CPA Limited] and Yau And Wong, CPA from July 2005 to August 2009.

Save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, Mr. Tsoi did not hold any other directorships in public listed companies or any other major appointments.

## BOARD COMMITTEES

### Audit Committee

We have established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The Audit Committee consists of three independent non-executive Directors namely Mr. Chan Chun Chi, Mr. Yu Xi Chun and Mr. Wu Hao Tian. The chairman of the Audit Committee is Mr. Chan Chun Chi. The primary duties of the audit committee are to assist our Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of our Group, overseeing the audit process and performing other duties and responsibilities assigned by our Board.

### Remuneration Committee

We have established a remuneration committee with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The Remuneration Committee consists of chairman of our Board namely Mr. Chao Pang Ieng and two independent non-executive Directors namely Mr. Chan Chun Chi and Mr. Wu Hao Tian. The chairman of the Remuneration Committee is Mr. Chao Pang Ieng. The primary duties of the Remuneration Committee are to evaluate the performance and make recommendations to our Board regarding the remuneration package of our Directors and senior management and employee benefit arrangements, so as to ensure that the levels of remuneration and compensation are appropriate.

### Nomination Committee

We have established a nomination committee with written terms of reference as recommended under the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The Nomination Committee consists of an executive Director namely Ms. Chen Fen and two independent non-executive Directors namely Mr. Yu Xi Chun and Mr. Wu Hao Tian. The chairman of the Nomination Committee is Ms. Chen Fen. The primary function of the nomination committee is to make recommendations to our Board on the appointment and removal of Directors.

# SHARE CAPITAL

The authorized and issued share capital of our Company is as follows:

| Number of Shares comprised in the authorized share capital | Authorized share capital |
|---|---|
| | *(HK$)* |
| 1,000,000,000 Shares | 10,000,000.00 |

You should read this section together with our consolidated financial statements including notes thereto as set out in the accountants' report in Appendix I to this document.

The following discussion contains forward-looking statements that involve risks and uncertainties. The actual developments may deviate from our expectations or estimations. You should review "Risk factors" section in this document for a discussion of important factors that could cause our actual developments to differ materially from the results described in or implied by the forward-looking statements.

## RESULTS OF OPERATIONS

Set out below are our consolidated statements of comprehensive income for the three financial years ended 31 December 2008, 2009 and 2010 and the two six months ended 30 June 2010 and 2011 extracted from the accountants' report set out in Appendix I to this document.

| | Year ended 31 December 2008 *RMB'000* | Year ended 31 December 2009 *RMB'000* | Year ended 31 December 2010 *RMB'000* | Six months ended 30 June 2010 *RMB'000* *(Unaudited)* | Six months ended 30 June 2011 *RMB'000* |
|---|---|---|---|---|---|
| Revenue | 234,503 | 121,880 | 166,079 | [77,346] | [100,559] |
| Cost of sales | (176,117) | (86,997) | (112,486) | [(52,922)] | [(70,462)] |
| Gross profit | 58,386 | 34,883 | 53,593 | [24,424] | [30,097] |
| Other income | 1,863 | 474 | 338 | [113] | [301] |
| Other gains and losses | (2,870) | 47 | (447) | [(2,782)] | [(1,238)] |
| Selling and distribution expenses | (4,760) | (4,327) | (6,260) | [(2,626)] | [(3,935)] |
| Administrative expenses | (5,513) | (5,280) | (6,120) | [(3,164)] | [(3,360)] |
| Other operating expenses | (324) | (263) | (715) | [(334)] | [(55)] |
| Profit from operations | 46,782 | 25,534 | 40,389 | [15,631] | [21,810] |
| Finance costs | (1,522) | (628) | (701) | [(296)] | [(432)] |
| Profit before tax | 45,260 | 24,906 | 39,688 | [15,335] | [21,378] |
| Income tax expense | (7,241) | (1,310) | (3,963) | [(3,026)] | [(1,087)] |
| **Profit for the year/period** | 38,019 | 23,596 | 35,725 | [12,309] | [20,291] |
| **Other comprehensive income for the year/period** | | | | | |
| Exchange differences on translating foreign operations | – | – | – | [–] | [2] |
| **Total comprehensive income for the year/period** | 38,019 | 23,596 | 35,725 | [12,309] | [20,293] |
| **Profit attributable to:** | | | | | |
| Owners of the Company | 31,276 | 23,596 | 35,725 | [12,309] | [20,291] |
| Non-controlling interests | 6,743 | – | – | [–] | [–] |
| | 38,019 | 23,596 | 35,725 | [12,309] | [20,291] |
| **Total comprehensive income attributable to:** | | | | | |
| Owners of the Company | 31,276 | 23,596 | 35,725 | 12,309 | 20,293 |
| Non-controlling interests | 6,743 | – | – | – | – |
| | 38,019 | 23,596 | 35,725 | 12,309 | 20,293 |

## FACTORS AFFECTING OUR RESULTS OF OPERATIONS

We are a provider of packaging products for packaging a wide range of consumer electrical appliances manufactured in the PRC. We also provide structural component for use inside consumer electrical appliances. Our business, operations and financial performances are affected by a number of factors and we may or may not have control over these factors. A discussion of the principal factors affecting our results of operations is set out below.

### General economic conditions and market conditions for our packaging products

We manufacture packaging products that are used mainly for packaging of consumer electrical appliances manufactured in the PRC. We also manufacture structural components that are used inside consumer electrical appliances. As such, the demand for our packaging and structural products depend on, among other things, the general market sentiment of and consumer demand for the consumer electrical appliances in the PRC, which is affected to an extent by the global economy.

The onset of the global financial tsunami in 2008 dampened the world financial systems and economies including Chinese economy and in particular, the consumer electrical appliances industry where our packaging products were sold was affected. The lackluster consumer confidence affected the demand for consumer electrical appliances and, in turn, our packaging products and structural components in the PRC for the financial year ended 2009. Given that majority of our packaging products and structural component were sold to manufactures of consumer electrical appliances based in the PRC, the changes in the economics of the consumer electrical appliance industry in the PRC would have a notable impact on our business, including but not limited to the demand for and pricing of our products.

According to the market survey report from Synovate, the packaging product market for consumer electrical appliances namely, televisions, refrigerator, washing machines and air conditioners in the PRC is expected to increase from approximately RMB2.8 billion in 2009 to approximately RMB8.0 billion in 2013. The introductions of new or more advanced televisions, air conditioners, washing machines and other electrical appliances would encourage growth in consumer spending on electrical appliances and in turn demand for packaging products in the PRC.

### Raw material costs

Raw material costs represented an important component of our cost of sales for the Track Record Period. For the financial years ended 2008, 2009 and 2010 and the two six months ended 30 June 2010 and 2011, raw material costs accounted for approximately 73.0%, 64.6%, 68.9%, 74.7% and 70.2% of our cost of sales respectively. The principal raw materials used in our products were EPS and EPO for the Track Record Period. The fluctuations in the availability and price of any of such raw materials would have a significant impact on our cost of sales and results of operations.

EPS constituted the largest component of our raw material costs for the Track Record Period. For the three financial years ended 2008, 2009 and 2010 and the two six months ended 30 June 2010 and 2011, costs of EPS accounted for approximately 98.1%, 76.1%, 79.3%, [77.9]% and [79.3]% respectively and costs of EPO accounted for approximately 0.1%, 16.7%, 12.6%, [14.5]% and [14.7]% respectively of total raw material costs. We typically purchase EPS and EPO from suppliers at prices determined, in general, with reference to the average market prices of the raw materials in the PRC. The EPS and EPO prices fluctuate and as such the prevailing prices when we made our purchases may not be the same as the prevailing prices when we completed our sales. For the three financial years ended 2008, 2009 and 2010, and the two six months ended 30 June 2010 and 2011, we purchased EPS at approximately RMB10,620/tonne, RMB7,688/tonne, RMB9,272/tonne, RMB[9,502]/tonne and RMB[10,689]/tonne respectively, while we purchased EPO at approximately RMB35,019/tonne, RMB35,015/tonne, RMB32,234/tonne, RMB[34,308]/tonne and RMB[33,202]/tonne respectively. For the three financial years ended 2008, 2009 and 2010, and the two six months ended 30 June 2010 and 2011, we purchased EPS of approximately [9,256] tonnes, [5,344] tonnes, [6,759] tonnes, [3,134] tonnes and [3,688] tonnes respectively, while we purchased EPO of approximately [27] tonnes, approximately [293] tonnes, approximately [302] tonnes, [118] tonnes and [208] tonnes respectively. In general, our pricing policy allows us to pass the increase in cost of raw materials used in the manufacturing of EPS products to our customers by increasing selling prices of our products. The pricing of our products reflected the costs of raw materials used in the manufacturing of our products.

**Manufacturing capacity and expansion**

We have maintained cordial commercial relationships with our customers and understand well the product requirements of our customers and their expectations of both quality and quantities of packaging products and structural components from us. As such, we can plan our manufacturing capacity in a prudent and pragmatic manner and strengthen our commercial relationships with our customers since we are able to offer the necessary quality and quantity of packaging products and structural components to our customers in time. We have increased gradually the manufacturing capacity for our products. For the three years ended 31 December 2008, 2009 and 2010 our maximum annual manufacturing capacities of our products were approximately 14,620 tonnes, 14,800 tonnes and 15,100 tonnes respectively. For the three years ended 31 December 2008, 2009 and 2010, the average annual utilization rates of our manufacturing facilities were approximately 64.8%, 45.2%, 54.0% respectively. In general, we experience changes in demand for our products during a year as a result of changes in the purchase orders placed by our customers in anticipation of sales or expected sales of consumer electrical appliances in the PRC during major festive holidays and summer season. Given the seasonality effect, the average utilization rates of our manufacturing facilities measured, on a monthly basis, can be higher than the average annual utilization rates. For the three years ended 31 December 2008, 2009 and 2010, the highest average monthly utilization rates of our manufacturing facilities were approximately 87.2%, 71.9% and 72.3% respectively. Nonetheless, for the financial year ended 31 December 2009 the decrease in the average annual utilization rates of our manufacturing facilities reflected mainly the decrease in purchase orders placed by our customers and the decrease in quantities of products sold to our customers against background of a lackluster PRC economy and our major customers' focus on the manufacturing of flat panel and plasma televisions that typically require lesser quantity of packaging products given that they are comparatively more compact in size and lighter in weight than traditional cathode ray tube televisions.

### A mix of products

We offer a wide range of packaging products and structural components to our customers. The diversity in our range of products is considered beneficial to our results of operations as such a business strategy allows us to avoid the risk arising from over reliance on a single product which may have an adverse impact on our results of operations when demand and pricing for a single product decrease for a prolonged period of time. Our product design and development team continues to focus on improving the quality and enhancing the functions of our products to meet the changing requirements of our customers. We have successfully introduced structural components that are used inside air conditioners by our customers. Our structural components are made of EPS and are thermal and chemical resistant and have shock absorbing properties. In general, different products offer different profit margins. Our product design and development capability allows us to manufacture unique products to the specifications of our customers. Our manufacturing experiences together with our flexible manufacturing facilities enable us to switch production from one product to another in a short period of time. We are therefore able to adjust to and take advantage of changing market conditions and manufacture the products in high demand.

### Pricing

The packaging industry in the PRC is highly competitive and to be successful in this industry, in our view, depends on, among other things, competitive pricing. Our pricing policy, in general, takes into account of various factors namely, the complexity and the quantity of packaging products required by our customers, the cost of raw materials, the cost of transportation and customer relations. Our pricing reflects to an extent the price of raw materials namely EPS and EPO used in the manufacturing of our packaging products and structural components. Our pricing policy allows us to pass the changes in costs of raw materials used in the manufacturing of EPS products to our customers. In the event that the costs of raw materials used in the manufacturing of EPS products increase, the selling price of which will increase and the vice versa is true. The pricings for the EPO products are predetermined and set at fixed sums which cover, among other things, the costs of raw materials and manufacturing overhead expected to be incurred in relation to the manufacturing of the EPO products. Save and except the price adjustment mechanism for the sales of EPS products, we have not adopted any other policy to hedge against the risk arising from fluctuations of the prices of major raw materials used in the manufacturing of our products. Different pricing policy for EPS and EPO packaging products is due to different level of volatility of EPS and EPO prices. Since the price changes of EPO is less volatile as compared to that of the EPS, our Directors consider it is commercially viable to adopt a fixed pricing policy for our Group's EPO products for the time being. Our Company will closely monitor the price change of EPO and will adjust the pricing of its EPO packaging products if necessary.

### Taxation

Our financial results will be affected by changes in tax rates, in particular, the PRC tax rates as we carry out most of our business and derive all of our revenue and profits from the PRC. For the three financial years ended 2008, 2009 and 2010, and the two six months ended 30 June 2010 and 2011, our income tax expenses were approximately RMB7.2 million, approximately RMB1.3 million, approximately RMB4.0 million, approximately RMB3.0 million and approximately RMB1.1 million respectively.

### Seasonality

The demand for our packaging products and structural components depends on the sales or expected sales of our customers' consumer electrical appliances in the PRC. Our business and financial performances are affected by the seasonality of the purchase orders placed by our customers. In general, the expectation of higher sales of consumer electrical appliances around major festive holidays such as Chinese New Year and summer season requires stocking of consumer electrical appliances which in turn encourages the purchases of our products. We generate more revenue typically in the months of December, January, April and August every year as many of our customers in the consumer electrical appliance industry generally increase their purchase orders in anticipation of the sales of their products during the festive holidays and the summer season while we typically receive relatively fewer purchase orders during the month of February every year as our customers in the consumer electrical appliance industry generally experience a reduced level of manufacturing activities in the absence of the above seasonal factors around that time of the year which tend to drive customer spending on consumer electrical appliances. For the three financial years ended 2008, 2009 and 2010, we generated approximately 27.2%, 37.0% and 37.2% of our total revenue in months of December, January, April and August respectively, whilst approximately 5.5%, 5.1% and 4.2% of our total revenue was recognized in the month of February respectively.

## CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our results of operations and financial performances are based on the consolidated financial statements of our Company, which has been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. Our operating results and financial performances are sensitive to applications of accounting methods, assumptions and estimates. The assumptions and estimates are based on our experience and various other factors including, among other things, management's judgments of future events which they believe to be reasonable. The actual results may differ from these assumptions and estimates.

The critical accounting policies and the judgments and other uncertainties affecting application of these policies and the sensitivity of reported results to changes in assumptions and estimates should be considered when reviewing our financial information. Our significant accounting policies are summarized in notes to the consolidated financial statements of our Company in the accountants' report set out in Appendix I to this document. We believe that the following critical accounting policies involve the most important assumptions and estimates used in the preparation of the consolidated financial information.

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods in the ordinary course of our Group's activities. Revenue is shown net of value-added tax, rebates and discounts. Revenue from the sale of goods is recognized when the goods are delivered and title has passed.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to our Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount on initial recognition.

**Estimated impairment of inventories**

We evaluate, on a regular basis, if our inventories have been suffered from any impairment in accordance with our accounting policy as stated in note 3 to the consolidated financial statements of our Company in accountants’ report set out in Appendix I to this document. The impairment loss is measured as the difference between inventories’ cost and net realizable values.

The identification of impairment of inventories requires the use of judgments and estimates of expected net realizable value. Where the actual net realizable value is lower than the cost, a material impairment loss may arise. As of 31 December 2008, 2009 and 2010 and 30 June 2011, the carrying amounts of inventories were approximately RMB9.3 million, approximately RMB8.8 million, approximately RMB11.2 million and approximately RMB11.4 million, after taking into account write-down recognized on inventories of nil, nil, approximately RMB322,000 and [RMB76,000] respectively.

**Estimated impairment of trade and other receivables**

Our trade and other receivables are measured at amortised cost using the interest method, less any impairment. Our Group estimates the provisions for impairment of trade and other receivables by assessing their recoverability based on credit history and prevailing market conditions.

The identification of impairment of trade and other receivables requires the use of judgments and estimates of expected future cash inflows. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amount of trade and other receivables and thus the impairment loss in the period in which such estimate is changed. Our Directors are satisfied that this risk is [minimal] and [adequate] allowance for doubtful debts was set aside for the Track Record Period.

**Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided to write off the cost of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for its intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

### Useful life and residual value of property, plant and equipment

Our management determines the residual value, useful lives and related depreciation charges for its property, plant and equipment. The estimation is based on the historical experience of the actual residual value and useful lives of plant and equipment of similar nature and functions and may vary significantly as a result of technical innovation and keen competition from competitors, resulting in higher depreciation charge and/or write-off or write-down of obsolete assets when residual value or useful lives are less than previously estimated.

## PRINCIPAL COMPONENTS OF CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

### Revenue

Revenue represents the net amounts received and receivable for sales of our packaging products and structural components to our customers. We derived our revenue mainly from the manufacture and sale of a wide range of packaging products for packaging of and structural components for use in consumer electrical appliances in the PRC.

The following table sets out a breakdown of our revenue by product type for the periods stated:

| Revenue | For the financial year ended 31 December 2008 Revenue (RMB'000) | 2008 % of revenue | 2009 Revenue (RMB'000) | 2009 % of revenue | 2010 Revenue (RMB'000) | 2010 % of revenue | For the six months ended 30 June 2010 Revenue (RMB'000) (Unaudited) | 2010 % of revenue | 2011 Revenue (RMB'000) | 2011 % of revenue |
|---|---|---|---|---|---|---|---|---|---|---|
| *Packaging products* | | | | | | | | | | |
| Televisions | 176,892 | 75.4 | 62,780 | 51.5 | 61,988 | 37.3 | 27,088 | 35.0 | 32,701 | 32.5 |
| Cathode ray tube | 160,869 | 68.6 | 21,378 | 17.5 | 9,766 | 5.9 | 5,896 | 7.6 | 2,902 | 2.9 |
| Flat panel & plasma | 16,023 | 6.8 | 41,402 | 34.0 | 52,222 | 31.4 | 21,192 | 27.4 | 29,799 | 29.6 |
| Air conditioners | 16,645 | 7.1 | 15,406 | 12.6 | 31,493 | 19.0 | 16,556 | 21.4 | 25,524 | 25.4 |
| Washing machines | 10,571 | 4.5 | 19,230 | 15.8 | 23,421 | 14.1 | 7,602 | 9.8 | 9,060 | 9.0 |
| Refrigerator | 11,864 | 5.1 | 14,331 | 11.8 | 28,037 | 16.9 | 16,246 | 21.0 | 16,229 | 16.2 |
| Others *(Note)* | 9,391 | 4.0 | 2,446 | 2.0 | 1,966 | 1.2 | 895 | 1.2 | 1,648 | 1.6 |
| *Structural components* | | | | | | | | | | |
| For air conditioners | 9,140 | 3.9 | 7,687 | 6.3 | 19,174 | 11.5 | 8,959 | 11.6 | 15,397 | 15.3 |
| Total | 234,503 | 100.0 | 121,880 | 100.0 | 166,079 | 100.0 | 77,346 | 100.0 | 100,559 | 100.0 |

*Note:*

Others represent our packaging products for, among other things, electrical water heater, medical equipments and other small-size electrical appliances, which we do not at this stage focus on in connection with our business development.

| Revenue | For the financial year ended 31 December 2008 (RMB'000) | 2009 (RMB'000) | 2010 (RMB'000) | For the six months ended 30 June 2010 (RMB'000) (Unaudited) | 2011 (RMB'000) |
|---|---|---|---|---|---|
| Chuzhou Chuangce | 64,931 | 27,626 | 37,848 | 19,430 | 14,495 |
| Chongqing Guangjing | 39,942 | 38,092 | 63,893 | 26,249 | 43,520 |
| Sichuan Jinghong | 129,630 | 56,162 | 64,338 | 31,667 | 42,544 |
| Total | 234,503 | 121,880 | 166,079 | 77,346 | 100,559 |

| | For the Track Record Period |
|---|---|
| Average selling price range (RMB/tonne) | |
| EPS products | [16,000] – [20,000] |
| EPO products | [55,000] – [69,000] |
| | |
| Average selling price range (RMB/tonne) | |
| *Packaging products* | |
| Television | |
| Cathode ray tube | [15,000] – [20,000] |
| Flat panel & plasma | [19,000] – [28,000] |
| Air conditioners | [14,000] – [18,000] |
| Washing machines | [16,000] – [18,000] |
| Refrigerators | [17,000] – [23,000] |
| *Structural component* | |
| For air conditioners | [24,000] – [42,000] |

| | For the financial year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | **2008** | **2009** | **2010** | **2010** | **2011** |
| | *(tonnes)* | *(tonnes)* | *(tonnes)* | *(tonnes)* | *(tonnes)* |
| Quantities sold | | | | | |
| *Packaging products* | | | | | |
| Televisions | 8,862 | 3,139 | 2,750 | 1,163 | 1,228 |
| Cathode ray tube | 8,054 | 1,413 | 610 | 348 | 155 |
| Flat panel & plasma | 808 | 1,726 | 2,140 | 815 | 1,073 |
| Air conditioners | [981] | [1,068] | [1,973] | 1,054 | 1,491 |
| Washing machines | [619] | [1,186] | [1,406] | 446 | 532 |
| Refrigerators | [524] | [827] | [1,511] | 844 | 862 |
| Others | [565] | [148] | [117] | 51 | 93 |
| *Structural component* | | | | | |
| For air conditioners | [369] | [265] | [539] | 245 | 370 |
| Total | 11,920 | 6,633 | 8,296 | 3,803 | 4,576 |

*Note:*

In addition to the quantity of products manufactured by our factories, there were inventories of approximately [2,900] tonnes manufactured previously and remained available for sale in the financial year 2008. As such, the quantities of products sold by our Group might be larger than the quantities of products manufactured in a period.

The following table sets out the breakdown of our revenue for EPS and EPO products for the periods stated:

| **Revenue** | For the financial year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| *RMB'000* | **2008** | **2009** | **2010** | **2010** | **2011** |
| EPS products | 233,064 | 104,423 | 147,461 | [69,559] | [86,263] |
| EPO products | 1,439 | 17,457 | 18,618 | [7,787] | [14,296] |
| Total | 234,503 | 121,880 | 166,079 | 77,346 | 100,559 |

For the financial years ended 31 December 2008, 2009 and 2010 and the two six months ended 30 June 2010 and 2011, our revenue amounted to approximately RMB234.5 million, RMB121.9 million, RMB166.1 million and RMB77.3 million and RMB100.6 million respectively. For the Track Record Period, we manufactured and sold packaging products made of EPO for packaging flat panel and plasma televisions. The increase in sales of packaging products made of EPO was mainly attributed to the increase in our customers' production of flat panel and plasma televisions and therefore the demand for packaging products made of EPO. Our customers purchased packaging products made of both EPS and EPO for packaging their flat panel and plasma televisions. For the three financial years ended 31 December 2008, 2009 and 2010 and the two six months ended 30 June 2010 and 2011, revenue derived from the sale of packaging products and structural components made of EPS accounted for approximately [99.4]%, [85.7]%, [88.8]%, [89.9]% and [85.8]% of our revenue respectively.

For the Track Record Period, the magnitude of changes in our revenue did not match precisely the magnitude of changes in the actual and estimated values of EPS packaging products manufacturing industry for electrical appliances packaging in the PRC for the period between 2008 and 2010 as disclosed in the section headed "Industry overview – Electrical applicances packaging product manufacturing industry in China – Overview of EPS packaging products manufacturing market for electrical appliances". In addition to the manufacturing of EPS packaging products, we manufactured structural components and EPO products during the Track Record Period. We relied historically, to a large extent, on the sales of packaging products for cathode ray tube televisions, which decreased notably as our customers shifted their focus from cathode ray tube televisions to flat panel and plasma televisions and as such, purchased fewer quantities of packaging products from us during the Track Record Period.

Our revenue increased by approximately RMB[23.3] million or [30.0]% to approximately RMB[100.6] million in first half of 2011 from approximately RMB[77.3] million in the first half of 2010. The increase in revenue was caused mainly by the overall increase in customer demand for consumer electrical appliances and in turn our products in the PRC. We recorded an increase in revenue derived from the sale of most of our products in the first half of 2011. In particular, we recorded an increase in revenue derived from the sale of packaging products for air conditioners of approximately RMB9.0 million or 54.2%, for flat panel and plasma televisions of approximately RMB8.6 million or 40.6% and for washing machines of approximately RMB1.5 million or 19.2% in the first half of 2011 as compared to the first half of 2010. Revenue derived from the sale of packaging products for cathode ray tube televisions decreased by approximately RMB3.0 million or 50.8% to approximately RMB2.9 million in the first half of 2011 from approximately RMB5.9 million in the first half of 2010 as our customers continued to shift their focus away from cathode ray tube televisions to flat panel and plasma televisions.

Our revenue increased by approximately RMB44.2 million or 36.3% to approximately RMB166.1 million in 2010 from approximately RMB121.9 million in 2009. The increase in revenue in 2010 as compared to 2009 was caused mainly to the overall increase in customer demands for consumer electrical appliances as the general economy continue to recover and in turn led to the increase in demand for our products. Our revenue derived from the sales of packaging products for air-conditioner, washing machines and refrigerators increased from 2009 to 2010. In particular, we recorded an increase of approximately RMB16.1 million or 104.4% in revenue derived from sales of packaging products for air conditioners in 2010 as compared to 2009. We also recorded an increase of approximately RMB11.5 million or 149.4% in revenue derived from sales of structural components for air conditioners in 2010 as compared to 2009.

Our revenue decreased by approximately RMB112.6 million or approximately 48.0% to approximately RMB121.9 million in 2009 from approximately RMB234.5 million in 2008. The decrease in revenue in 2009 as compared to 2008 was caused mainly by the decrease in sales of some of our packaging products in 2009 and in particular, the decrease in the sales of packaging products for cathode ray tube televisions as some of our customers who had shifted focus away from the production of cathode ray tube televisions to flat panel & plasma televisions. Chongqing Haier increased purchase of our products for their washing machines while Sichuan Changhong Electric increased purchase of our products for their refrigerators in 2009 despite the impact from the global economic downturn.

**Shift of demand for packaging products for cathode ray tube televisions to flat panel and plasma televisions**

Our major customers focus on the manufacturing of flat panel and plasma televisions that typically require lesser quantity of packaging products given that they are comparatively more compact in size and lighter in weight than traditional cathode ray tube televisions. The shift in our customers' production mix from cathode ray tube televisions to flat panel and plasma televisions may affect their choice of packaging products and in turn demand for our packaging products. Our customers [may source] packaging products for cathode ray tube televisions, flat panel and plasma televisions from different suppliers depending on their own circumstances. Revenue derived from the sale of packaging products for cathode ray tube televisions decreased from approximately RMB[160.9] million in 2008 to approximately RMB[21.4] million in 2009 and approximately RMB[9.8] million in 2010, and from approximately RMB5.9 million in the first half 2010 to approximately RMB2.9 million in the first half 2011. In this connection, our Directors are of the view that such decrease in revenue was caused mainly by the shift in our customers' production mix away from cathode ray tube televisions and not by the change in our customers' choice of packaging products suppliers. Our Directors are also of the view that the trend in the sales of packaging products for cathode ray tube television would likely continue as our customers continued to focus on the manufacturing of flat panel and plasma televisions. The decrease in revenue derived from sale of packaging products for cathode ray tube televisions was offset, to an extent, by the increase in revenue derived from sales of packaging products for flat panel and plasma televisions as the increase in quantity of packaging products sold for flat panel and plasma televisions were notably smaller than the decrease in quantity of packaging products sold for cathode ray tube televisions. The aggregate increase in quantity of packaging products sold for other electrical appliances such as air conditioners, washing machines and refrigerators and structural components sold for air conditioners were notably smaller than the decrease in quantity of packaging products sold for cathode ray tube televisions. Further, the average selling prices of packaging products for air conditioners and washing machines were lower than that of cathode ray tube televisions. As such, the increase in revenue from the sales of packaging products for other electrical appliances and sales of structural components for air conditioners was not enough to compensate for the loss of revenue arising from the decrease in demand for packaging products for cathode ray tube televisions during the Track Record Period.

Most of our customers are leading consumer electrical appliance manufacturers in the PRC. All of our revenue was derived from the sale of our packaging products and structural components to our customers in the PRC.

**Cost of sales**

Cost of sales comprises mainly raw material costs, direct labor costs and manufacturing overhead.

The following table sets out a breakdown of our cost of sales by product type for the periods stated:

| Cost of sales | For the financial year ended 31 December | | | | | | For the six months ended 30 June | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | | 2009 | | 2010 | | 2010 | | 2011 | |
| | Cost of sales *(RMB'000)* | % of cost of sales | Cost of sales *(RMB'000)* | % of cost of sales | Cost of sales *(RMB'000)* | % of cost of sales | Cost of sales *(RMB'000)* *(Unaudited)* | % of cost of sales | Cost of sales *(RMB'000)* | % of cost of sales |
| *Packaging products* | | | | | | | | | | |
| Televisions | 126,672 | 71.9 | 42,175 | 48.5 | 40,806 | 36.3 | 17,317 | 32.7 | 21,348 | 30.3 |
| Cathode ray tube | 114,309 | 64.9 | 14,555 | 16.8 | 6,048 | 5.4 | 4,138 | 7.8 | 2,101 | 3.0 |
| Flat panel & plasma | 12,363 | 7.0 | 27,620 | 31.7 | 34,758 | 30.9 | 13,179 | 24.9 | 19,247 | 27.3 |
| Air conditioners | 15,647 | 8.9 | 12,943 | 14.9 | 23,924 | 21.3 | 13,164 | 24.9 | 21,379 | 30.3 |
| Washing machines | 10,270 | 5.8 | 16,188 | 18.6 | 18,925 | 16.8 | 5,877 | 11.1 | 7,428 | 10.6 |
| Refrigerators | 8,351 | 4.8 | 10,041 | 11.5 | 20,151 | 17.9 | 12,588 | 23.8 | 12,621 | 17.9 |
| Others | 8,785 | 5.0 | 1,925 | 2.2 | 1,403 | 1.2 | 648 | 1.2 | 1,349 | 1.9 |
| Structural components | | | | | | | | | | |
| For air conditioners | 6,392 | 3.6 | 3,725 | 4.3 | 7,277 | 6.5 | 3,328 | 6.3 | 6,337 | 9.0 |
| Total | 176,117 | 100.0 | 86,997 | 100.0 | 112,486 | 100.0 | 52,922 | 100.0 | 70,462 | 100.0 |

The following table sets out a breakdown of our cost of sales for the periods stated:

| Cost of sales | For the financial year ended 31 December | | | | | | For the six months ended 30 June | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | | 2009 | | 2010 | | 2010 | | 2011 | |
| | Cost of sales *(RMB'000)* | % of cost of sales | Cost of sales *(RMB'000)* | % of cost of sales | Cost of sales *(RMB'000)* | % of cost of sales | Cost of sales *(RMB'000)* *(Unaudited)* | % of cost of sales | Cost of sales *(RMB'000)* | % of cost of sales |
| Raw materials | 128,543 | 73.0 | 56,172 | 64.6 | 77,538 | 68.9 | 39,563 | 74.7 | 49,494 | 70.2 |
| Direct labour costs | 7,519 | 4.3 | 6,451 | 7.4 | 8,260 | 7.3 | 4,493 | 8.5 | 5,404 | 7.7 |
| Manufacturing overhead | 40,055 | 22.7 | 24,374 | 28.0 | 26,688 | 23.8 | 8,866 | 16.8 | 15,564 | 22.1 |
| Staff costs | 1,124 | 0.6 | 861 | 1.0 | 954 | 0.8 | 152 | 0.3 | 746 | 1.0 |
| Depreciation | 8,254 | 4.7 | 3,879 | 4.5 | 4,000 | 3.6 | 1,586 | 3.0 | 2,092 | 3.0 |
| Utilities | 24,035 | 13.6 | 14,121 | 16.2 | 15,315 | 13.6 | 5,450 | 10.3 | 9,617 | 13.6 |
| Processing charges | 4,966 | 2.8 | 4,175 | 4.8 | 4,895 | 4.4 | 1,462 | 2.7 | 2,334 | 3.3 |
| Rental expenses | 1,591 | 0.9 | 1,289 | 1.4 | 1,442 | 1.3 | 200 | 0.4 | 754 | 1.1 |
| Other | 85 | 0.1 | 49 | 0.1 | 82 | 0.1 | 16 | 0.1 | 21 | 0.1 |
| Total | 176,117 | 100.0 | 86,997 | 100.0 | 112,486 | 100.0 | 52,922 | 100.0 | 70,462 | 100.0 |

The following table sets out a breakdown of our raw material costs for the periods stated:

| Cost of raw materials | For the financial year ended 31 December 2008 Cost of raw materials (RMB'000) | 2008 % of cost of raw materials | 2009 Cost of raw materials (RMB'000) | 2009 % of cost of raw materials | 2010 Cost of raw materials (RMB'000) | 2010 % of cost of raw materials | For the six months ended 30 June 2010 Cost of raw materials (RMB'000) | 2010 % of cost of raw materials | 2011 Cost of raw materials (RMB'000) | 2011 % of cost of raw materials |
|---|---|---|---|---|---|---|---|---|---|---|
| EPS | 126,079 | 98.1 | 42,739 | 76.1 | 61,465 | 79.3 | 30,830 | 77.9 | 39,252 | 79.3 |
| EPO | 141 | 0.1 | 9,365 | 16.7 | 9,794 | 12.6 | 5,729 | 14.5 | 7,257 | 14.7 |
| Ancillary materials | 2,323 | 1.8 | 4,068 | 7.2 | 6,279 | 8.1 | 3,004 | 7.6 | 2,985 | 6.0 |
| Total | 128,543 | 100.0 | 56,172 | 100.0 | 77,538 | 100.0 | 39,563 | 100.0 | 49,494 | 100.0 |

For the financial years ended 31 December 2008, 2009 and 2010 and the two six months ended 30 June 2010 and 2011, our cost of sales was approximately RMB176.1 million, RMB87.0 million, RMB112.5 million, RMB[52.9] million and RMB[70.5] million respectively. The raw material costs were the largest component and accounted for approximately 73.0%, 64.6%, 68.9%, [74.7]% and [70.2]% of our cost of sales for the respective periods. In particular, EPS made up the largest component of our raw material costs and accounted for 98.1%, 76.1%, 79.3%, [77.9]% and [79.3]% of total raw material costs for the financial years ended 31 December 2008, 2009 and 2010, and the two six months ended 30 June 2010 and 2011 respectively. For the Track Record Period the fluctuation of our raw material costs, as a percentage of total cost of sales, was caused mainly by the changes in price and quantity of EPS we acquired and used for our products. The changes in direct labor costs and manufacturing overhead reflected among other things, our manufacturing activities, output of products and staff number. For illustration of the sensitivity of our gross profit to changes in costs of raw materials, on the assumption that revenue remains unchanged, every [1.0]% increase in costs of raw materials would result in our gross profit being reduced by approximately [2.2%] in 2008, [1.6]% in 2009, [1.5]% in 2010 and [1.7]% in the first half 2011.

For the three financial years ended 31 December 2008, 2009 and 2010, and the two six months ended 30 June 2010 and 2011, the percentages of our cost of sales as represented by the sum of direct labour costs and staff costs (under manufacturing overhead) were approximately [4.9]%, [8.4]%, [8.1]%, [8.8]% and [8.7]% respectively. The Company utilised automated machines in order to minimise, to a certain extent, labour costs incurred directly by the manufacturing of our products. We purchased instead of manufactured on our own the ancillary parts that were required to be integrated with our products in order to lower the overall cost of our products. For the Track Record Period, the Company did not engage subcontractors for the manufacturing of its products. Processing charges represented expenses of other miscellaneous items incurred by the manufacturing of our products which included, among other things, repairment costs, packaging costs and insurance fees.

### Gross profit

The following table sets out the gross profit and gross profit margins for each of our product groups for the periods stated:

| Gross profit | For the financial year ended 31 December | | | | | | For the six months ended 30 June | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | | 2009 | | 2010 | | 2010 | | 2011 | |
| | Gross profit | Gross profit margins | Gross profit | Gross profit margins | Gross profit | Gross profit margins | Gross profit | Gross profit margins | Gross profit | Gross profit margins |
| | *(RMB'000)* | *(%)* | *(RMB'000)* | *(%)* | *(RMB'000)* | *(%)* | *(RMB'000)* | *(%)* | *(RMB'000)* | *(%)* |
| *Packaging products* | | | | | | | | | | |
| Televisions | 50,220 | 28.4 | 20,605 | 32.8 | 21,182 | 34.2 | 9,771 | 36.1 | 11,353 | 34.7 |
| Cathode ray tube | 46,560 | 28.9 | 6,823 | 31.9 | 3,718 | 38.1 | 1,758 | 29.8 | 801 | 27.6 |
| Flat panel & plasma | 3,660 | 22.8 | 13,782 | 33.3 | 17,464 | 33.4 | 8,013 | 37.8 | 10,552 | 35.4 |
| Air conditioners | 998 | 6.0 | 2,463 | 16.0 | 7,569 | 24.0 | 3,392 | 20.5 | 4,145 | 16.2 |
| Washing machines | 301 | 2.8 | 3,042 | 15.8 | 4,496 | 19.2 | 1,725 | 22.7 | 1,632 | 18.0 |
| Refrigerators | 3,513 | 29.6 | 4,290 | 29.9 | 7,886 | 28.1 | 3,658 | 22.5 | 3,608 | 22.2 |
| Others | 606 | 6.5 | 521 | 21.3 | 563 | 28.6 | 247 | 27.6 | 299 | 18.1 |
| *Structural components* | | | | | | | | | | |
| For air conditioners | 2,748 | 30.1 | 3,962 | 51.5 | 11,897 | 62.0 | 5,631 | 62.9 | 9,060 | 58.8 |
| Total | 58,386 | 24.9 | 34,883 | 28.6 | 53,593 | 32.3 | 24,424 | 31.6 | 30,097 | 29.9 |

The following table sets out the gross profit margins for EPS and EPO products for the periods stated:

| Gross profit margin (%) | For the financial year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 | 2011 |
| EPS products | 24.8 | 28.5 | 31.9 | [30.6] | [27.6] |
| EPO products | 44.8 | 29.5 | 35.6 | [40.6] | [44.2] |

For the three financial years ended 31 December 2008, 2009 and 2010, and the two six months ended 30 June 2010 and 2011, the Gross profit were approximately RMB58.4 million, RMB34.9 million, RMB53.6 million, RMB24.4 million and RMB30.1 million respectively, while the gross profit margin was 24.9%, 28.6%, 32.3%, 31.6% and 29.9% respectively.

Our gross profit margin decreased slightly to approximately 29.9% for the first half 2011 from approximately 31.6% for the first half 2010. The increase in direct labour costs on the back of the increase in number of [direct labour] and increase in salary for them and the increase manufacturing overhead in particular, cost of utilities on the back of the increase in consumption of utility and rates of utility contributed, in general, to the decrease in the gross profit margins of our products in the first half 2011.

The gross profit margin of packaging products for televisions was approximately 34.7% for the first half 2011, which did not fluctuate much from approximately 36.1% for the first half 2010. For the three years ended 31 December 2008, 2009 and 2010, our gross profit margin increased in line with the general increase in gross profit margins of our packaging products and structural components. The gross profit margins of packaging products for televisions increased from approximately 28.4% in 2008 to approximately 32.8% in 2009 and approximately 34.2% in 2010 as we manufactured and sold more packaging products made of EPO that offered comparatively higher margins than packaging products made of EPS. The manufacturing of EPO packaging products required additional procedures and planning and EPO packaging products were priced comparatively higher than EPS packaging products.

The gross profit margin of our EPO products decreased from approximately 44.8% in 2008 to approximately 29.5% in 2009 as our EPO products were priced at lower end of our price range amidst a challenging business environment in 2009.

The gross profit margin of packaging products for air conditioners was approximately 16.2% for the first half 2011, which did not fluctuate much from approximately 20.5% for the first half 2010. The gross profit margins of packaging products for air conditioners increased from approximately 6.0% in 2008 to approximately 16.0% in 2009 and approximately 24.0% in 2010. The increase in gross profit margins of packaging products for air conditioners from 2009 to 2010 was attributed mainly to better economies of scale on account of the increase in manufacturing output of packaging products for air conditioners in line with an increase in sales of such products to our customers. The increase in gross profit margin of packaging products for air conditioners from 2008 to 2009 was attributed mainly to the increase in sales of packaging products for air conditioners to particular customers at comparatively higher profit margin in 2009 than in 2008.

The gross profit margin of packaging products for washing machines was approximately 18.0% for the first half 2011 which did not fluctuate much from approximately 22.7% for the first half 2010. The gross profit margins of packaging products for washing machines increased from approximately 2.8% in 2008 to approximately 15.8% in 2009 and approximately 19.2% in 2010. The increase in gross profit margins of packaging products for washing machines from 2008 to 2010 was attributed mainly to the better economies of scale as we manufactured and sold more packaging products for washing machines during the year.

The gross profit margin of structured components for air conditioners was approximately 58.8% for the first half 2011, which did not fluctuate much from approximately by 62.9% for the first half 2010. The gross profit margins of structural components for air conditioners increased from approximately 30.1% in 2008 to approximately 51.5% in 2009 and approximately 62.0% in 2010. The manufacturing of structural components required typically higher level of specifications and details and therefore the sales of which afforded higher profit margins. We sold structural components for air conditioners of approximately 369 tonnes in 2008, approximately 265 tonnes in 2009 and approximately 539 tonnes in 2010, representing an average annual growth rate of approximately [16.5%]. The overall increase in manufacturing output and average selling prices of the structural components contributed to the increase in gross profit margin of the structural components during the three years ended 31 December 2008, 2009 and 2010. Further, Chongqing Gree, one of our major customers, had expanded their manufacturing base and therefore placed more purchase orders with us for the purchase of our structural components for air conditioners in 2010. In this connection, we had sold more structural components at price near the high end of the range of average selling price for structural components in 2010. The sale of structural components at price near the high end of the range of average selling price for structural components contributed to the increase in gross profit margin of the structural components.

For the three years ended 31 December 2008, 2009 and 2010, the overall increase in gross profit margins of our Group was also attributed to the decrease in the depreciation of property, plant and equipment after the disposal of certain manufacturing machineries damaged by the earthquake that hit Wenchuan Country, Sichuan Province, the PRC in 2008 and some of the manufacturing machineries were fully depreciated during the Track Record Period. In general, we continued our effort on improving efficiency of our manufacturing processes by way of cost control and enhancing our manufacturing machineries and equipment. For the Track Record Period, payments made to Sichuan Changhong Electric by Sichuan Jinghong for the purchase of power supply used by Sichuan Factory were approximately RMB[12.0] million, RMB[6.3] million, RMB[4.4] million and RMB[3.4] million respectively. The quantities of the power resources namely, electricity, water, steam and pressurized air purchased by Sichuan Jingong from Sichuan Changhong Electric decreased from 2008 to 2009 amidst a lackluster business performance and the general decrease in manufacturing output and revenue of our Group (including Sichuan Jinghong) during the period. In 2010, Sichuan Jinghong completed the enhancement of the power supply system in Sichuan Factory and in particular, the refurbishment of some steam pipes through which pressurized steam required for manufacturing of our products was transported. The refurbishment of steam pipes increased the efficiency of utility usage and lowered the consumption of steam in the manufacturing operations carried out in Sichuan Factory. In addition, Sichuan Jinghong installed machines for production of pressurized air for its manufacturing operation in 2010. The quantities of steam and pressurized air purchased from Sichuan Changhong Electric by Sichuan Jinghong decreased by approximately [44.2]% and approximately [34.3]% respectively from 2009 to 2010. Nonetheless, Sichuan Jinghong increased the purchase of electricity by approximately [103.8]% from 2009 to 2010. The increase in payment of approximately RMB[816,000] for the purchase of electricity was more than offset by the decrease in payment in aggregate of approximately RMB[3.0] million for the purchase of steam and pressurized air from Sichuan Changhong Electric. The enhancement made to the power supply system in Sichuan Factory contributed to the decrease in payments for the purchase of power resources by Sichuan Jinghong to Sichuan Changhong Electric in 2010 compared to 2009. We had also exercised control on manufacturing overhead for the manufacturing of our products. The average annual rate of manufacturing overhead required for the manufacturing of our products decreased from approximately RMB4,226/tonne in 2008, to approximately RMB3,647/tonne in 2009 and approximately RMB3,272/tonne in 2010. In first half 2011, Sichuan Jinghong made payment of approximately RMB[3.4] million to Sichuan Changhong Electric for purchase of the power resources as we sold more EPO products and the manufacturing of which required consumption of comparatively higher level of power resources than EPS products.

**Other income**

Other income comprises mainly interest income on bank deposits, and others.

The following table sets out the breakdown of our other income for the periods stated:

| | For the financial year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | **2008** | **2009** | **2010** | **2010** | **2011** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | *(Unaudited)* | |
| Interest income on bank deposits | 1,678 | 186 | 131 | [64] | [67] |
| Others | 185 | 288 | 207 | [49] | [234] |
| Total | 1,863 | 474 | 338 | [113] | [301] |

For the two six months ended 30 June 2010 and 2011, other income of our Company was approximately RMB113,000 and RMB301,000 respectively. The increase in other income was mainly due to the increase in sales of unused ancillary parts in the first half 2011.

For the three financial years ended 31 December 2008, 2009 and 2010, other income of our Company was approximately RMB1.9 million, RMB474,000 and RMB338,000 respectively. [The decrease in other income was mainly due to the decrease in interest income on bank deposits.]

**Other gains and losses**

Other gains and losses comprise mainly net gains or losses arising from disposal of property, plant and equipment, net gains or losses arising from the change in fair value of investment held-for-trading, net foreign exchange losses and impairment loss recognized on trade receivables.

The following table sets out the breakdown of our other gains and losses for the periods stated:

| | Financial year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2008** | **2009** | **2010** | **2010** | **2011** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | *(Unaudited)* | |
| Impairment loss recognized on trade receivables | (1) | – | – | [–] | [–] |
| Net (losses)/gains on disposal of property, plant and equipment | (2,869) | (60) | 300 | [460] | [3] |
| Net gains/(losses) arising on changes in fair value of held-for-trading investments | – | 107 | (746) | [(3,242)] | [(1,241)] |
| Net foreign exchange losses | – | – | (1) | [–] | [–] |
| | (2,870) | 47 | (447) | [(2,782)] | [(1,238)] |

For the two six months ended 30 June 2010 and 2011, our Company recorded other losses of approximately RMB2.8 million and RMB1.2 million respectively. Our Company made investments in equity securities listed on the Stock Exchange in the PRC and recorded net losses arising on changes in fair value of held-for-trading investment of approximately RMB3.2 million in the first half 2010 and RMB1.2 million in the first half 2011.

For the three financial years ended 31 December 2008, 2009 and 2010, our Company recorded other losses of approximately RMB2.9 million, other gains of approximately RMB47,000 and other losses of approximately RMB447,000 respectively.

Our Company recorded losses arising from the disposal of property, plant and equipment of approximately RMB[2.9] million on account of the disposal of manufacturing machineries and equipment at the Sichuan factory that were damaged by the earthquake that hit Wenchuan Country, Sichuan Province, the PRC in 2008. For the financial year ended 31 December 2008. Sichuan Factory contributed revenue and [net profit] of approximately RMB[129.6] million and approximately RMB[27.7] million respectively to our Group. Our Company made investments in equity securities listed on the stock exchanges in the PRC and recorded net gains of approximately RMB107,000 in 2009 and net losses of approximately RMB746,000 in 2010 and approximately RMB1.2 million in the first half 2011 arising from the change in fair value of the held-for-trading investments.

**Selling and distribution expenses**

Our selling and distribution expenses comprise mainly salary expenses paid to our sales and marketing staff, transportation costs incurred in relation to delivery of products to our customers, and other expenses incurred in relation to our sales and distribution activities.

The following table sets out a breakdown of our selling and distribution expenses for the periods stated:

| | For the financial year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | **2008** | **2009** | **2010** | **2010** | **2011** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Salary expenses | 2,144 | 1,898 | 2,693 | 1,081 | 1,733 |
| Transportation costs incurred in relation to delivery of products to our customers | 2,245 | 2,113 | 3,242 | 1,381 | 1,987 |
| Others | 371 | 316 | 325 | 164 | 215 |
| Total | 4,760 | 4,327 | 6,260 | 2,626 | 3,935 |

For the two six months ended 30 June 2010 and 2011, the selling and distribution expenses of our Company were approximately RMB2.6 million and RMB3.9 million respectively while as a percentage of our total revenue were approximately 3.4% and 3.9% respectively. The increase in the selling and distribution expenses in the first half 2011 was primarily due to increase in [salary expenses for sales and marketing staff and transportation costs in relation to delivery of products to our customers].

For the three financial years ended 31 December 2008, 2009 and 2010, selling and distribution expenses of the Company were approximately RMB4.8 million, RMB4.3 million and RMB6.3 million respectively, while as a percentage of total revenue were approximately 2.0%, 3.6% and 3.8% respectively. The increase in selling and distribution expenses in 2010 was primarily due to increase in salary expenses for sales and marketing staff and transportation costs in relation to delivery of products to our customers.

**Administrative expenses**

Our administrative expenses comprise, among other things salary and related expenses paid to our management and personnel, maintenance of our office, transportation expenses, depreciation of fixed assets and amortization of intangible assets, audit and professional fees and other expenses incurred in relation to our operations.

The following table sets out a breakdown of our administrative expenses for the periods stated:

| | For the financial year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | **2008** | **2009** | **2010** | **2010** | **2011** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Salary and related expenses | 2,166 | 2,446 | 2,952 | 1,704 | 1,471 |
| Traveling and entertainment expenses | 1,216 | 947 | 1,061 | 549 | 585 |
| Depreciation and amortization | 434 | 392 | 341 | 170 | 235 |
| Office maintenance expenses | 361 | 280 | 344 | 154 | 302 |
| Transportation expenses | 137 | 151 | 235 | 85 | 119 |
| Audit and other professional fees | 89 | 223 | 318 | 24 | 32 |
| Land use fees | 341 | 216 | 216 | 108 | 108 |
| Tax | 272 | 203 | 229 | 115 | 117 |
| Others | 497 | 422 | 424 | 255 | 391 |
| Total | 5,513 | 5,280 | 6,120 | 3,164 | 3,360 |

Administrative expenses increased from approximately RMB3.2 million in the first half of 2010 to approximately RMB3.4 million in the first half of 2011. Our average number of staff increased from around [598] employees to around [607] employees in the respective periods. The increase in administrative expenses reflected, among other things, the increase in office maintenance expenses, traveling and entertainment expenses, transportation expenses and other expenses on the back of the increase in the business activities in the first half 2011.

Administrative expenses decreased from approximately RMB5.5 million in 2008 to RMB5.3 million in 2009 and increased to RMB6.1 million in 2010. The increase in the average number of our staff increased from 529 employees in 2009 to 597 employees in 2010 was reflected in the increase in salary and related expenses. In general, the traveling and entertainment expenses, transportation and other expenses increased in tandem with the increase in our business activities and expansion in 2010.

**Other operating expenses**

Other operating expenses comprise mainly compensations paid to customers in respect of defective products and others.

The following table sets out the breakdown of our other operating expenses for the periods stated:

| | For the financial year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | **2008** | **2009** | **2010** | **2010** | **2011** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | *(Unaudited)* | |
| Compensations paid in respect of defective products | 251 | 188 | 628 | 28 | [46] |
| Others | 73 | 75 | 87 | 306 | 9 |
| Total | 324 | 263 | 715 | 334 | 55 |

For the three financial years ended 31 December 2008, 2009 and 2010, and the two six months ended 30 June 2010 and 2011, other operating expenses of the Company were approximately RMB324,000, RMB263,000, RMB715,000, RMB334,000 and RMB55,000 respectively.

**Finance costs**

Finance costs represent mainly interest expenses incurred in relation to bank borrowings and finance cost arising on early redemption of note receivables.

The following table sets out the breakdown of our finance costs for the periods stated:

| | For the financial year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | **2008** | **2009** | **2010** | **2010** | **2011** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | *(Unaudited)* | |
| Interest on bank borrowings wholly repayable within five years | 876 | 471 | 407 | [125] | [111] |
| Finance costs arising on early redemption of note receivables | 646 | 157 | 294 | [171] | [321] |
| | 1,522 | 628 | 701 | [296] | [432] |

For the three financial years ended 31 December 2008, 2009 and 2010, and the two six months ended 30 June 2010 and 2011, finance costs of the Company were approximately RMB1.5 million, RMB628,000, RMB701,000, RMB296,000 and RMB432,000 respectively. The Company received net proceeds from bank borrowings of approximately RMB13.0 million in 2008 and approximately

RMB12.0 million in 2010. The bank borrowings were repayable within one year, fully secured by assets of the Company namely, land, buildings and bank deposits and attached interest charge ranged from 5.31% to 5.58% per annum. The changes in interest on bank borrowings reflected mainly the interest on the outstanding bank loans paid by the Company for the respective periods stated.

**Income tax expenses**

Income tax expenses represent the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the relevant period. Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

The following table sets out the breakdown of our income tax expenses for the periods stated:

| | For the financial year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | **2008** | **2009** | **2010** | **2010** | **2011** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* *(Unaudited)* | *RMB'000* |
| Current tax: | | | | | |
| PRC Enterprise Income Tax | | | | | |
| – Sichuan Jinghong | 3,057 | 2,808 | 3,562 | [1,924] | [2,871] |
| – Chongqing Guangjing | 21 | – | 768 | [455] | [1,015] |
| – Chuzhou Chuangce | 4,084 | 1,474 | 2,060 | [1,168] | [549] |
| (Over)/under-provision in prior year: | | | | | |
| PRC Enterprise Income Tax | | | | | |
| – Sichuan Jinghong[1] | – | (3,058) | (2,807) | [–] | [(3,562)] |
| – Chongqing Guangjing | (82) | (36) | – | [–] | [18] |
| – Chuzhou Chuangce | – | 23 | 21 | [20] | [–] |
| Deferred tax | | | | | |
| – Withholding tax on dividend distributed by subsidiaries in the PRC | – | – | – | – | 807 |
| – Others | 161 | 99 | 359 | (541) | (611) |
| Total income tax recognized in profit and loss | 7,241 | 1,310 | 3,963 | [3,026] | [1,087] |

*Note 1:* The amounts comprise the refund of PRC Enterprise Income tax after the approval of preferential tax rates from the relevant tax authorities after the end of each of reporting period.

The applicable tax rates for the major subsidiaries throughout the Track Record Periods are as follows:

| | For the financial year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 | 2011 |
| Sichuan Jinghong | – | – | – | [–] | [25%] |
| Chongqing Guangjing | 7.5% | 7.5% | 15% | [15%] | [15%] |
| Chuzhou Chuangce | 25% | 25% | 25% | [25%] | [25%] |

Our Company is incorporated as an exempted company with limited liability in the Cayman Islands and is not subject to the profits tax in the Cayman Islands. Our income tax expenses comprised mainly income taxes payable by our subsidiaries in the PRC under relevant PRC income tax laws and regulations. We have made all the required tax filings and paid all outstanding tax liabilities with the relevant tax authorities. As of the Latest Practicable Date, our Directors to their best of knowledge after making reasonable enquiries, are not aware of any dispute or potential dispute with the tax authorities.

For the three financial years ended 31 December 2008, 2009 and 2010 and six months ended 30 June 2010 and 2011, income tax expenses of the Company were approximately RMB7.2 million, RMB1.3 million, RMB4.0 million, RMB3.0 million and RMB1.1 million respectively. For three years ended 31 December 2008, 2009 and 2010, our subsidiaries enjoyed tax relief, as explained below, and Sichuan Jinghong contributed the most to such tax relief as its applicable tax rate was nil for the periods.

On 16 March 2007, the National People's Congress promulgated the Law of the PRC on Enterprise Income Tax (the ''New EIT Law'') by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New EIT Law. Under the New EIT Law and Implementation Regulation, the statutory EIT rate of our Group's subsidiary in the PRC has been reduced to 25% from 1 January 2008 onwards.

***Sichuan Jinghong***

Notwithstanding the above, under the old EIT system in the PRC, Sichuan Jinghong obtained a written approval from the local tax authorities on 23 May 2007 and was entitled to exemptions from the EIT for two years commencing from its first profit-making year and thereafter entitled to a 50% relief from EIT for the next three years (the ''Manufacturing Income Tax Holidays''). According to Guofa [2007] No. 39, the PRC enterprises which have started to enjoy the Manufacturing Income Tax Holidays before the effective date of the New EIT Law can continue to enjoy the remaining period of the Manufacturing Income Tax Holidays. For those PRC enterprises whose Manufacturing Income Tax Holidays has not yet started before the effective date of the New EIT Law, they are deemed to have started to enjoy them from 1 January 2008.

Taking into account the tax position of Sichuan Jinghong in the PRC, the first profit-making year is deemed to have started from the year ended 31 December 2006 and thus Sichuan Jinghong calculated the EIT at 100% EIT exemption for the fiscal years ended 31 December 2006 and 2007, and at 50% EIT reduction and thus an effective rate of 12.5% for the fiscal years ended 31 December 2008, 2009 and 2010.

In addition, pursuant to Circular of the Ministry of Finance, the General Administration of Customs and the State Administration of Taxation on Relevant Tax Policies for Supporting the Post-Wenchuan Earthquake Rehabilitation and Reconstruction (Cai Shui [2008] No. 104), issued on 30 July 2008 and as advised by our PRC Legal Advisers a written approval obtained from the competent local tax authorities on 23 December 2008, effective on 1 January 2008, Siuchuan Jinghong is entitled to EIT exemption and therefore exempt from tax payment for the fiscal years ended 31 December 2008, 2009 and 2010.

The tax concessions applicable to Sichuan Jinghong had expired in 2010 and it would be subject to the statutory EIT rate of 25% in the PRC from 2011 onwards.

***Chongqing Guangjing***

Pursuant to relevant PRC tax laws and regulations in respect of West China Development Champion and as advised by our PRC Legal Advisers a written approval obtained from the competent local tax authorities on 11 May 2006, during the Relevant Periods Chongqing Guangjing is subject to EIT rate at 7.5% for the fiscal years ended 31 December 2008 and 31 December 2009 and EIT rate of 15% for the fiscal year ended 31 December 2010 and six months ended 30 June 2011.

Notwithstanding the above, under the old EIT system in the PRC, Chongqing Guangjing obtained a written approval from the local tax authorities on 27 January 2006 and was entitled to enjoy the Manufacturing Income Tax Holidays. According to Guofa [2007] No. 39, the PRC enterprises which have started to enjoy the Manufacturing Income Tax Holidays before the effective date of the New EIT Law can continue to enjoy the remaining period of the Manufacturing Income Tax Holidays. For those PRC enterprises whose Manufacturing Income Tax Holidays has not yet started before the effective date of the New EIT Law, they are deemed to have started to enjoy them from 1 January 2008.

Taking into account the tax position of Chongqing Guangjing in the PRC, the first profit-making year is deemed to have started from the year ended 31 December 2005 and thus Chongqing Guangjing calculated the EIT at 100% EIT exemption for the fiscal years ended 31 December 2005 and 2006, and at 50% EIT reduction and thus an effective rate of 7.5% for the fiscal years ended 31 December 2007, 2008 and 2009 and an effective rate of 15% for the fiscal year ended 31 December 2010 and six months ended 30 June 2010 and 2011.

***Chuzhou Chuangce***

Taking into account the tax position of Chuzhou Chuangce in the PRC, Chuzhou Chuangce calculated at statutory EIT and was subject to EIT at the effective rate of 25% for the fiscal years ended 31 December 2008, 2009 and 2010 and six months ended 30 June 2010 and 2011.

***Withholding Tax***

The New EIT Law provides that qualified dividend income between two "resident enterprises" that have a direct investment relationship is exempted from income tax. Otherwise, such dividends will be subject to a 5% to 10% withholding tax under the tax treaty or the domestic law. We will ensure the compliance of all relevant dividend withholding tax regulations in the PRC following the repeal of the ["Circular on the Questions Concerning Tax on the Profits Earned by Enterprises with Foreign Investment, Foreign Enterprises and Individual Foreigners from the Transfer of Stocks (Stock Rights) and on Dividend Income" (Guo Shui Fa [1993] No. 45)] in January 2011 and the publication of the letter "Tax arrangements on dividends paid to Hong Kong residents by Mainland companies" by the Stock Exchange on 4 July 2011. Our subsidiaries in the PRC will, in accordance with the relevant dividend withholding tax regulations in place from time to time in the PRC, withhold such appropriate amount of dividend in advance of the distribution of dividend for the purpose of compliance with the relevant tax regulations in the PRC.

Prior to the Corporate Reorganization, Conca Investments, an investment holding company controlled by Mr. Chao, the then equity holder of Chuzhou Chuangce, Chongqing Guangjing and Sichuan Jinghong, was subject to withholding tax on dividends received from Chuzhou Chuangce, Chongqing Guangjing and Sichuan Jinghong and for administrative purpose, such withholding tax was paid and settled by the subsidiaries. For the Relevant Periods, the subsidiaries paid dividend net of withholding tax in aggregate of approximately RMB[94,364,000] to Conca Investment and withholding tax on such dividends in aggregate of approximately RMB[4,967,000] to the relevant PRC authority before the end of each of the Relevant Periods. Our PRC Legal Advisers are of the view that the declaration and payment of dividend complies with the relevant PRC laws and regulations and accordingly, our Group will not be subject to dividend withholding tax after such tax payment was fully settled.

**Investment in listed equity securities**

Our Company made investment in equity securities listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange for the two financial years ended 31 December 2009 and 2010. The investment was made with an intention of applying our surplus cash resources namely, cash resources not immediately required for our operations to make investments and seek investment return for the benefit of our Company.

Mr. Chao considered, among other things, the working capital requirement of our operations and in September 2009 decided to apply surplus cash resources not immediately required for our operations to invest in listed equity securities namely A shares listed on the Shanghai Stock Exchange and shares listed on the small and medium enterprise board and ChiNext of the Shenzhen Stock Exchange. Mr.

Chao considered that investment in the listed equity securities in the PRC should offer, on average, better return on our surplus cash resources than return on bank deposits namely interest on our cash resources deposited with banks in the PRC for a term of up to 1 year that typically ranged from 0.36% to 2.75%. In addition, Mr. Chao was particular confident about the continued economic development of the PRC and was of the view that the financial uncertainty arising from the global financial tsunami was to be overcame and the lackluster performance of the stock markets in the PRC in 2009 offered an investment opportunity to start investing in the listed equity securities at relatively low valuations.

Mr. Chao closely monitored the performances of investments in the listed equity securities. The maximum aggregate amount of our investment in the listed equity securities did not exceed RMB[29.0] million at any time during the two financial years ended 2009 and 2010. Mr. Chao is not a qualified professional investment adviser or professional investor. He made purchases and sales of the investments based on, among other things, his confidence on the continued economic development of the PRC, in a long run, the investment advices and recommendations from stock brokers, news papers and investment journals. The investment in listed equity securities was not part of our principal business activity and as such, our Company had not set a clear investment objective in respect of the investment.

Our investment in listed equity securities was classified as held-for-trading investments in our consolidated statements of financial position as at 31 December 2009 and 2010.

We set out below the relevant financial information on the investment as extracted from the consolidated statements of financial position set out in Appendix I to this document:

| | As of 31 December | | As of 30 June |
|---|---|---|---|
| | **2009** | **2010** | **2011** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Investment in listed equity securities (A)** | Nil | 9,811 | Nil |
| **Total assets (B)** | 185,338 | 194,468 | 204,270 |
| **(A)/(B)** | not applicable | 0.05 | not applicable |

For the Track Record Period, our Group maintained adequate working capital and cash position. Investment in the listed equity securities was funded by surplus cash not immediately required for our operations and no bank loans were utilized for this purpose. The net gains/(losses) arising on change in fair value of held-for-trading investments for the two financial years ended 31 December 2009 and 2010 and six months ended 30 June 2011 in the listed equity securities were disclosed under note 7 to the consolidated financial statements set out in Appendix I to this document.

We set out below the summary of the investment in the listed equity securities made by the Company during the Track Record Period:

| | Financial year ended 31 December | | Six months ended 30 June |
|---|---|---|---|
| | **2009** | **2010** | **2011** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Extracted from the consolidated statements of comprehensive income** | | | |
| Net gains/(losses) arising on change in fair value of held-for-trading investments | 107 | (746) | (1,241) |
| **Extracted from the consolidated statements of cash flows** | | | |
| Net losses arising on change in fair value of held-for-trading investments | Nil | (746) | (1,241) |
| Increase/(decrease) in held-for-trading investments | Nil | 10,557 | (8,570) |
| **Profit/(Loss) and movements** | | | |
| Realized Profit/(Loss) | 107 | (1,050) | (1,241) |
| Unrealized Profit | – | 304 | – |
| | 107 | (746) | (1,241) |
| Opening balance | – | – | 9,811 |
| Gains or losses recognized in: | | | |
| – Profit or loss (Realized) | 107 | (1,050) | (1,292) |
| – Profit or loss (Unrealized) | – | 304 | – |
| Purchase amounts | 188 | 70,661 | 14,734 |
| Sale amounts | (295) | (60,104) | (23,253) |
| Closing balance | – | 9,811 | – |

Given that the maximum amount of investment in the listed equity securities did not exceed RMB29.0 million, the maximum loss arising from the investment would be limited to approximately RMB29.0 million (save transaction costs namely brokerage fees and stamp duty costs) irrespective of the number of executions of purchases and sales of investment in listed equity securities and the fluctuations in value of the investment.

Our Group recorded net realized gain from change in fair value of held-for-trading investments (inclusive of transaction costs) made in listed equity securities of approximately RMB107,000 for the financial year 2009 and net losses (inclusive of transaction costs) of approximately RMB746,000 for the financial year 2010 and net losses (inclusive of transaction costs) of approximately RMB1.2 million for the first half 2011. Given that securities trading and investment is not our principal business and in view of the preparation for the [•••], our Company disposed of all the investment in the listed equity securities by January 2011 and recorded net realized loss from disposal of investment (inclusive of transaction costs) of approximately RMB1.2 million.

We set out below the summary of the number of purchases and sales of investment in listed equity securities for the two financial years ended 31 December 2009 and 2010 and the six months ended 30 June 2011:

| | For the financial year ended 31 December | | | | | | | | For the six months ended 30 June | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | | | | 2010 | | | | 2011 | | | |
| | Purchase | No of trades | Sale | No of trades | Purchase | No of trades | Sale | No of trades | Purchase | No of trades | Sale | No of trades |
| | *RMB'000* | | *RMB'000* | | *RMB'000* | | *RMB'000* | | *RMB'000* | | *RMB'000* | |
| January | – | – | – | – | 198 | 5 | 36 | 2 | 14,734 | 2 | 23,253 | [9] |
| February | – | – | – | – | – | – | 171 | 3 | – | – | – | – |
| March | – | – | – | – | 108 | 6 | 115 | 4 | – | – | – | – |
| April | – | – | – | – | 33,315 | 18 | 8,335 | 7 | – | – | – | – |
| May | – | – | – | – | 18,423 | 8 | 16,250 | 7 | – | – | – | – |
| June | – | – | – | – | – | – | 11,936 | 6 | – | – | – | – |
| July | – | – | – | – | 76 | 4 | 2,448 | 7 | N/A | N/A | N/A | N/A |
| August | – | – | – | – | 38 | 3 | 2,716 | 5 | N/A | N/A | N/A | N/A |
| September | 49 | 4 | – | – | 40 | 2 | 345 | 3 | N/A | N/A | N/A | N/A |
| October | 61 | 3 | 190 | 7 | 3,746 | 3 | – | – | N/A | N/A | N/A | N/A |
| November | 43 | 2 | 50 | 2 | 13,384 | 4 | 12,086 | 5 | N/A | N/A | N/A | N/A |
| December | 35 | 3 | 55 | 3 | 1,333 | 3 | 5,666 | 3 | N/A | N/A | N/A | N/A |
| **Total** | **188** | **12** | **295** | **12** | **70,661** | **56** | **60,104** | **52** | **14,734** | **2** | **23,253** | **[9]** |

*Note:* As our Company disposed of all the investment in the listed equity securities by January 2011, no transaction of investment was recorded from February 2011 up to the end of June 2011, being the latest date to which our consolidated financial statements were drawn up for the purpose of this document.

The investment in listed equity securities was a temporary activity and not a principal business activity of our Group and lasted for around 17 months only. The maximum number of purchases was made in April 2010 on the back of a positive investment sentiment in the stock markets at the time. There were 11 months during which we made fewer than ten trades per month.

Our Group does not intend to carry out securities trading activity in the near future. In the event that our Group decided to carry out securities trading activity in the future, it is intended that such activity will have to comply with our internal control and applicable requirements under the Listing Rules and be approved in advance by the board of Directors of our Company in a duly convened board meeting. The Board will ensure that such activity will be carried out in the interest of our Company and shareholders as a whole and in particular, will ensure compliance with our internal controls namely, that (i) the securities trading activity will not be carried out as a separate principal line of our business; (ii) the securities trading activity will be carried out for the purpose of seeking better investment return for the benefit of our Company; (iii) the securities trading activity will be funded by surplus cash resources not immediately required for our operations and not by proceeds of bank loans provided that the liquidity and working capital position of Group will not be adversely affected by such activity; (iv) a maximum investment amount will be set to not more than [50]% of the surplus cash resources not immediately required for our operations so as to control and limit the potential loss arising from such activity and appropriate disclosure will be made in our financial reports; (v) a designated team of our staff including our senior management members and financial controller who holds a professional accountancy qualification and is familiar with the financial status of our Company (but have no prior professional investment trading and management experiences) will be appointed and if necessary external investment advisers duly qualified and accredited with financial institutions will be consulted in connection with the securities trading activity and the formulation of key investment objectives namely, the maximum investment amount designated for such activity, the expected investment return and level of risk, investment time horizon, the selection criteria of investees, the buying and selling strategies and the stop loss policy to minimize the potential investment loss; (vi) our financial controller will take initiative in the formulation of treasury policy as to the appropriate use of surplus cash resources from time to time with an intention of generating return on surplus cash resources by way of, among other things, applying such cash resources for interest earning deposit and or other interest earning [short-term money market instruments]; and (vii) our financial controller will report to the board of Directors, on a periodic basis, the performance of the investment and, if necessary, advise the appropriate actions to be taken in respect of the disposition of the investment.

## RESULTS OF OPERATIONS

### Two six months ended 30 June 2010 (unaudited) and 2011

#### *Revenue*

Revenue increased by approximately RMB[23.3] million or [30.0]% from approximately RMB[77.3] million in the first half 2010 to approximately RMB[100.6] million in the first half 2011. We recorded an increase in revenue derived from the sale of many of our products in the first half of 2011. In particular, we recorded an increase in revenue derived from the sale of packaging products for air conditioners of approximately RMB9.0 million or 54.2%, for flat panel and plasma televisions of approximately RMB8.6 million or 40.6% and for washing machines of approximately RMB1.5 million or 19.2% in the first half of 2011 as compared to the first half of 2010. Further, revenue derived from the sale of structural components for air-conditioners increased by approximately RMB6.4 million or 71.9% over the period.

Revenue derived from the sale of packaging products for cathode ray tube televisions decreased by approximately RMB3.0 million or 50.8% to approximately RMB2.9 million in the first half of 2011 from approximately RMB5.9 million in the first half of 2010 as our customers continued to shift their focus away from cathode ray tube televisions to flat panel and plasma televisions.

In the first half 2011, revenue derived from the sale of packaging products and structual components for air-conditioners increased as Chongqing Gree, one of our major customers, expanded further their manufacturing base in Chongqing City near where are Chongqing Factory is located, and as such, placed purchase orders for more of our packaging products and structural components. Further, Chongqing Haier, one of our major customers, increased their production of air-conditioners and as such, placed purchase orders for more of our packaging products and structural components for air-conditioners in the first half 2011 as compared to the first half 2010.

Our customers continued to focus on the manufacturing of flat panel and plasma televisions at the expense of cathode ray tube televisions and as such purchased more packaging products for flat panel and plasma and less for cathode ray tube televisions in the first half 2011 as compared to the first half 2010.

Chonqing Haier, one of our major customers, expanded manufacturing facilities for washing machines in late 2010 and as such, purchased comparatively more packaging products for washing machines in the first half 2011 as compared to the first half 2010.

The average purchase cost or raw materials used in the manufacturing of our products increased (explained below) in the first half 2011 when compared to the first half 2010. Our pricing policy allowed us to pass cost of raw materials used in the manufacturing of EPS products to customers and therefore the average increase in purchase cost of raw materials in general, contributed to the increase in revenue in the first half 2011.

***Cost of sales***

Cost of sales increased by approximately RMB17.6 million or 33.1% from approximately RMB52.9 million in the first half 2010 to approximately RMB70.5 million in the first half 2011. The increase in cost of sales reflected mainly the increase in purchase cost of raw materials used and to a lesser extent, manufacturing overhead incurred in the manufacturing of our products. We utilised larger quantity of EPS and EPO in the first half 2011 as compared to the first half 2010. We utilised, in aggregate, of approximately [4,345] tonnes of EPS at an average cost of RMB[9,033]/tonne and [231] tonnes of EPO at an average cost of approximately RMB[31,401]/tonne in the first half 2011 compared to approximately [3,677] tonnes of EPS at an average cost of RMB[8,384]/tonne and [125] tonnes of EPO at an average cost of RMB[45,617]/tonne in the first half 2010.

Manufacturing overhead increased by approximately RMB6.7 million or 75.5% to approximately RMB15.6 million in the first half 2011 from approximately RMB8.9 million in the first half 2010. The increase in manufacturing overhead reflected mainly the increase in the cost of utilities incurred in connection with our increasing manufacturing activity [and the increasing utility rates such as electricity rate] in the first half 2011.

***Gross profit***

Gross profit increased by approximately RMB5.7 million or 23.2% from approximately RMB24.4 million in the first half of 2010 to approximately RMB30.1 million in the first half 2011. Gross profit margin remained stable at approximately 29.9% in the first half 2011 compared to approximately 31.6% in the first half 2010.

***Other income***

Other income increased by approximately RMB188,000 or 166.4% from approximately RMB113,000 in the first half of 2010 to approximately RMB301,000 in the first half 2011. In particular, the sales of unused ancillary parts increased from approximately RMB49,000 in the first half of 2010 to approximately RMB234,000 in the first half of 2011.

***Other gains and losses***

Other gains and losses decreased by approximately RMB1.6 million or 55.5% from approximately RMB2.8 million in the first half of 2010 to approximately RMB1.2 million in the first half of 2011 mainly as a result of the decrease in net losses arising on changes in fair values of held-for-trading investments in equity securities listed on the stock exchanges in the PRC. The investment was made with an intention of applying our surplus cash resources to make investment and seek investment return for the benefit of our Company. The Company had disposed of all the investments in the listed equity securities by January 2011.

***Selling and distribution expenses***

Selling and distribution expenses increased by approximately RMB1.3 million or 49.8% from approximately RMB2.6 million in the first half of 2010 to approximately RMB3.9 million in the first half of 2011 as we conducted more selling and distribution activities on the back of the increase in our revenue. The number of our staff responsible for sales and marketing decreased from around 142 staff to around 127 staff for the respective periods. Transportation expenses increased from approximately RMB1.4 million to approximately RMB2.0 million while remuneration for our sales and marketing staff increased from approximately RMB1.1 million to approximately RMB1.7 million for the respective periods.

***Administrative expenses***

Administrative expenses increased by approximately RMB196,000 or 6.2% from approximately RMB3.2 million in the first half of 2010 to approximately RMB3.4 million in the first half of 2011. The increase in administrative expenses reflected, among other things, the increase in office maintenance expenses, traveling and entertainment expenses transportation expenses on the back of the increase in the business activities in the first half 2011.

***Other operating expenses***

Other operating expenses decreased by approximately RMB279,000 or 83.5% from approximately RMB334,000 in the first half of 2010 to approximately RMB55,000 in the first half of 2011. The payment of compensations in respect of defective or returned EPS products rendered as such by damages made to them in transit was approximately RMB46,000 in the first half 2011.

***Finance costs***

Finance costs increased by approximately RMB136,000 or 45.9% from approximately RMB296,000 in the first half of 2010 to approximately RMB432,000 in the first half of 2011. Of the finance costs, interest on bank borrowings decreased from approximately RMB125,000 to approximately RMB111,000 while finance costs arising on early redemption of note receivables increased from approximately RMB171,000 to approximately RMB321,000 in the respective periods.

***Income tax expenses***

Income tax expenses decreased by approximately RMB1.9 million from approximately RMB3.0 million in the first half of 2010 to approximately RMB1.1 million in the first half of 2011 given the refund of PRC EIT after the approval of preferential tax rates from the relevant tax authorities after the end of the reporting period.

***Net profit***

Profit attributable to owners of the Company ("net profit") increased by approximately RMB8.0 million or 64.9% from approximately RMB12.3 million in the first half of 2010 to approximately RMB20.3 million in the first half of 2011. Net profit margin was approximately 15.9% in the first half of 2010 and approximately 20.2% in the first half of 2011.

**Two financial years ended 2010 and 2009**

***Revenue***

Revenue increased by approximately RMB44.2 million or approximately 36.3%, from approximately RMB121.9 million for the financial year 2009 to approximately RMB166.1 million for the financial year 2010. The increase was primarily due to an overall increase in purchase orders placed to us by our customers as the PRC economy together with the consumer electrical appliance industry in the PRC continued to recover from the global financial tsunami.

In 2010 our customers continued to focus on the manufacturing of flat panel and plasma televisions which were typically smaller in size, lighter in weight and require lesser quantity of packaging materials for protection when compared to the traditional cathode ray tube televisions. Revenue derived from the sales of packaging products for televisions decreased to approximately RMB62.0 million in 2010 from approximately RMB62.8 million in 2009. Despite the decrease in revenue from the sales of packaging products for televisions, we recorded increase in revenue from the sales of packaging products for air conditioners, washing machines and refrigerators. In particular, revenue derived from the sales of packaging products for air conditioners increased by approximately RMB16.1 million or 104.5% from approximately RMB15.4 million in 2009 to approximately RMB31.5 million in 2010. Further, revenue derived from the sales of structural components for air conditioners increased by approximately RMB11.5 million or 149.4% from approximately RMB7.7 million in 2009 to approximately RMB19.2 million in 2010. Chongqing Gree, one of our major customers, had made investment to expand their manufacturing base in Chongqing City near where our Chongqing Factory is located. We received comparatively more purchase orders from and sold more packaging products and structural components to Chongqing Gree for their air conditioners in 2010 than in 2009. The structural components were used inside air conditioners. For the two financial years ended 31 December 2009 and 2010, sales of our products for air conditioners accounted for approximately 18.9% and 30.5% of our revenue respectively.

We recorded increase in revenue derived from sales of packaging products for washing machines and refrigerators in 2010 when compared to 2009. Revenue derived from the sales of packaging products for washing machines increased by approximately RMB4.2 million or 21.8% to approximately

RMB23.4 million in 2010 from approximately RMB19.2 million in 2009. Revenue derived from the sales of packaging products for refrigerators increased by approximately RMB13.7 million or 95.6% to approximately RMB28.0 million in 2010 from approximately RMB14.3 million in 2009.

The average annual purchase cost of raw materials used in the manufacturing of our products increased (explained below) in 2010 when compared to 2009. Our pricing policy allowed us to pass cost of raw materials used in the manufacturing of EPS products to customers and therefore the average increase in purchase cost of raw materials, in general, contributed to the increase in revenue in 2010.

***Cost of sales***

Cost of sales increased by approximately RMB25.5 million or approximately 29.3% from approximately RMB87.0 million in 2009 to approximately RMB112.5 million in 2010. The increase in cost of sales reflected mainly the increase in purchase cost of raw materials used in the manufacturing of our products. We purchased larger quantity of EPS at higher average annual cost in 2010 than in 2009. We made purchases, in aggregate, of approximately 6,759 tonnes of EPS at an average annual cost of approximately RMB9,272/tonne in 2010 compared to 5,344 tonnes of EPS at an average annual cost of approximately RMB7,688/tonne in 2009.

For the financial year ended 2010, flat panel and plasma televisions continued to be the popular types of televisions made by our customers and fewer quantity of packaging products and in turn raw materials were required for the manufacturing of them when compared to the traditional cathode ray tube televisions that were typically larger in size and heavier in weight. Nonetheless, more raw materials were purchased and used by the Company in the manufacturing of products for air conditioners, washing machines and refrigerators.

***Gross profit***

Gross profit increased by approximately RMB18.7 million or approximately 53.6%, from approximately RMB34.9 million for the financial year 2009 to approximately RMB53.6 million for the financial year 2010. Gross profit margin increased from 28.6% in 2009 to 32.3% in 2010.

***Other income***

Other income decreased by approximately RMB136,000 or approximately 28.7%, from approximately RMB474,000 for the financial year 2009 to approximately RMB338,000 for the financial year 2010. Interest income on bank deposits decreased from approximately RMB186,000 in 2009 to approximately RMB131,000 in 2010.

***Other gains and losses***

The Company recorded other gains of approximately RMB47,000 for the financial year 2009 and other losses of approximately RMB447,000 for the financial year 2010. The Company made investment in equity securities listed on the stock exchanges in the PRC in 2009 and 2010. The investment was made with an intention of applying our surplus cash resources namely, cash resources not immediately required for our operations to make investments and seek investment return for the benefit of the Company. The investments were recorded as net gains/(losses) arising on change in fair value of held-for-trading investments and in this connection, net gains of approximately RMB107,000 were recorded in 2009 and net losses of approximately RMB746,000 in 2010.

***Selling and distribution expenses***

Selling and distribution expenses increased by approximately RMB2.0 million or approximately 44.7%, from approximately RMB4.3 million for the financial year 2009 to approximately RMB6.3 million for the financial year 2010. Selling and distribution expenses comprised primarily transportation expenses incurred mainly for the delivery of products to our customers and remuneration for our sales and marketing staff. Our staff conducted comparative more selling and distribution activities in response to the increase in purchase orders placed by our customers and as such, incurred more selling and distribution expenses in 2010 than in 2009. The number of our staff responsible for sales and marketing increased from 112 staff to 145 staff. Transportation expenses increased from RMB2.1 million in year 2009 to RMB3.3 million in 2010 while remuneration for our sales and marketing staff increased from RMB1.9 million to RMB2.7 million for the respective periods.

***Administrative expenses***

Administrative expenses increased by approximately RMB840,000 or 15.9% from approximately RMB5.3 million for the financial year 2009 to approximately RMB6.1 million for the financial year 2010. Salary and related expenses for staff increased by approximately RMB506,000 or 20.7% from approximately RMB2.4 million in 2009 to approximately RMB3.0 million in 2010 on the back of the increase of the number of staff from 529 to 600 staff over the respective periods. Traveling and entertainment expenses increased by approximately RMB114,000 or approximately 12.0% from approximately RMB947,000 in 2009 to approximately RMB1.1 million in 2010 on the back of the increase in business activities in 2010.

***Other operating expenses***

Other operating expenses increased from approximately RMB263,000 in 2009 to approximately RMB715,000 in 2010 mainly as a result of the increase in payment of compensations in respect of defective or returned EPS products. We were required to arrange for transportation of our products to destinations designated by our customers and some of such products were damaged and rendered defective during transportation and as such we made compensations to the customers affected in this regard.

***Finance costs***

Finance costs increased by approximately RMB73,000 or approximately 11.6% from approximately RMB628,000 for the financial year 2009 to approximately RMB701,000 for the financial year 2010. Finance costs comprised primarily the interest and related expenses incurred in relation to bank loans and finance costs arising on early redemption on note receivables. The Company repaid a bank loan of approximately RMB8.0 million and took out another bank loan of approximately RMB12.0 million in 2010. The bank loan was repayable within one year and secured by buildings and bank deposits of our Group. For the purpose of our business activities, the Company paid interest and related expenses incurred in relation to bank loans of approximately RMB407,000 and finance costs arising on early redemption on note receivables of approximately RMB294,000 in 2010.

### *Income tax expenses*

Income tax expenses increased by approximately RMB2.7 million from approximately RMB1.3 million for the financial year 2009 to approximately RMB4.0 million for the financial year 2010.

### *Net profit*

Profit attributable to owners of the Company ("net profit") increased by approximately RMB12.1 million or approximately 51.4% from approximately RMB23.6 million for the financial year 2009 to approximately RMB35.7 million for the financial year 2010. Net profit margin was approximately 19.4% in 2009 and approximately 21.5% in 2010.

## Two financial years ended 2009 and 2008

### *Revenue*

Revenue decreased by approximately RMB112.6 million or approximately 48.0%, from approximately RMB234.5 million for the financial year 2008 to approximately RMB121.9 million for the financial year 2009. The decrease was primarily due to an overall decrease in purchase orders placed by our customers and in particular, the decrease in the sales of packaging products for cathode ray tube televisions as some of our customers had shifted focus away from the production of cathode ray tube televisions to flat panel & plasma televisions. In addition, some of our customers reduced production of traditional cathode ray tube televisions in favour of the production of flat panel and plasma televisions, which in comparison required lesser amount of packaging products given that they were typically more compact in size and lighter in weight. Revenue derived from the sales of packaging products for cathode ray tube televisions reduced by approximately RMB139.5 or 86.7% to RMB21.4 million for the financial year 2009 from RMB160.9 million for the previous period. The decrease in revenue was offset, to an extent, by the revenue derived from sales of packaging products for flat panel and plasma televisions that increased by RMB25.4 or 158.8% to RMB41.4 million for the financial year 2009 from RMB16.0 million for the previous period. Chongqing Haier increased purchase of our products for their washing machines while Sichuan Changhong Electric increased purchase of our products for their refrigerators in 2009 despite the impact from the global financial tsunami. Revenue derived from the sales of packaging products for washing machines increased from approximately RMB10.6 million in 2008 to approximately RMB19.2 million in 2009, while refrigerators increased from approximately RMB11.9 million in 2008 to approximately RMB14.3 million in 2009. For the two financial years ended 2008 and 2009, the quantities of our packaging products and structural components sold were 11,920 tonnes and 6,633 tonnes respectively.

Our pricing policy allowed the cost of our raw materials used in the manufacturing of EPS products to be passed to our customers. The pricing of our products reflected, to an extent, the market prices of raw materials used in the manufacturing of our products. The costs of EPS accounted for approximately 98.1% and 76.1% of the costs of raw materials of the Company for financial years

2008 and 2009 respectively. The average annual purchase cost of EPS decreased from approximately RMB10,621/tonne for the financial year 2008 to approximately RMB7,688/tonne for the financial year 2009. Given our pricing policy, the decrease in the average purchase costs of EPS contributed to the decrease in our revenue for the financial year 2009.

***Cost of sales***

Cost of sales decreased by approximately RMB89.1 million or approximately 50.6%, from approximately RMB176.1 million for the financial year 2008 to approximately RMB87.0 million for the financial year 2009. Cost of sales comprised mainly the purchase costs of EPS used in the manufacturing of our products. The decrease in cost of sales reflected mainly the decrease in purchase cost of raw materials used in the manufacturing of our products. For the financial year ended 2009, the quantity of raw materials required for the manufacturing of our products decreased in tandem with the decrease in purchase orders for our products placed by our customers. Some of our customers put focus on the manufacturing of flat panel and plasma televisions. The new types of television were typically more compact in size and lighter in weight when compared to traditional cathode ray tube televisions and as such, required lesser quantity of packaging materials. In view of the above, the costs incurred by purchases of raw materials for manufacturing of our products decreased by RMB72.3 million or 56.3% to RMB56.2 million for the financial year 2009 from approximately RMB128.5 million for the previous period.

Further, the decrease in the average annual purchase costs of core raw material namely EPS contributed to the decrease in cost of sales for the financial year ended 2009.

***Gross profit***

Gross profit decreased by approximately RMB23.5 million or approximately 40.3%, from approximately RMB58.4 million for the financial year 2008 to approximately RMB34.9 million for the financial year 2009. Gross profit margin increased from 24.9% for the financial year 2008 to 28.6% for the financial year 2009.

***Other income***

Other income decreased by approximately RMB1.4 million or approximately 74.6%, from approximately RMB1.9 million for the financial year 2008 to approximately RMB474,000 for the financial year 2009. The decrease in other income mainly caused by the decrease in interest income on bank deposits as cash and bank balances decreased from approximately RMB59.4 million as at 31 December 2008 to approximately RMB30.4 million as at 31 December 2009.

***Other gains and losses***

The Company recorded other losses of approximately RMB2.9 million for the financial year 2008 and other income of approximately RMB47,000 for the financial year 2009. Net loss on disposal of property, plant and equipment of approximately RMB2.9 million was recorded on account of the disposal of manufacturing machineries and equipment at the Sichuan factory that were damaged by the earthquake that hit Wenchuan County, Sichuan Province, the PRC in 2008. The Company recorded net gains arising on change in fair value of held-for-trading investments of approximately RMB107,000 for the financial year 2009.

***Selling and distribution expenses***

Selling and distribution expenses decreased by approximately RMB433,000 or approximately 9.1%, from approximately RMB4.8 million for the financial year 2008 to approximately RMB4.3 million for the financial year 2009. Selling and distribution expenses comprised primarily transportation expenses incurred mainly for the delivery of products to our customers and remuneration for our sales and marketing staff. For the financial year ended 2009, the decrease in selling and distribution expenses reflected the decrease in purchase orders for our products placed by our customers. The number of our staff responsible for sales and marketing decreased from 115 staff to 112 staff. Transportation expenses decreased from RMB2.2 million for the financial year 2008 to RMB2.1 million for the financial year 2009 while remuneration for our sales and marketing staff decreased from RMB2.1 million to RMB1.9 million for the corresponding periods.

***Administrative expenses***

Administrative expenses decreased by approximately RMB233,000 or approximately 4.2% from approximately RMB5.5 million for the financial year 2008 to approximately RMB5.3 million for the financial year 2009. Salary and related expenses for staff increased to approximately RMB2.4 million for the financial year 2009 from approximately RMB2.2 million for the financial year 2008 as the number of our staff decreased to 529 staff from 543 staff for the corresponding periods.

***Other operating expenses***

Other operating expenses decreased by approximately RMB61,000 or approximately 18.8% from approximately RMB324,000 for the financial year 2008 to approximately RMB263,000 for the financial year 2009. Compensations paid by the Company in respect of defective products decreased from approximately RMB251,000 for 2008 to approximately RMB188,000 for 2009.

***Finance costs***

Finance costs decreased by approximately RMB894,000 or approximately 58.7% from approximately RMB1.5 million for the financial year 2008 to approximately RMB628,000 for the financial year 2009. Finance costs comprised primarily the interest and related expenses incurred in relation to bank loans and finance costs arising on early redemption on note receivables. The decrease in interest and related expenses reflected the repayment of outstanding bank loans and the decrease in outstanding balance of interest bearing bank loans for the financial year 2009.

***Income tax expenses***

Income tax expenses decreased by approximately RMB5.9 million from approximately RMB7.2 million for the financial year 2008 to approximately RMB1.3 million for the financial year 2009.

***Net profit***

Profit attributable to owners of the Company ("net profit") decreased by approximately RMB7.7 million or approximately 24.6% from approximately RMB31.3 million for the financial year 2008 to approximately RMB23.6 million for the financial year 2009. Net profit margin increased from 13.3% for the financial year 2008 to 19.4% for the financial year 2009.

## ANALYSIS OF FINANCIAL POSITION

Set out below are selected information from the statements of financial position of our Group as of 31 December 2008, 2009 and 2010 and six months ended 30 June 2011 extracted from the accountants' report set out in Appendix I to this document and the analysis of the financial position below should be read in conjunction with the entire financial statements included in the accountants' report, including the notes thereto.

| | **As at 31 December 2008** | **As at 31 December 2009** | **As at 31 December 2010** | **As at 30 June 2011** |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Non-current assets** | | | | |
| Property, plant and equipment | 46,186 | 43,548 | 41,052 | [40,910] |
| Prepaid lease payments | 3,053 | 3,029 | 2,954 | [2,918] |
| Deferred tax assets | – | – | 59 | [72] |
| | 49,239 | 46,577 | 44,065 | [43,900] |
| **Current assets** | | | | |
| Inventories | 9,278 | 8,797 | 11,178 | [11,393] |
| Prepaid lease payments | 70 | 71 | 71 | [71] |
| Held-for-trading investments | – | – | 9,811 | [–] |
| Trade and other receivables | 73,158 | 73,032 | 84,777 | [122,390] |
| Amounts due from related companies | 25,004 | 25,647 | 388 | [–] |
| Current tax assets | – | – | 1,405 | [3,076] |
| Pledged bank deposits | – | 846 | 333 | [–] |
| Cash and bank balances | 59,418 | 30,368 | 42,440 | [23,440] |
| | 166,928 | 138,761 | 150,403 | [160,370] |
| **Current liabilities** | | | | |
| Trade and other payables | 40,550 | 36,858 | 32,178 | [46,849] |
| Amounts due to directors | – | 715 | – | [52] |
| Amounts due to related companies | – | 22 | – | [–] |
| Amount due to immediate holding company | – | – | – | 8,923 |
| Current tax liabilities | 4,180 | 1,662 | – | [–] |
| Bank borrowings | 8,000 | – | 4,000 | [4,000] |
| | 52,730 | 39,257 | 36,178 | [59,824] |
| **Net current assets** | 114,198 | 99,504 | 114,225 | [100,546] |
| **Total assets less current liabilities** | 163,437 | 146,081 | 158,290 | [144,446] |
| **Non-current liabilities** | | | | |
| Deferred tax liabilities | 161 | 260 | 678 | [887] |
| **Net assets** | 163,276 | 145,821 | 157,612 | [143,559] |
| **Capital and reserves** | | | | |
| Share capital | 92,603 | 92,603 | 92,603 | [–] |
| Reserves | 70,673 | 53,218 | 65,009 | [143,559] |
| Total equity attributable to owners of the Company | 163,276 | 145,821 | 157,612 | [143,559] |
| Non-controlling interests | – | – | – | [–] |
| **Total equity** | 163,276 | 145,821 | 157,612 | [143,559] |

### Property, plant and equipment

Property, plant and equipment comprised buildings, plants and machinery, office equipment and other facilities, motor vehicles and construction-in-progress. As of 31 December 2008, 2009 and 2010, and 30 June 2011, property, plant and equipment amounted to approximately RMB46.2 million, RMB43.5 million, RMB41.1 million and RMB40.9 million, respectively. The decreases in property, plant and equipment were caused mainly by the disposal of, among other things, equipment and machineries and depreciation of property, plant and equipment utilized in the course of our business.

### Inventories

Our inventories comprise raw materials, work in progress, finished goods and packaging materials and consumables.

The following table sets forth a summary of our inventory balances at the end of each reporting period stated.

| | **As at 31 December 2008** | **As at 31 December 2009** | **As at 31 December 2010** | **As at 30 June 2011** |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Raw materials | 1,830 | 2,348 | 4,069 | [3,736] |
| Work-in-progress | 44 | 124 | 116 | [188] |
| Finished goods | 6,449 | 5,129 | 5,186 | [5,842] |
| Packaging materials and consumables | 955 | 1,196 | 1,807 | [1,627] |
| | 9,278 | 8,797 | 11,178 | [11,393] |

The following table sets out the turnover days of our inventory, being the ratio of inventory to average daily cost of sales, for the periods stated:

| | **For the financial year ended 31 December** | | | **Six months ended 30 June** |
|---|---|---|---|---|
| | **2008** | **2009** | **2010** | **2011** |
| Inventory turnover days | 19.2 | 36.9 | 36.3 | 29.5 |

Our inventories balance was approximately RMB9.3 million as of 31 December 2008, approximately RMB8.8 million as of 31 December 2009, approximately RMB11.2 million as of 31 December 2010 and approximately RMB11.4 million as of 30 June 2011.

Our inventories balance remained stable at approximately RMB11.4 million as of 30 June 2011 as compared to approximately RMB11.2 million as of 31 December 2010. Our inventories balance increased by approximately RMB2.4 million or approximately 27.1% from approximately RMB8.8 million as of 31 December 2009 to approximately RMB11.2 million as of 31 December 2010 mainly as a result of the increases in raw materials balance and packaging materials and consumables balance as we made more purchases of which on account of the general increase in purchase orders placed by our customers. The raw materials balance increased by approximately RMB1.8 million or approximately 73.3% to approximately RMB4.1 million as of 31 December 2010 from approximately RMB2.3 million as of 31 December 2009. Packaging materials and consumables increased by RMB611,000 or approximately 51.1% to approximately RMB1.8 million as of 31 December 2010 from approximately RMB1.2 million as of 31 December 2009. Our customers continued to acquire more packaging products for their flat panel and plasma televisions which require lesser quantity of packaging products when compared to traditional cathode ray tube televisions, the increase in finished goods balances was subdued. Finished goods balance increased by approximately RMB57,000 or approximately 1.1% to approximately RMB5.2 million as of 31 December 2010 from approximately RMB5.1 million as of 31 December 2009.

Of the raw materials and work in progress outstanding as at 30 June 2011, approximately [99.7]% of such raw materials and [84.6]% of such work in progress were utilised by [30 September] 2011.

Of the finished goods outstanding as at 30 June 2011, approximately RMB[4.4] million or [76.1]% of such finished goods were sold by [30 September] 2011.

For the financial years 2008, 2009 and 2010 and the six months ended 30 June 2011, our inventory turnover days were around 19.2 days, 36.9 days, 36.3 days and [29.5] days respectively. The inventory turnover days decreased to around 29.5 days for the six months ended 30 June 2011 from around 36.3 days in 2010. The rate of increase in cost of sales was faster than the rate of increase in inventories balance as was cleared our inventories faster in the first half 2011. The inventory turnover days decreased from 36.9 days in 2009 to 36.3 days in 2010. We made more purchases of raw materials and packaging materials and consumables on account of the increase in purchase orders placed by our customers as the PRC economy continued to recover from the global financial tsunami. The inventories balances increased as a result in 2010. Nonetheless, the average daily cost of sales increased at a comparatively faster rate than the increase in the inventories balance as we were able to clear our inventories faster in 2010 than in 2009. For the financial year 2009, the increase in inventory turnover days was mainly attributable to the decrease in purchase orders placed to us by our customers and the increase in time required to clear our inventories. Given the decrease in customer purchase orders in the 2009, the finished goods balance and together with the inventories balance decreased.

We review our inventory ageing list on a regular basis for those aged inventories for the Track Record Period. The comparison of carrying value of the aged inventory items with the respective net realizable value was made so as to ascertain whether allowance is required to be made for any obsolete and slow-moving items. For the financial years ended 31 December 2008, 2009, 2010 and the six months ended 30 June 2011, provision for inventories impairment were nil, nil and approximately RMB322,000 and RMB76,000 respectively. For the six months ended 30 June 2011, and the financial year ended 31 December 2010, excess packaging products for packaging a particular product of a customer were manufactured in anticipation of further demand from the customer and as the product became obsolete and no longer being produced by the customer, the anticipated purchase order for these excess packaging products was not fulfilled by the customer and thus, we made inventories provision of approximately RMB76,000 and RMB322,000 in respect of such specific packaging products for the respective periods.

**Trade and other receivables**

Our trade receivables represent mainly receivables from the sales of our packaging products and structural components. Our other receivables represent mainly note receivables, deposits in advance, prepayments, and other deposits and receivables.

We generally give our customers 30 to 180 days' credit upon the issuance of invoice, although credit terms may vary based on, amongst other things, our historical relationships with, payment records and assessment of creditworthiness of, each customer. We continuously monitor the status of the outstanding trade receivables due to us from our customers. Given that our major customers are renowned consumer electrical appliance manufacturers in the PRC, we consider credit risks arising from our trade receivables, if any, to be manageable.

The following table sets out the ageing analysis of our trade receivables (net of allowances for doubtful debts) as at the end of each reporting period stated:

| | **As at 31 December 2008** | **As at 31 December 2009** | **As at 31 December 2010** | **As at 30 June 2011** |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Within 90 days | 51,759 | 49,485 | 51,303 | [71,085] |
| 91–180 days | 513 | 6,254 | 4,563 | [7,611] |
| 181–365 days | 47 | 62 | 56 | [4,679] |
| Over 365 days | 53 | 547 | 381 | [234] |
| Total | 52,372 | 56,348 | 56,303 | [83,609] |

The following table sets out the turnover days of our trade receivables (net of allowances for doubtful debts), being ratio of trade receivables to the average daily sales, for the periods stated:

| | **For the financial year ended 31 December** | | | **For the six months ended 30 June** |
|---|---|---|---|---|
| | **2008** | **2009** | **2010** | **2011** |
| Trade receivable turnover days | 81.5 | 168.7 | 123.7 | 151.7 |

**Age of receivables that are past due but not impaired**

| | As at 31 December 2008 | As at 31 December 2009 | As at 31 December 2010 | As at 30 June 2011 |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Within 90 days | 4,953 | 7,523 | 4,655 | [6,503] |
| 91-180 days | 47 | 195 | – | [–] |
| 181-365 days | – | 251 | 56 | [–] |
| Over 365 days | 53 | 163 | 381 | [234] |
| Total | 5,053 | 8,132 | 5,092 | [6,737] |

Our trade receivables (net of allowances for doubtful debts) were approximately RMB52.4 million as of 31 December 2008, approximately RMB56.3 million as of 31 December 2009, approximately RMB56.3 million as of 31 December 2010 and approximately RMB83.6 million as of 30 June 2011.

The increase in our trade receivables with balances outstanding within 90 days from approximately RMB51.3 million as of 31 December 2010 to approximately RMB71.1 million as of 30 June 2011 reflected mainly the increase in the sales of our products in the second quarter 2011 to Chongqing Gree and Chongqing Haier, two of our major customers, as they expanded their manufacturing bases and placed more purchase order to us for our products. The increase in our trade receivables with balances outstanding within 90 days from approximately RMB49.5 million as of end of 2009 to approximately RMB51.3 million as of end of 2010 reflected, in general, the increase in revenue as our customers placed more purchase orders to us for our products in 2010 than 2009. The decrease in our trade receivables with balances outstanding within 90 days decreased from approximately RMB51.8 million as of end of 2008 to approximately RMB49.5 million as of end of 2009 reflected, in general, the decrease in revenue as our customers placed fewer purchase orders to us for our products in 2009 than in 2008.

The increase in our trade receivables with balances outstanding over 90 days from approximately RMB5.0 million as of 31 December 2010 to approximately RMB12.5 million as of 30 June 2011 reflected mainly [the trade receivables arising from the sale of our products to [Sichuan Changhong Electric], one of our top five customers, with credit period of 120 days], and trade receivables that became past due as of 30 June 2011. Our trade receivables with balances outstanding over 90 days increased from approximately RMB613,000 in 2008 to approximately RMB6.9 million in 2009. The increase in the outstanding trade receivable balances reflected, among other things, the debtors had taken longer time to settle our trade receivables and the increase in the credit period offered to [Sichuan Changhong Electric], one of our top five customers, from 90 days in 2008 to 120 days in 2009 (and has since become the latest credit period offered to the customer) for settlement of the payments for the purchase of our products. The credit period was extended at the request of [Sichuan Changhong Electric] given the difficult economic environment in 2009.

Our note receivables were approximately RMB20.3 million as of 31 December 2008, approximately RMB15.8 million as of 31 December 2009 and approximately RMB27.3 million as of 31 December 2010. The increase in our note receivables as of end of 2010 when compared that as of end of 2009 reflected, in general, the increase in revenue as our customers placed more purchase orders to us for our products and the increase in settlement of such purchases by note in 2010. The decrease in our note receivables as of end of 2008 when compared that as of end of 2009 reflected, in general, the decrease in revenue as our customers placed fewer purchase orders to us for our products and the decrease in settlement of such purchases by note in 2009.

Majority of our trade receivables at the end of the relevant reporting periods were due within 180 days. Of our trade receivables (net of allowances for doubtful debts) outstanding as of 31 December 2008, 2009 and 2010 and 30 June 2011, approximately 99.8%, 98.9% and 99.2% and 94.1% of which respectively were due within 180 days. Of the trade receivables outstanding as at 30 June 2011, approximately RMB[72.5] million or [86.7]% of which was settled by [30 September] 2011.

For the three financial years ended 31 December 2008, 2009 and 2010 and six months ended 30 June 2011, trade receivable turnover days were around 81.5 days, 168.7 days, 123.7 days and 151.7 days respectively. The increase in trade receivable turnover days from 2010 to the first half 2011 reflected, in general, the lower rate of increase in revenue as compared to the rate of increase in the balances of trade receivables given the increase in the sales of our products in the second quarter in 2011, the increase in our trade receivables with balances over 90 days and the balances of trade receivables that became past due. The decrease in trade receivable turnover days from 2009 to 2010 reflected, in general, the higher rate of increase in revenue as compared to the relatively little change in the balances of trade receivables as our customers placed more purchase orders to us for our products and, in general, settled the balances of trade receivables promptly in 2010. The increase in trade receivable turnover days from 2008 to 2009 reflected, among other things, the increase in the credit period offered to [Sichuan Changhong Electric], one of our top five customers, from 90 days in 2008 to 120 days in 2009 (and has since become the latest credit period offered to the customer) for settlement of the payments for the purchase of our products, the increase in days, in general, required by other customers to settle the outstanding trade receivables and the decrease in revenue as our customers placed fewer purchase orders to us for our products in 2009. As at 30 June 2011, trade receivables of approximately RMB[29.8] million were due from [Sichuan Changhong Electric] of which approximately RMB[4.8] million was past due within [90] days and was settled by [31 July 2011].

Of the trade receivables that were past due and outstanding of approximately RMB6.7 million as at 30 June 2011, approximately RMB[6.5] million or [97.0]% of the balances were settled in [cash and note] by [30 September] 2011 of the remaining trade receivables, approximately RMB234,000 were past due and outstanding by over 365 days. We considered provision in respect of the past due and outstanding trade receivables was not necessary, at this stage, given that our Company had received repayments of the outstanding trade receivables and our expectation of further repayment in the outstanding trade receivables [by the first half of 2012]; and the balance of the remaining trade receivables that were past due and outstanding was immaterial in comparison to the total assets value and net worth of our Company as at 30 June 2011. Having considered, among other things, the discussions with and confirmations from our Directors and members of senior management of our

Company and the factors disclosed above, [our Sponsor and reporting accountants concur with our Directors' view that provision for the above past due and outstanding trade receivables, at this stage, was not necessary]. Please refer to the section headed "Financial information – Critical accounting policies – Estimated impairment of trade and other receivables" for details of our policy in respect of impairment of trade and other receivables.

**Trade and other payables**

Our trade payables represent amounts payable for purchases of raw materials and ancillary parts from various suppliers. Our suppliers typically offer us credit terms up to 90 days from the time when the supplies are received by us from the suppliers. Other payables represent mainly receipts in advance, accruals, other tax payable and others.

The following table sets out the ageing analysis of our trade payables as at the end of each reporting period stated:

| | As at 31 December 2008 | As at 31 December 2009 | As at 31 December 2010 | As at 30 June 2011 |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Within 90 days | 33,514 | 25,407 | 23,864 | 30,887 |
| 91–180 days | 2,475 | 2,080 | 2,030 | 2,940 |
| 181–365 days | 108 | 78 | 94 | 1,569 |
| Over 365 days | 221 | 5,645 | 171 | 115 |
| | 36,318 | 33,210 | 26,159 | 35,511 |

The following table sets out the turnover days of our trade payables, being ratio of trade payables to average daily cost of sales, for the periods stated:

| | For the financial year ended 31 December | | | For the six months ended 30 June |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| Trade payable turnover days | 75.3 | 139.3 | 84.9 | 92.0 |

Our trade payables increased by approximately RMB9.3 million or 35.8% to approximately RMB35.5 million as of 30 June 2011 from approximately RMB26.2 million as of 31 December 2010 mainly as a result of our business activities conducted in the first half 2011. Our trade payables decreased by approximately RMB7.0 million or approximately 21.2% to approximately RMB26.2

million as of 31 December 2010 from approximately RMB33.2 million as of 31 December 2009. The decrease in trade payables was attributed mainly to our effort to expedite the settlement of outstanding payments due to our suppliers of raw materials and other supplies.

Our trade payables decreased by approximately RMB3.1 million or approximately 8.6% to approximately RMB33.2 million as of 31 December 2009 from approximately RMB36.3 million as of 31 December 2008. The decrease in trade payables was attributed mainly to the decrease in purchases of raw materials and other supplies amidst the decrease in business activities conducted in 2009. Of the trade payables outstanding as at 30 June 2011, approximately RMB[33.8] million or [95.2]% of which was settled by [30 September] 2011.

For the three financial years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, trade payable turnover days were around 75.3 days, 139.3 days, 84.9 days and 92.0 days respectively. Our Group had taken comparatively longer time to settle outstanding payment due to our suppliers and resulted in the insignificant increase in trade payable turnover days from 84.9 days to 92.0 days. The decrease in trade receivable turnover days from 2009 to 2010 reflected, in general, our effort to expedite the settlement of outstanding payments due to our suppliers of raw materials and other supplies. The increase in trade payable turnover days from 2008 to 2009 reflected, in general, the increase in time taken by our Group to settle outstanding payments due to our suppliers amidst the lackluster business environment in the PRC, in 2009.

## LIQUIDITY AND CAPITAL RESOURCES

### Financial resources

We have funded our operations and capital requirements mainly from cash generated from our operations, trade credit from our suppliers and short-term bank borrowings. Our resources have been applied mainly for our increased working capital requirements, capital expenditures on purchases of manufacturing equipment and facilities.

The following table sets out a summary of our consolidated statements of cash flow information for the periods stated. The summary of consolidated statements of cash flow information is extracted from the accountants' report included in Appendix I to this document and should be read in conjunction with the entire financial statements included therein, including the notes thereto.

| | For the financial year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2008** | **2009** | **2010** | **2010** | **2011** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | *(Unaudited)* | |
| Net cash generated by/(used in) operating activities | 64,323 | 24,915 | 11,035 | (9,728) | 9,081 |
| Net cash (used in)/generated by investing activities | (28,549) | (5,180) | 22,115 | (326) | (2,604) |
| Net cash (used in)/generated by financing activities | (36,209) | (48,785) | (21,078) | 9,650 | (25,482) |
| Net (decrease)/increase in cash and cash equivalents | (435) | (29,050) | 12,072 | (404) | (19,005) |
| Cash and cash equivalents at the beginning of year/period | 59,853 | 59,418 | 30,368 | 30,368 | 42,440 |
| Effect of foreign exchange rate changes, net | – | – | – | – | 5 |
| Cash and cash equivalents at the end of year/period | 59,418 | 30,368 | 42,440 | 29,964 | 23,440 |

**Operating Activities**

In general, we recorded net cash generated by operating activities of approximately RMB64.3 million in 2008, approximately RMB24.9 million in 2009 and approximately RMB11.0 million in 2010 and net cash used in operating activities of approximately RMB9.7 million in the first half 2010, and net cash generated by operating activities of approximately RMB9.1 million in the first half 2011. The decrease in net cash generated by operating activities from 2008 to 2009 was attributed mainly to the decrease in profit before tax in 2009. The decrease in net cash generated by operating activities from 2009 to 2010 was attributed mainly to increase in held-for-trading investments and increase in trade and other receivables in 2010. The net cash used in operating activities for the first half 2010 reflected mainly the increase in held-for-trading investment and the decrease in trade and other payables. The net cash generated by operating activities for the first half 2011 reflected mainly the profit before tax, the decrease in held-for-trading investments and the increase in trade and other payables in the period.

Net cash generated by operating activities for the first half 2011 was approximately RMB9.1 million, which was mainly contributed by profit before tax of approximately RMB21.4 million, the increase in trade and other payables of approximately RMB14.7 million and the decrease in held-for-trading investments of approximately RMB8.6 million, and offset to an extent by the increase in trade and other receivables of approximately RMB37.6 million and income tax paid of approximately RMB2.6 million. We recorded a decrease in held-for-trading investments as such investments were disposed of by January 2011. The increase in trade and other payables reflected mainly the increase in our business activities conducted during the period. The increase in trade and other receivables reflected mainly the sales of our products on credit and the subsequent increase in outstanding balances of trade and other receivables.

Net cash generated by operating activities for the financial year ended 31 December 2010 was approximately RMB11.0 million, which was mainly contributed by profit before tax of approximately RMB39.7 million and adjusted largely by depreciation of property, plant and equipment of approximately RMB6.5 million, and offset to an extent by decrease in trade and other payables of approximately RMB4.7 million, increase in trade and other receivables of approximately RMB11.7 million, increase in held-for–trading investments of approximately RMB10.6 million and income tax paid of approximately RMB6.7 million. Trade and other payables decreased mainly as a result of our effort to expedite the settlement of outstanding payments due to our suppliers of raw materials and other supplies. Trade and other receivables increased on the back of the increase in balances of trade receivables outstanding within 90 days as of end of 2010 compared to balances as of end of 2009, and the increase in the balances of note receivables as of end of 2010 compared to the balances as of end of 2009. The increase in business activities as our customers placed more purchase orders to us for our products and the increase in settlement of such purchases by note contributed to the increase in the balances of the above receivables in 2010 compared to 2009.

The Company invested approximately RMB10.6 million in the equity securities listed on the stock exchanges in the PRC in 2010 for the purpose of capturing investment return on the investments. It was decided for the benefits of the Company to apply surplus cash resources, namely cash resources not required immediately for our business operations with an intention of capturing return on surplus cash resources that was comparatively higher than that offered by interest income namely, interest on bank deposits. In general, we increased held-for-trading investments of approximately RMB10.6 million and increased trade and other receivables of approximately RMB11.7 million, which tied up our cash resources and contributed to the decrease in net cash generated by operating activities despite the increase in revenue and profit after tax in 2010 compared to 2009.

Net cash used in operating activities for the first half 2010 was approximately RMB9.7 million, which was mainly contributed by the increase in held-for-trading investments of approximately RMB15.1 million, the decrease in trade and other payables of approximately RMB9.1 million and the increase in trade and other receivables of approximately RMB4.5 million. We utilised our surplus cash resources to make investments in equity securities listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange which resulted in the increase in held-for-trading investments. The decrease in trade and other payables reflected mainly our settlement of outstanding balances due to our counter parties. The increase in trade and other receivables reflected mainly the sales of our products to our customers on credit and the subsequent increase in outstanding balances of trade and other receivables.

Net cash generated by operating activities for the financial year ended 31 December 2009 was approximately RMB24.9 million, which was mainly contributed by profit before tax of approximately RMB24.9 million and adjusted largely by depreciation of property, plant and equipment of approximately RMB6.2 million, and offset to an extent by decrease in trade and other payables of approximately RMB3.7 million and income tax paid of approximately RMB3.7 million. Trade and other payables decreased mainly as a result of the decrease in purchases of raw materials and other supplies amidst the decrease in business activities conducted in 2009.

Net cash generated by operating activities for the financial year ended 31 December 2008 was approximately RMB64.3 million, which was mainly contributed by profit before tax of approximately RMB45.3 million and adjusted largely by the decrease in inventories of approximately RMB35.6 million and the depreciation of property, plant and equipment of approximately RMB7.8 million, and offset to an extent by the increase in trade and other receivables of approximately RMB20.8 million, income tax paid of approximately RMB3.8 million and the decrease in trade and other payables of approximately RMB3.6 million. Trade and other receivables increased as we conducted more business activities and generated more revenue in 2008. Inventories decreased as we received purchase orders from customers and delivered the inventories to our customers. Trade and other payables decreased mainly as a result of our effort to settle outstanding payments due to our suppliers of raw materials and other supplies.

**Investing activities**

Net cash used in investing activities for the first half 2011 was approximately RMB2.6 million. We expended approximately RMB3.5 million for the acquisition of among other things, machineries and moulds for the manufacturing of our products.

Net cash generated by investing activities for the financial year ended 31 December 2010 was approximately RMB22.1 million. The Company received amounts of approximately RMB25.3 million from related companies, which amounts were advanced previously to the related companies, controlled by Mr. Chao and were unsecured, interest-free and had no fixed term of repayment. [All the amounts due from the related companies were fully settled prior to the [•••]]. As at the Latest Practicable Date, there was no amount due from any of the related companies. We expended approximately RMB4.3 million for the acquisition of, among other things, machineries and moulds for the manufacturing of our products.

Net cash used in investing activities for the first half 2010 was approximately RMB326,000. We expended approximately RMB1.9 million for the acquisition of, among other things, machineries and moulds for the manufacturing of our products.

Net cash used in investing activities for the financial year ended 31 December 2009 was approximately RMB5.2 million. We expended approximately RMB3.7 million for the acquisition of, among other things, machineries and moulds for the manufacturing of our products.

Net cash used in investing activities for the financial year ended 31 December 2008 was approximately RMB28.5 million. We expended approximately RMB4.0 million for the acquisition of, among other things, machineries and moulds for the manufacturing of our products.

The Company advanced amounts of approximately RMB24.5 million to related companies controlled by Mr. Chao on an unsecured and interest-free basis, and which amounts were repayable upon demand. [All the amounts due from the related companies were fully settled prior to the [•••]].

**Financing activities**

Net cash used in financing activities was approximately RMB25.5 million for the first half 2011. The net cash used in financing activities reflected mainly the distribution of dividend of approximately RMB34.3 million to the then shareholder and offset to an extent by the increase in amount due to immediate holding company of approximately RMB8.9 million incurred in connection with, among other things, the preparation for the [•••]. [The amount owed by the Company was waived by the immediate holding company and there was no outstanding amount due to the immediate holding company as of the Latest Practicable Date.]

Net cash used in financing activities for the financial year ended 31 December 2010 was approximately RMB21.1 million. The Company repaid amounts of approximately RMB22,000 and approximately RMB715,000 to the related companies controlled by Mr. Chao and Mr. Chao and such amounts were advanced to the Company previously on an unsecured and interest-free basis and were repayable upon demand. [All the amounts due to the related companies and Mr. Chao were fully settled prior to the [•••].] The Company paid dividends of approximately RMB23.9 million to its then shareholder in 2010. [As at the Latest Practicable Date, there was no amount due to any of the related companies or any of our Directors.]

Our Group repaid a [bank loan] of approximately RMB8.0 million and took out a bank loan and received net proceeds of approximately RMB12.0 million. The bank loan extended to our Group in 2010 was payable within one year, secured by buildings and bank deposits of our Group and attracted an interest charge ranged from 5.31% to 5.58% per annum.

Net cash generated by financing activities was approximately RMB9.7 million for the first half 2010. The Company obtained a bank loan and received net proceeds RMB8.0 million. The Company also received amounts of approximately RMB2.5 million from related companies on an unsecured and interest-free basis and which amounts were repayable upon demand. The Company repaid amounts of approximately RMB715,000 to Mr. Chao and such amounts were advanced to the Company previously on an unsecured and interest-free basis and were repayable upon demand.

Net cash used in financing activities for the financial year ended 31 December 2009 was approximately RMB48.8 million. The Company received amounts of approximately RMB715,000 from Mr. Chao on an unsecured and interest-free basis, and which amounts were repayable upon demand. Our Group repaid bank loans in aggregate of approximately RMB10.0 million and took out a bank loan of RMB2.0 million in 2009. The Company paid dividends of approximately RMB41.1 million to its then shareholder in 2009.

Net cash used in financing activities for the financial year ended 31 December 2008 was approximately RMB36.2 million. The Company repaid amounts of approximately RMB22.1 million to the related companies and such amounts were advanced to the Company previously on an unsecured and interest-free basis, and which amounts were repayable upon demand. Our Group repaid bank loans of approximately RMB18.0 million and took out bank loans and received net proceeds of approximately RMB13.0 million in 2008. The Company paid dividends of approximately RMB8.3 million to its then shareholder in 2008.

### Net current assets

As of 30 June 2011, net current assets were approximately RMB100.5 million.

As of 30 June 2011, our Group's total current assets were approximately RMB160.4 million comprising mainly trade and other receivables of approximately RMB122.4 million, cash and bank balances of approximately RMB23.4 million, inventories of approximately RMB11.4 million, and current tax assets of approximately RMB3.1 million,

As of 30 June 2011, our Group's current liabilities were approximately RMB59.8 million, comprising mainly trade and other payables of approximately RMB46.8 million, amount due to immediate holding company of approximately RMB8.9 million and bank borrowings of approximately RMB4.0 million.

### Working capital

We have in the past funded our operations and working capital requirements mainly from cash generated from our operations, trade credit from our suppliers and short-term bank borrowings. We expect in the future to fund our operations and capital requirements from a combination of sources including cash flow generated internally, trade credit from our suppliers, bank loans and [•••] from the [•••]. We intend to undertake an annual business plan and budget review so as to manage our cash flow requirements, capital requirements, capital structure and indebtedness of our Group as and when appropriate to ensure there are sufficient resources for our business operations.

Our Directors are of the view that after considering cash flow generated internally, its currently available banking facilities and the estimated [•••] of the [•••], the Company has sufficient working capital at least for the period ending 12 months from the date of this document.

### Commitments and contingent liabilities

Save as disclosed above, our Directors confirmed that there has not been any material change in respect of the commitments or contingent liabilities since [30 June 2011].

### Dividend policy

For the Track Record Period, our subsidiaries declared and paid to their then shareholder dividends of approximately RMB8.3 million, approximately RMB41.1 million, approximately RMB23.9 million and approximately RMB34.3 million respectively.

We currently do not have a fixed dividend policy. The dividend we declared and paid in the past should not be used as a reference for our future dividend payment. The declaration, payment and amount of dividends in the future will be subject to the discretion of the Board and will depend on our results of operations, cash flows, financial conditions, statutory and regulatory restrictions on the payment of dividends by us or our operating subsidiaries in the PRC, future prospects and other factors that our Directors may consider relevant from time to time. If any dividends are declared and paid by us, holders of our Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares. The declaration, payment, and amount of dividends will be subject to the discretion of our Directors.

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

### Directors' opinion of the net current asset position

Our Directors are of the view that, after taking into account the financial resources available for our Group, including internally generated funds, the available banking facilities and [•••], our Group has sufficient net current assets to satisfy its present requirements.

## DISTRIBUTABLE RESERVES

Our company was incorporated in the Cayman Islands on 4 January 2011. As of [30 June 2011], there were [•••] available for distribution to our owners.

## INDEBTEDNESS

### Bank borrowings

As of the close of business on [30 September 2011], being the latest date practicable for the purpose of this indebtedness statement, our Group had outstanding bank loans of approximately RMB[4.0] million. The bank loans were secured by a charged over certain buildings prepaid lease payments and pledged bank deposits. As at [30 September 2011], our Group has a total available banking facilities of approximately RMB[8.0] million.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, our Group did not have any outstanding bank borrowings, bank overdrafts, mortgages, charges, debentures, loan capital, debt securities or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities as at [30 September 2011].

Our Directors have confirmed that there has not been any material change in the indebtedness and contingent liabilities of our Group since [30 September 2011].

## OFF-BALANCE SHEET ARRANGEMENTS

As of [30 June 2011], we did not have any material off-balance sheet arrangements.

## PROPERTY INTERESTS

Details relating to our property interests are set out in Appendix III to this document. Asset Appraisal Limited, an independent property valuation firm, has valued the properties owned and leased by us as of [30 September 2011]. The text of their letters, summaries of values and valuation certificates are set out in Appendix III to this document.

A reconciliation of the net book value of our Group's property interests as of [30 June 2011] to their fair value as stated in Appendix III to this document as of [30 September] 2011 is as follows:

| | *RMB'000* |
|---|---|
| Valuation of property interests of our Group as of [30 September] 2011 as set out in Appendix III to this document | 22,800 |
| Net book value of property interests of our Group as of 30 June 2011: | |
| – Buildings included in property, plant and equipment | 15,334 |
| – Prepaid land lease payments | 2,989 |
| | 18,323 |
| Less: Depreciation during the period between [1 July] 2011 and [30 September] 2011 | (252) |
| Amortization during the period between [1 July] 2011 and [30 September] 2011 | (18) |
| Net book value as of [30 September] 2011 (unaudited) | 18,053 |
| Revaluation surplus *(Note)* | 4,747 |

*Note:* The revaluation surplus will not be recorded in our consolidated financial statements as our property interests are stated at cost less accumulated depreciation and accumulated amortization.

## DISCLOSURE UNDER THE LISTING RULES

Our Directors have confirmed that there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 of the Listing Rules, would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

## NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in the financial or trading position, mortgage, guarantees or prospects of our Group since 30 June 2011, the date to which the latest audited financial statements of our Group were made up.

## FUTURE PLANS

Please see section headed " Business – Business Strategies" in this document for a detailed description of our business strategies and future plans.

*The following is the text of a report received from the reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong, prepared for incorporation in this document.*

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

[•••] November 2011

The Directors
Jin Bao Bao Holdings Limited
Cinda International Capital Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Jin Bao Bao Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 (the "Relevant Periods"), for inclusion in the [•••] of the Company dated [•••] November 2011 (the "[•••]") in connection with the proposed [•••] of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 4 January 2011. Through a corporate reorganization as more fully explained in the paragraph headed "Reorganization" under the section headed "History, Reorganization and Group Structure" and the paragraph headed "Corporate Reorganization" in Appendix V "Statutory and General Information" to the document (the "Corporate Reorganization"), the Company became the holding company of the companies now comprising the Group on 9 March 2011.

As at the date of this report, the Company has the following wholly-owned subsidiaries:

| Name of subsidiary | Legal form, date and place of incorporation/ establishment/operations | Issued and fully paid up share capital/ registered capital | Proportion ownership interest held by the Company | Principal activities |
|---|---|---|---|---|
| Cheng Hao International Limited ("Cheng Hao") | Limited liability company incorporated on 6 January 2011, British Virgin Islands | 1 share of US$1 | 100% (direct) | Investment holding |

| Name of subsidiary | Legal form, date and place of incorporation/ establishment/operations | Issued and fully paid up share capital/ registered capital | Proportion ownership interest held by the Company | Principal activities |
|---|---|---|---|---|
| Metro Master Limited ("Metro Master") | Limited liability company incorporated on 22 December 2010, Hong Kong | 1 ordinary share of HK$1 | 100% (indirect) | Investment holding |
| 滁州創策包裝材料有限公司 Chuzhou Chuangce Packaging Materials Company Limited* ("Chuzhou Chuangce") | Wholly foreign-owned enterprise established on 5 October 1997, The People's Republic of China (the "PRC") | Registered capital of RMB25,000,000 | 100% (indirect) | Design, manufacture and sale of packaging products and structural components |
| 重慶光景包裝製品有限公司 Chongqing Guangjing Packaging Products Company Limited* ("Chongqing Guangjing") | Wholly foreign-owned enterprise established on 20 October 2003, the PRC | Registered capital of US$3,300,000 | 100% (indirect) | Design, manufacture and sale of packaging products and structural components |
| 四川景虹包装制品有限公司 Sichuan Jinghong Packaging Products Company Limited* ("Sichuan Jinghong") | Wholly foreign-owned enterprise established on 15 September 2005, the PRC | Registered capital of RMB40,880,000 | 100% (indirect) | Design, manufacture and sale of packaging products and structural components |

* *English translated name is for identification purpose only.*

The financial year end date of the companies now comprising the Group is 31 December.

No audited statutory financial statements have been prepared for the Company since its date of incorporation as it was incorporated in a country where there is no statutory audit requirement, and the Company has not carried on any business other than those transactions relating to the Corporate Reorganization.

No audited statutory financial statements have been prepared for Cheng Hao since its date of incorporation as it was incorporated in a country where there is no statutory audit requirement.

No audited statutory financial statements have been prepared for Metro Master as it is newly incorporated and has not involved in any significant business transactions since its date of incorporation other than those transactions relating to the Corporate Reorganization.

The statutory financial statements of the Company's subsidiaries established in the PRC were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC and were audited by:

| Name of subsidiary | Financial year | Name of certified public accountants |
|---|---|---|
| Chuzhou Chuangce | Years ended 31 December 2008, 2009 and 2010 | 滁州鴻基會計師事務所<br>Chuzhou Hong Ji Kuai Ji Shi Shi Wu Suo |
| Chongqing Guangjing | Year ended 31 December 2008 | 重慶利安達富勤會計師事務所有限公司<br>Chongqing Reanda Fortune Certified Public Accountants Co. Ltd. |
| | Year ended 31 December 2009 | 重慶國信會計師事務所有限公司<br>Chongqing Guoxin Certified Public Accountants Co. Ltd. |
| | Year ended 31 December 2010 | 重慶華聯會計師事務所有限公司<br>Chongqing Hualian Certified Public Accountants Co., Ltd |
| Sichuan Jinghong | Years ended 31 December 2008, 2009 and 2010 | 四川同人會計師事務所有限責任公司<br>Sichuan Tongren Certified Public Accountants Co. Ltd. |

For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Periods (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

We have undertaken an independent audit on the Underlying Financial Statements for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA. We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of the Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements on the basis set out in Note 1 of Section A below and no adjustments to the Underlying Financial Statements are considered necessary in the preparation of this report for inclusion in the document.

The Underlying Financial Statements are the responsibility of the directors of the Company who approved their issue. The directors of the Company are responsible for the contents of the document in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in Note 1 of Section A below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31 December 2008, 2009 and 2010 and 30 June 2011 and the state of affairs of the Company as at 30 June 2011, and of the consolidated results and consolidated cash flows of the Group for the Relevant Periods.

The comparative consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the six months ended 30 June 2010 together with the notes thereon (the "June 2010 Financial Information") have been extracted from the Group's unaudited consolidated financial information for the same period, which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the June 2010 Financial Information in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our review of the June 2010 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the June 2010 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the June 2010 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with HKFRSs.

## A. FINANCIAL INFORMATION

### Consolidated statements of comprehensive income

| | Notes | Year ended 31 December 2008 RMB'000 | Year ended 31 December 2009 RMB'000 | Year ended 31 December 2010 RMB'000 | Six months ended 30 June 2010 RMB'000 (Unaudited) | Six months ended 30 June 2011 RMB'000 |
|---|---|---|---|---|---|---|
| Revenue | 5 | 234,503 | 121,880 | 166,079 | 77,346 | 100,559 |
| Cost of sales | | (176,117) | (86,997) | (112,486) | (52,922) | (70,462) |
| Gross profit | | 58,386 | 34,883 | 53,593 | 24,424 | 30,097 |
| Other income | 6 | 1,863 | 474 | 338 | 113 | 301 |
| Other gains and losses | 7 | (2,870) | 47 | (447) | (2,782) | (1,238) |
| Selling and distribution expenses | | (4,760) | (4,327) | (6,260) | (2,626) | (3,935) |
| Administrative expenses | | (5,513) | (5,280) | (6,120) | (3,164) | (3,360) |
| Other operating expenses | | (324) | (263) | (715) | (334) | (55) |
| Profit from operations | | 46,782 | 25,534 | 40,389 | 15,631 | 21,810 |
| Finance costs | 8 | (1,522) | (628) | (701) | (296) | (432) |
| Profit before tax | | 45,260 | 24,906 | 39,688 | 15,335 | 21,378 |
| Income tax expense | 9 | (7,241) | (1,310) | (3,963) | (3,026) | (1,087) |
| **Profit for the year/period** | 10 | 38,019 | 23,596 | 35,725 | 12,309 | 20,291 |
| **Other comprehensive income for the year/period** | | | | | | |
| Exchange differences on translating foreign operations | | – | – | – | – | 2 |
| **Total comprehensive income for the year/period** | | 38,019 | 23,596 | 35,725 | 12,309 | 20,293 |
| **Profit attributable to:** | | | | | | |
| Owners of the Company | | 31,276 | 23,596 | 35,725 | 12,309 | 20,291 |
| Non-controlling interests | | 6,743 | – | – | – | – |
| | | 38,019 | 23,596 | 35,725 | 12,309 | 20,291 |
| **Total comprehensive income attributable to:** | | | | | | |
| Owners of the Company | | 31,276 | 23,596 | 35,725 | 12,309 | 20,293 |
| Non-controlling interests | | 6,743 | – | – | – | – |
| | | 38,019 | 23,596 | 35,725 | 12,309 | 20,293 |
| | | *RMB cents* | *RMB cents* | *RMB cents* | *RMB cents* | *RMB cents* |
| **Earnings per share – basic** | 13 | 20.9 | 15.7 | 23.8 | 8.2 | 13.5 |

Details of dividends are disclosed in Note 12 to the Financial Information.

### Statements of financial position

| | | The Group | | | | The Company |
|---|---|---|---|---|---|---|
| | Notes | As at 31 December 2008 RMB'000 | As at 31 December 2009 RMB'000 | As at 31 December 2010 RMB'000 | As at 30 June 2011 RMB'000 | As at 30 June 2011 RMB'000 |
| **Non-current assets** | | | | | | |
| Property, plant and equipment | 14 | 46,186 | 43,548 | 41,052 | 40,910 | – |
| Prepaid lease payments | 15 | 3,053 | 3,029 | 2,954 | 2,918 | – |
| Investments in subsidiaries | 33 | – | – | – | – | – |
| Deferred tax assets | 24 | – | – | 59 | 72 | – |
| | | 49,239 | 46,577 | 44,065 | 43,900 | – |
| **Current assets** | | | | | | |
| Inventories | 16 | 9,278 | 8,797 | 11,178 | 11,393 | – |
| Prepaid lease payments | 15 | 70 | 71 | 71 | 71 | – |
| Held-for-trading investments | 17 | – | – | 9,811 | – | – |
| Trade and other receivables | 18 | 73,158 | 73,032 | 84,777 | 122,390 | 7,825 |
| Amounts due from related companies | 20 | 25,004 | 25,647 | 388 | – | – |
| Amounts due from subsidiaries | 33 | – | – | – | – | 120,290 |
| Current tax assets | | – | – | 1,405 | 3,076 | – |
| Pledged bank deposits | 21 | – | 846 | 333 | – | – |
| Cash and bank balances | 21 | 59,418 | 30,368 | 42,440 | 23,440 | 25 |
| | | 166,928 | 138,761 | 150,403 | 160,370 | 128,140 |
| **Current liabilities** | | | | | | |
| Trade and other payables | 22 | 40,550 | 36,858 | 32,178 | 46,849 | – |
| Amounts due to directors | 19 | – | 715 | – | 52 | – |
| Amounts due to related companies | 20 | – | 22 | – | – | – |
| Amount due to immediate holding company | 25 | – | – | – | 8,923 | 8,923 |
| Amounts due to subsidiaries | 33 | – | – | – | – | 1,024 |
| Current tax liabilities | | 4,180 | 1,662 | – | – | – |
| Bank borrowings | 23 | 8,000 | – | 4,000 | 4,000 | – |
| | | 52,730 | 39,257 | 36,178 | 59,824 | 9,947 |
| **Net current assets** | | 114,198 | 99,504 | 114,225 | 100,546 | 118,193 |
| **Total assets less current liabilities** | | 163,437 | 146,081 | 158,290 | 144,446 | 118,193 |
| **Non-current liabilities** | | | | | | |
| Deferred tax liabilities | 24 | 161 | 260 | 678 | 887 | – |
| **Net assets** | | 163,276 | 145,821 | 157,612 | 143,559 | 118,193 |
| **Capital and reserves** | | | | | | |
| Share capital | 26 | 92,603 | 92,603 | 92,603 | – | – |
| Reserves | 27 | 70,673 | 53,218 | 65,009 | 143,559 | 118,193 |
| Total equity attributable to owners of the Company | | 163,276 | 145,821 | 157,612 | 143,559 | 118,193 |
| Non-controlling interests | | – | – | – | – | – |
| **Total equity** | | 163,276 | 145,821 | 157,612 | 143,559 | 118,193 |

### Consolidated statements of changes in equity

| | Share capital | Share premium | Special reserve | Foreign currency translation reserve | Capital reserve | PRC statutory reserves | Retained profits | Attributable to owners of the Company | Attributable to non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | *(Note 26)* | | *(Note 27(d))* | | *(Note 27(a))* | *(Note 27(b))* | | | | |
| **Balance at 1 January 2008** | 78,295 | – | – | – | (8) | 8,912 | 21,820 | 109,019 | 24,497 | 133,516 |
| Profit for the year | – | – | – | – | – | – | 31,276 | 31,276 | 6,743 | 38,019 |
| Total comprehensive income for the year | – | – | – | – | – | – | 31,276 | 31,276 | 6,743 | 38,019 |
| Acquisition of additional interests in a subsidiary *(Note 27(c))* | 14,308 | – | – | – | – | – | 16,932 | 31,240 | (31,240) | – |
| Dividend recognized as distribution *(Note 12)* | – | – | – | – | – | – | (8,259) | (8,259) | – | (8,259) |
| **Balance at 31 December 2008** | 92,603 | – | – | – | (8) | 8,912 | 61,769 | 163,276 | – | 163,276 |
| Profit for the year | – | – | – | – | – | – | 23,596 | 23,596 | – | 23,596 |
| Total comprehensive income for the year | – | – | – | – | – | – | 23,596 | 23,596 | – | 23,596 |
| Transfer to reserves | – | – | – | – | – | 5,392 | (5,392) | – | – | – |
| Dividend recognized as distribution *(Note 12)* | – | – | – | – | – | – | (41,051) | (41,051) | – | (41,051) |
| **Balance at 31 December 2009** | 92,603 | – | – | – | (8) | 14,304 | 38,922 | 145,821 | – | 145,821 |
| Profit for the year | – | – | – | – | – | – | 35,725 | 35,725 | – | 35,725 |
| Total comprehensive income for the year | – | – | – | – | – | – | 35,725 | 35,725 | – | 35,725 |
| Transfer to reserves | – | – | – | – | – | 2,684 | (2,684) | – | – | – |
| Dividend recognized as distribution *(Note 12)* | – | – | – | – | – | – | (23,934) | (23,934) | – | (23,934) |
| **Balance at 31 December 2010** | 92,603 | – | – | – | (8) | 16,988 | 48,029 | 157,612 | – | 157,612 |
| Profit for the period | – | – | – | – | – | – | 20,291 | 20,291 | – | 20,291 |
| Other comprehensive income for the period | – | – | – | 2 | – | – | – | 2 | – | 2 |
| Total comprehensive income for the period | – | – | – | 2 | – | – | 20,291 | 20,293 | – | 20,293 |
| Transfer to reserves | – | – | – | – | – | 3,873 | (3,873) | – | – | – |
| Corporate Reorganization *(Note 27(d))* | (92,603) | 120,037 | (27,434) | – | – | – | – | – | – | – |
| Dividend recognized as distribution *(Note 12)* | – | – | – | – | – | – | (34,346) | (34,346) | – | (34,346) |
| **Balance at 30 June 2011** | – | 120,037 | (27,434) | 2 | (8) | 20,861 | 30,101 | 143,559 | – | 143,559 |

| | Share capital RMB'000 (Note 26) | Share premium RMB'000 | Special reserve RMB'000 (Note 27(d)) | Foreign currency translation reserve RMB'000 | Capital reserve RMB'000 (Note 27(a)) | PRC statutory reserves RMB'000 (Note 27(b)) | Retained profits RMB'000 | Attributable to owners of the Company RMB'000 | Attributable to non-controlling interests RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **For the six months ended 30 June 2010 (unaudited)** | | | | | | | | | | |
| **Balance at 1 January 2010** | 92,603 | – | – | – | (8) | 14,304 | 38,922 | 145,821 | – | 145,821 |
| Profit for the period | – | – | – | – | – | – | 12,309 | 12,309 | – | 12,309 |
| Total comprehensive income for the period | – | – | – | – | – | – | 12,309 | 12,309 | – | 12,309 |
| **Balance at 30 June 2010** | 92,603 | – | – | – | (8) | 14,304 | 51,231 | 158,130 | – | 158,130 |

**Consolidated statements of cash flows**

| | Year ended 31 December 2008 | Year ended 31 December 2009 | Year ended 31 December 2010 | Six months ended 30 June 2010 | Six months ended 30 June 2011 |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | *(Unaudited)* | |
| **Cash flows from operating activities** | | | | | |
| Profit before tax | 45,260 | 24,906 | 39,688 | 15,335 | 21,378 |
| Adjustments for: | | | | | |
| Finance costs | 1,522 | 628 | 701 | 296 | 432 |
| Interest income | (1,678) | (186) | (131) | (64) | (67) |
| Net losses/(gains) on disposal of property, plant and equipment | 2,869 | 60 | (300) | (460) | (3) |
| Net losses arising on changes in fair value of held-for-trading investments | – | – | 746 | 3,242 | 1,241 |
| Depreciation of property, plant and equipment | 7,778 | 6,221 | 6,451 | 3,169 | 3,467 |
| Amortization of prepaid lease payments | 70 | 71 | 75 | 36 | 36 |
| | 55,821 | 31,700 | 47,230 | 21,554 | 26,484 |
| Movements in working capital | | | | | |
| Decrease/(increase) in inventories | 35,577 | 481 | (2,381) | (512) | (215) |
| (Increase)/decrease in held-for-trading investments | – | – | (10,557) | (15,104) | 8,570 |
| (Increase)/decrease in trade and other receivables | (20,769) | 126 | (11,745) | (4,495) | (37,613) |
| (Decrease)/increase in trade and other payables | (3,587) | (3,692) | (4,680) | (9,108) | 14,671 |
| Cash generated from/(used in) operations | 67,042 | 28,615 | 17,867 | (7,665) | 11,897 |
| Interest paid | (646) | (157) | (294) | (171) | (321) |
| Interest received | 1,678 | 186 | 131 | 64 | 67 |
| Income taxes paid | (3,751) | (3,729) | (6,669) | (1,956) | (2,562) |
| **Net cash generated by/(used in) operating activities** | 64,323 | 24,915 | 11,035 | (9,728) | 9,081 |

| | Year ended 31 December 2008 | Year ended 31 December 2009 | Year ended 31 December 2010 | Six months ended 30 June 2010 | Six months ended 30 June 2011 |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | *(Unaudited)* | |
| **Cash flows from investing activities** | | | | | |
| (Increase)/decrease in pledged bank deposits | – | (846) | 513 | 377 | 333 |
| (Increase)/decrease in amounts due from related companies | (24,547) | (643) | 25,259 | 413 | 388 |
| Payments for property, plant and equipment | (4,025) | (3,653) | (4,326) | (1,945) | (3,472) |
| Additions to prepaid lease payments | – | (48) | – | – | – |
| Proceeds from disposal of property, plant and equipment | 23 | 10 | 669 | 829 | 147 |
| **Net cash (used in)/generated by investing activities** | (28,549) | (5,180) | 22,115 | (326) | (2,604) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from bank borrowings | 13,000 | 2,000 | 12,000 | 8,000 | – |
| Repayment of bank borrowings | (18,000) | (10,000) | (8,000) | – | – |
| (Decrease)/increase in amounts due to related companies | (22,074) | 22 | (22) | 2,490 | – |
| Increase in amount due to immediate holding company | – | – | – | – | 8,923 |
| Increase/(decrease) in amounts due to directors | – | 715 | (715) | (715) | 52 |
| Dividend recognized as distribution | (8,259) | (41,051) | (23,934) | – | (34,346) |
| Interest paid | (876) | (471) | (407) | (125) | (111) |
| **Net cash (used in)/generated by financing activities** | (36,209) | (48,785) | (21,078) | 9,650 | (25,482) |
| **Net (decrease)/increase in cash and cash equivalents** | (435) | (29,050) | 12,072 | (404) | (19,005) |
| **Cash and cash equivalents at the beginning of year/period** | 59,853 | 59,418 | 30,368 | 30,368 | 42,440 |
| **Effect of foreign exchange rate changes, net** | – | – | – | – | 5 |
| **Cash and cash equivalents at the end of year/period represented by cash and bank balances** | 59,418 | 30,368 | 42,440 | 29,964 | 23,440 |

## Notes to the Financial Information

### 1. GENERAL INFORMATION AND BASIS OF PRESENTATION OF THE FINANCIAL INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 4 January 2011. Its parent and ultimate holding company is Rich Gold International Limited ("Rich Gold"), a company incorporated in the British Virgin Islands and wholly-owned by Mr. Chao Pang Ieng ("Mr. Chao").

The address of the registered office and the principal place of business of the Company are set out in the Section "Corporate Information" to the document. The Company is an investment holding company. The Group is principally engaged in the design, manufacture and sale of packaging products and structural components in the PRC.

Throughout the Relevant Periods, the group entities were under the control of Mr. Chao. Through the Corporate Reorganization as more fully explained in the paragraph headed "Reorganization" under the section headed "History, Reorganization and Group Structure" and the paragraph headed "Corporate Reorganization" in Appendix V "Statutory and General Information" to the document, the Company became the holding company of the companies now comprising the Group on 9 March 2011. Accordingly, for the purpose of the preparation of the Financial Information of the Group, the Company has been considered as the holding company of the companies now comprising the Group throughout the Relevant Periods. The Group comprising the Company and its subsidiaries resulting from the Corporate Reorganization is regarded as a continuing entity. The Group was under the control of Mr. Chao both before and after the Corporate Reorganization.

The Financial Information has been prepared as if the Company had been the holding company of the Group throughout the Relevant Periods in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA. The consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Relevant Periods which include the results, changes in equity and cash flows of the companies comprising the Group have been prepared as if the current group structures had been in existence throughout the Relevant Periods, or since their respective dates of incorporation/establishment where it is a shorter period. The statements of financial position as at the respective reporting dates have been prepared to present the assets and liabilities of the companies comprising the Group as if the group structure had been in existence at those dates.

Prior to the Corporate Reorganization, Chuzhou Chuangce and Chongqing Guangjing were wholly owned by Conca Investments Limited ("Conca Investments"), an investment holding company controlled by Mr. Chao. Prior to September 2008, Sichuan Jinghong was owned as to 65% by Conca Investments and 35% by a non-controlling interest, Sichuan Changhong Chuangxin Investment Company Limited (四川長虹創新投資有限公司) ("Sichuan Changhong Chuangxin"). In September 2008, Conca Investments acquired the remaining 35% equity interests of Sichuan Jinghong held by Sichuan Changhong Chuangxin at a consideration of RMB32 million. Sichuan Jinghong then became a wholly-owned subsidiary of Conca Investments. The change in the ownership interest of Sichuan Jinghong, without a loss of control, was accounted for as an equity transaction. The profit attributable to the non-controlling interests during the year ended 31 December 2008 in the consolidated statements of comprehensive income represents the profit of Sichuan Jinghong attributable to Sichuan Changhong Chuangxin for the year up to the date of which the aforesaid 35% equity interests of Sichuan Jinghong held by Sichuan Changhong Chuangxin were transferred to Conca Investments.

Items included in the Financial Information of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currencies of its operating subsidiaries are Renminbi ("RMB"). The Financial Information is presented in RMB, which is different from the functional currency of the Company. The choice of presentation currency is to better reflect the currency that mainly determines economic effects of transactions, events and conditions of the Group.

**2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS**

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Group has throughout the Relevant Periods consistently adopted HKFRSs, Hong Kong Accounting Standards ("HKAS"), amendments and interpretations issued by the HKICPA, which are effective for financial periods beginning on or after 1 January 2011.

The Group has not early applied the following new and revised standards, amendments or interpretations, that have been issued by the HKICPA but are not yet effective, in the Financial Information:

| | |
|---|---|
| HKFRS 1 (Amendments) | Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters [1] |
| HKFRS 7 (Amendments) | Disclosures – Transfers of Financial Assets [1] |
| HKFRS 9 | Financial Instruments [4] |
| HKFRS 10 | Consolidated Financial Statements [4] |
| HKFRS 11 | Joint Arrangements [4] |
| HKFRS 12 | Disclosure of Interests in Other Entities [4] |
| HKFRS 13 | Fair Value Measurement [3] |
| HKAS 1 (Amendments) | Presentation of Item of Other Comprehensive Income [3] |
| HKAS 12 (Amendments) | Deferred Tax: Recovery of Underlying Assets [2] |
| HKAS 19 (2011) | Employee Benefits [4] |
| HKAS 27 (2011) | Separate Financial Statements [4] |
| HKAS 28 (2011) | Investments in Associates and Joint Ventures [4] |

[1] Effective for annual periods beginning on or after 1 July 2011.
[2] Effective for annual periods beginning on or after 1 January 2012.
[3] Effective for annual periods beginning on or after 1 July 2012.
[4] Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognized financial assets that are within the scope of HKAS 39 *Financial instruments: Recognition and measurement* to be measured at either amortized cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The Group is in the process of making an assessment of what the impact of the other new or revised standards, amendments and 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 results of operations and financial position.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The Financial Information have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below.

**Basis of consolidation**

The Financial Information incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the Relevant Periods are included in the consolidated statements of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

***Allocation of total comprehensive income to non-controlling interests***

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

***Changes in the Group's ownership interests in existing subsidiaries***

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

**Merger accounting for common control combinations**

The Financial Information incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognized in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest. The consolidated statements of comprehensive income include 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 common control, where this is a shorter period, regardless of the date of the common control combination.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, rebates and discounts.

Revenue from the sale of goods is recognized when the goods are delivered and title has passed.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

***The Group as lessee***

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

***Leasehold land for own use***

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the statement of financial position and is amortized over the lease term on a straight-line basis.

**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each of the Relevant Periods, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items are recognized in profit or loss in the period in which they arise except for

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purpose of presenting the Financial Information, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each of the Relevant Periods. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

**Retirement benefit costs**

Payments to defined contribution retirement plans are recognized as an expense when employees have rendered service entitling them to the contributions.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statements of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each of the Relevant Periods.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each of the Relevant Periods and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each of the Relevant Periods, to recover or settle the carrying amount of its assets and liabilities.

Current or deferred tax is recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

**Property, plant and equipment**

Property, plant and equipment including buildings and leasehold land (classified as finance leases) held for use in the production or supply of goods or services, or for administrative purposes other than construction-in-progress are stated in the statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost of assets (other than construction-in-progress) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each of the Relevant Periods, with the effect of any changes in estimate accounted for on a prospective basis.

Construction-in-progress includes property, plant and equipment in the course of construction for its own use purposes. Construction-in-progress is carried at cost less any recognized impairment loss. Construction-in-progress is classified to the appropriate categories of property, plant and equipment when completed and ready for intended its use. Depreciation of these assets, on the same basis as other items of property, plant and equipment, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

**Impairment of non-financial assets**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, held-for-trading investments and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. 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 the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of comprehensive income in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each of the Relevant Periods as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to the statement of comprehensive income in the period in which it arises (only if there are revalued assets in the Financial Information), unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

**Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

**Provisions**

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of each of the Relevant Periods, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**Financial instruments**

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

***Financial assets***

The Group's financial assets are mainly classified into two specified categories: financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Effective interest method*

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than financial assets classified as at FVTPL, of which interest income is included in other gains and losses.

*Financial assets at FVTPL*

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near future; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, cash and bank balances, pledged bank deposits and amounts due from related companies) are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each of the Relevant Periods. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment is 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial assets at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

***Financial liabilities and equity instruments***

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the group entities are recorded at the proceeds received, net of direct issue costs.

*Financial liabilities*

Financial liabilities (including bank borrowings, trade and other payables, amount due to immediate holding company, amounts due to related companies and amounts due to directors) are subsequently measured at amortized cost using the effective interest method.

*Effective interest method*

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis.

***Derecognition***

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

**Related parties**

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

**Cash and cash equivalents**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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.

**Critical judgments in applying accounting policies**

The following are the critical judgments, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the Financial Information.

***Withholding taxes arising from the distributions of dividends***

The Group's determination as to whether to accrue for withholding taxes from the distribution of dividends from subsidiaries in the PRC according to the relevant tax jurisdictions is subject to judgment on the timing of the payment of the dividend, where the Group considers that if it is probable that the profits of the subsidiaries in the PRC will not be distributed in the foreseeable future, then no withholding taxes are provided.

**Key sources of estimation uncertainty**

The following are the key sources of estimation uncertainty at the end of the Relevant Periods that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

***Depreciation of property, plant and equipment***

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual value. The Group assesses annually the residual value and the useful lives of the property, plant and equipment. If the expectation differs from the original estimate, such difference will impact the depreciation and the amortization charged in the year in which such estimate is changed.

***Impairment of trade and other receivables***

The Group estimates the provisions for impairment of trade and other receivables by assessing their recoverability based on credit history and prevailing market conditions. This requires the use of estimates and judgments. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amount of trade and other receivables and thus the impairment loss in the period in which such estimate is changed. The Group reassesses the provisions at the end of each of the Relevant Periods.

***Write-down of inventories***

Inventories are valued at the lower of cost and net realizable value. Also, the Group regularly inspects and reviews its inventories to identify slow-moving and obsolete inventories. The amount of the impairment loss is measured as the difference between inventories' cost and net realized value.

The identification of impairment of inventories requires the use of judgment and estimate of expected net realizable value. Where the net realizable value is lower than the cost, a material write-down may arise. As at 31 December 2008, 2009, 2010 and 30 June 2011, the carrying amounts of inventories are approximately RMB9,278,000, RMB8,797,000, RMB11,178,000 and RMB11,393,000, after taking into account write-down recognized on inventories of approximately Nil, Nil, RMB322,000 and RMB76,000, respectively.

## 5. REVENUE AND SEGMENT INFORMATION

The directors of the Company review the Group's internal financial reporting and other information and also obtain other relevant external information in order to assess performance and allocate resources and operating segment is identified with reference to these.

The directors of the Company consider that the business of the Group is organized in one operating segment which is design, manufacture and sale of packaging products and structural components in the PRC. Additional disclosure in relation to segment information is not presented as the directors assess the performance of the only operating segment identified based on the consistent information as disclosed in the Financial Information.

The total net segment income is equivalent to total comprehensive income for the Relevant Periods as shown in the consolidated statements of comprehensive income and the total segment assets and total segment liabilities are equivalent to total assets and total liabilities as shown in the consolidated statements of financial position.

Details of interest income, depreciation and amortization in relation to the operating segment are disclosed in Notes 6 and 10, respectively.

The Company is domiciled in the Cayman Islands with the Group's major operations in the PRC. All external revenues of the Group during the Relevant Periods are attributable to customers established in the PRC, the place of domicile of the Group's operating entities. Substantially all the assets of the Group are located in the PRC.

An analysis of revenue by products is as follows:

| | Year ended 31 December 2008 *RMB'000* | Year ended 31 December 2009 *RMB'000* | Year ended 31 December 2010 *RMB'000* | Six months ended 30 June 2010 *RMB'000* *(Unaudited)* | Six months ended 30 June 2011 *RMB'000* |
|---|---|---|---|---|---|
| Packaging products | | | | | |
| Television | 176,892 | 62,780 | 61,988 | 27,088 | 32,701 |
| Air conditioners | 16,645 | 15,406 | 31,493 | 16,556 | 25,524 |
| Washing machines | 10,571 | 19,230 | 23,421 | 7,602 | 9,060 |
| Refrigerators | 11,864 | 14,331 | 28,037 | 16,246 | 16,229 |
| Others | 9,391 | 2,446 | 1,966 | 895 | 1,648 |
| Structural components | | | | | |
| For air conditioner | 9,140 | 7,687 | 19,174 | 8,959 | 15,397 |
| | 234,503 | 121,880 | 166,079 | 77,346 | 100,559 |

**Information about major customers**

Revenue from customers contributing over 10% of total revenue of the Group during the Relevant Periods is as follows:

| | Year ended 31 December 2008 *RMB'000* | Year ended 31 December 2009 *RMB'000* | Year ended 31 December 2010 *RMB'000* | Six months ended 30 June 2010 *RMB'000* *(Unaudited)* | Six months ended 30 June 2011 *RMB'000* |
|---|---|---|---|---|---|
| Customer A | 129,616 | 56,134 | 64,401 | 31,121 | 42,137 |
| Customer B | N/A[1] | 23,084 | N/A[1] | 8,814 | N/A[1] |
| Customer C | N/A[1] | 12,143 | 32,995 | 13,912 | 27,065 |
| Customer D | 67,350 | 27,307 | 37,526 | 19,286 | 13,701 |
| | 196,966 | 118,668 | 133,922 | 73,133 | 82,903 |

1 *The corresponding revenue did not contribute over 10% of the total revenue of the Group.*

## 6. OTHER INCOME

| | Year ended 31 December 2008 *RMB'000* | Year ended 31 December 2009 *RMB'000* | Year ended 31 December 2010 *RMB'000* | Six months ended 30 June 2010 *RMB'000* *(Unaudited)* | Six months ended 30 June 2011 *RMB'000* |
|---|---|---|---|---|---|
| Interest income on bank deposits | 1,678 | 186 | 131 | 64 | 67 |
| Others | 185 | 288 | 207 | 49 | 234 |
| | 1,863 | 474 | 338 | 113 | 301 |

## 7. OTHER GAINS AND LOSSES

| | Year ended 31 December 2008 *RMB'000* | Year ended 31 December 2009 *RMB'000* | Year ended 31 December 2010 *RMB'000* | Six months ended 30 June 2010 *RMB'000* *(Unaudited)* | Six months ended 30 June 2011 *RMB'000* |
|---|---|---|---|---|---|
| Impairment loss recognized on trade receivables | (1) | – | – | – | – |
| Net (losses)/gains on disposal of property, plant and equipment | (2,869) | (60) | 300 | 460 | 3 |
| Net gains/(losses) arising on changes in fair value of held-for-trading investments | – | 107 | (746) | (3,242) | (1,241) |
| Net foreign exchange losses | – | – | (1) | – | – |
| | (2,870) | 47 | (447) | (2,782) | (1,238) |

## 8. FINANCE COSTS

| | Year ended 31 December 2008 *RMB'000* | Year ended 31 December 2009 *RMB'000* | Year ended 31 December 2010 *RMB'000* | Six months ended 30 June 2010 *RMB'000* *(Unaudited)* | Six months ended 30 June 2011 *RMB'000* |
|---|---|---|---|---|---|
| Interest on bank borrowings wholly repayable within five years | 876 | 471 | 407 | 125 | 111 |
| Finance costs arising on early redemption of note receivables | 646 | 157 | 294 | 171 | 321 |
| | 1,522 | 628 | 701 | 296 | 432 |

## 9. INCOME TAX EXPENSE

| | Year ended 31 December 2008 *RMB'000* | Year ended 31 December 2009 *RMB'000* | Year ended 31 December 2010 *RMB'000* | Six months ended 30 June 2010 *RMB'000* *(Unaudited)* | Six months ended 30 June 2011 *RMB'000* |
|---|---|---|---|---|---|
| Current tax: | | | | | |
| – PRC Enterprise Income Tax ("EIT") | 7,162 | 4,282 | 6,390 | 3,547 | 4,435 |
| (Over)/under-provision in prior year: | | | | | |
| – PRC EIT | (82) | (3,071) | (2,786) | 20 | (3,544) |
| Deferred tax *(Note 24)* | 161 | 99 | 359 | (541) | 196 |
| Total income tax recognized in profit and loss | 7,241 | 1,310 | 3,963 | 3,026 | 1,087 |

**(i) Hong Kong**

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the Relevant Periods.

No provision for Hong Kong Profits Tax has been made in the Financial Information as the Group had no assessable profit subject to Hong Kong Profits Tax for the Relevant Periods.

**(ii) the PRC**

On 16 March 2007, the National People's Congress promulgated the Law of the PRC on Enterprise Income Tax (the "New EIT Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New EIT Law. Under the New EIT Law and Implementation Regulation, the statutory EIT rate of the Group's subsidiaries in the PRC have been reduced to 25% from 1 January 2008 onwards.

*Sichuan Jinghong*

Notwithstanding the above, under the old EIT system in the PRC, Sichuan Jinghong obtained a written approval from the local tax authorities on 23 May 2007 and was entitled to exemptions from the EIT for two years commencing from its first profit-making year and thereafter entitled to a 50% relief from EIT for the next three years (the "Manufacturing Income Tax Holidays"). According to Guofa [2007] No. 39, the PRC enterprises which have started to enjoy the Manufacturing Income Tax Holidays before the effective date of the New EIT Law can continue to enjoy the remaining period of the Manufacturing Income Tax Holidays. For those PRC enterprises whose Manufacturing Income Tax Holidays has not yet started before the effective date of the New EIT Law, they are deemed to have started to enjoy them from 1 January 2008.

Taking into account the tax position of Sichuan Jinghong in the PRC, the first profit-making year is deemed to have started from the year ended 31 December 2006 and thus Sichuan Jinghong calculated the EIT at 100% EIT exemption for the fiscal years ended 31 December 2006 and 2007, and at 50% EIT reduction and thus an effective rate of 12.5% for the fiscal years ended 31 December 2008, 2009 and 2010.

In addition, pursuant to Circular of the Ministry of Finance, the General Administration of Customs and the State Administration of Taxation on Relevant Tax Policies for Supporting the Post-Wenchuan Earthquake Rehabilitation and Reconstruction (Cai Shui [2008] No. 104), issued on 30 July 2008 and a written approval obtained from the competent local tax authorities on 23 December 2008, effective on 1 January 2008, Sichuan Jinghong is entitled to EIT exemption and therefore exempt from tax payment for the fiscal years ended 31 December 2008, 2009 and 2010.

The tax concessions applicable to Sichuan Jinghong had expired in 2010 and it would be subject to the statutory EIT rate of 25% in the PRC from 2011 onwards.

*Chongqing Guangjing*

Pursuant to relevant PRC tax laws and regulations in respect of West China Development Champion and a written approval obtained from the competent local tax authorities on 11 May 2006, during the Relevant Periods Chongqing Guangjing is subject to EIT rate at 7.5% for the fiscal years ended 31 December 2008 and 2009 and EIT rate of 15% for the fiscal year ended 31 December 2010 and six months ended 30 June 2011.

Notwithstanding the above, under the old EIT system in the PRC, Chongqing Guangjing obtained written approval from the local tax authorities on 27 January 2006 and was entitled to enjoy the Manufacturing Income Tax Holidays. According to Guofa [2007] No. 39, the PRC enterprises which have started to enjoy the Manufacturing Income Tax Holidays before the effective date of the New EIT Law can continue to enjoy the remaining period of the Manufacturing Income Tax Holidays. For those PRC enterprises whose Manufacturing Income Tax Holidays has not yet started before the effective date of the New EIT Law, they are deemed to have started to enjoy them from 1 January 2008.

Taking into account the tax position of Chongqing Guangjing in the PRC, the first profit-making year is deemed to have started from the year ended 31 December 2005 and thus Chongqing Guangjing calculated the EIT at 100% EIT exemption for the fiscal years ended 31 December 2005 and 2006, and at 50% EIT reduction and thus an effective rate of 7.5% for the fiscal years ended 31 December 2007, 2008 and 2009 and an effective rate of 15% for the fiscal year ended 31 December 2010 and six months ended 30 June 2011.

*Chuzhou Chuangce*

Taking into account the tax position of Chuzhou Chuangce in the PRC, Chuzhou Chuangce calculated at statutory EIT and was subject to EIT at the effective rate of 25% for the fiscal years ended 31 December 2008, 2009, 2010 and six months ended 30 June 2011.

*Withholding Tax*

The New EIT Law provides that qualified dividend income between two "resident enterprises" that have a direct investment relationship is exempted from income tax. Otherwise, such dividends will be subject to a 5% to 10% withholding tax under the tax treaty or the domestic law.

Prior to the Corporate Reorganization, Conca Investments, an investment holding company controlled by Mr. Chao and the then equity holder of Chuzhou Chuangce, Chongqing Guangjing and Sichuan Jinghong, was subject to withholding tax on dividends received from Chuzhou Chuangce, Chongqing Guangjing and Sichuan Jinghong. For administrative purpose, such withholding tax was paid and settled by the subsidiaries. For the Relevant Periods, the subsidiaries paid dividend net of withholding tax in aggregate of approximately RMB94,364,000 to Conca Investment and withholding tax on such dividends in aggregate of approximately RMB4,967,000 to the relevant PRC authority before the end of each of the Relevant Periods. The PRC legal adviser to the Company confirmed that the dividend recipient declaring and paying the dividend withholding tax complies with the relevant PRC laws and regulations and accordingly, the Group will not be subject to any dividend withholding tax once such tax payment was fully settled.

The tax charges for the Relevant Periods can be reconciled to the profit before tax per the consolidated statements of comprehensive income as follows:

| | Year ended 31 December 2008 | Year ended 31 December 2009 | Year ended 31 December 2010 | Six months ended 30 June 2010 | Six months ended 30 June 2011 |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* *(Unaudited)* | *RMB'000* |
| Profit before tax | 45,260 | 24,906 | 39,688 | 15,335 | 21,378 |
| Tax at domestic tax rates applicable to profits of taxable entitles in the countries concerned | 11,788 | 5,778 | 8,735 | 3,424 | 4,534 |
| Tax effect of expenses not deductible for tax purpose *(Note i)* | 91 | 1,407 | 2,039 | 258 | 332 |
| Tax effect of income not taxable for tax purpose *(Note ii)* | (266) | (4) | – | (676) | (1,042) |
| Tax effect of tax losses not recognized | 87 | 29 | – | – | – |
| Utilization of tax losses previously not recognized | – | – | (235) | – | – |
| Tax effect of withholding tax at 5% on the distributable profit of the Group's subsidiaries | – | – | – | – | 807 |
| Over/under-provision in prior year *(Note iii)* | (82) | (3,071) | (2,786) | 20 | (3,544) |
| Tax effect of change in EIT rate | – | – | (228) | – | – |
| Tax effect of tax relief granted to the PRC subsidiaries | (4,377) | (2,829) | (3,562) | – | – |
| Income tax expense for the year/period | 7,241 | 1,310 | 3,963 | 3,026 | 1,087 |

*Notes:*

*(i)* The amounts comprise the tax effect of the PRC subsidiaries' expenses which are in excess of allowable deduction limits, such as entertainment or non-deductible in nature.

*(ii)* The amounts comprise the tax effect of the PRC subsidiaries' income which are non-taxable in nature.

*(iii)* The amounts comprise the refund of the PRC EIT after the approval of preferential tax rates from the relevant tax authorities after the end of each reporting period.

### 10. PROFIT FOR THE YEAR/PERIOD

Profit for the year/period has been arrived at after charging:

| | Year ended 31 December 2008 | Year ended 31 December 2009 | Year ended 31 December 2010 | Six months ended 30 June 2010 | Six months ended 30 June 2011 |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* *(Unaudited)* | *RMB'000* |
| Depreciation of property, plant and equipment | 7,778 | 6,221 | 6,451 | 3,169 | 3,467 |
| Amortization of prepaid lease payments | 70 | 71 | 75 | 36 | 36 |
| Auditors' remuneration | 9 | 10 | 9 | 10 | 12 |
| Operating lease rentals in respect of premises | 1,291 | 1,327 | 1,470 | 730 | 869 |
| Cost of inventories recognized as an expense (including write-down recognized on inventories) | 137,637 | 56,716 | 77,670 | 35,433 | 48,609 |
| Write-down of inventories to net realizable value | – | – | 322 | 191 | 76 |
| Directors' emoluments *(Note 11)* | 53 | 68 | 71 | 38 | 124 |
| Other employee salaries and benefits | 10,868 | 10,522 | 13,860 | 6,808 | 8,344 |
| Contributions to retirement benefits schemes, excluding those of directors | 991 | 1,003 | 1,231 | 527 | 972 |
| Total employee benefits expense | 11,912 | 11,593 | 15,162 | 7,373 | 9,440 |

## 11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

**Directors' emoluments**

The emoluments paid or payable to the directors of the Company during the Relevant Periods were as follows:

| | Fees | Salaries and other benefits | Contributions to retirement benefits schemes | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Year ended 31 December 2008 | | | | |
| **Executive directors** | | | | |
| Mr. Chao | – | – | – | – |
| Ms. Zhou Zheng Bin | – | – | – | – |
| Ms. Chen Fen | – | – | – | – |
| Mr. Zuo Ji Lin | – | 53 | – | 53 |
| **Independent non-executive directors** | | | | |
| Mr. Chan Chun Chi | – | – | – | – |
| Mr. Yu Xi Chun | – | – | – | – |
| Mr. Wu Hao Tian | – | – | – | – |
| | – | 53 | – | 53 |
| Year ended 31 December 2009 | | | | |
| **Executive directors** | | | | |
| Mr. Chao | – | – | – | – |
| Ms. Zhou Zheng Bin | – | – | – | – |
| Ms. Chen Fen | – | – | – | – |
| Mr. Zuo Ji Lin | – | 60 | 8 | 68 |
| **Independent non-executive directors** | | | | |
| Mr. Chan Chun Chi | – | – | – | – |
| Mr. Yu Xi Chun | – | – | – | – |
| Mr. Wu Hao Tian | – | – | – | – |
| | – | 60 | 8 | 68 |
| Year ended 31 December 2010 | | | | |
| **Executive directors** | | | | |
| Mr. Chao | – | – | – | – |
| Ms. Zhou Zheng Bin | – | – | – | – |
| Ms. Chen Fen | – | – | – | – |
| Mr. Zuo Ji Lin | – | 65 | 6 | 71 |
| **Independent non-executive directors** | | | | |
| Mr. Chan Chun Chi | – | – | – | – |
| Mr. Yu Xi Chun | – | – | – | – |
| Mr. Wu Hao Tian | – | – | – | – |
| | – | 65 | 6 | 71 |

| | Fees | Salaries and other benefits | Contributions to retirement benefits schemes | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Six months ended 30 June 2011 | | | | |
| **Executive directors** | | | | |
| Mr. Chao | – | 10 | – | 10 |
| Ms. Zhou Zheng Bin | – | 10 | – | 10 |
| Ms. Chen Fen | – | 10 | – | 10 |
| Mr. Zuo Ji Lin | – | 71 | 11 | 82 |
| **Independent non-executive directors** | | | | |
| Mr. Chan Chun Chi | 6 | – | – | 6 |
| Mr. Yu Xi Chun | 3 | – | – | 3 |
| Mr. Wu Hao Tian | 3 | – | – | 3 |
| | 12 | 101 | 11 | 124 |
| Six months ended 30 June 2010 (unaudited) | | | | |
| **Executive directors** | | | | |
| Mr. Chao | – | – | – | – |
| Ms. Zhou Zheng Bin | – | – | – | – |
| Ms. Chen Fen | – | – | – | – |
| Mr. Zuo Ji Lin | – | 32 | 6 | 38 |
| **Independent non-executive directors** | | | | |
| Mr. Chan Chun Chi | – | – | – | – |
| Mr. Yu Xi Chun | – | – | – | – |
| Mr. Wu Hao Tian | – | – | – | – |
| | – | 32 | 6 | 38 |

**Employees' emoluments**

| | **Year ended 31 December 2008** *(Number of individuals)* | **Year ended 31 December 2009** *(Number of individuals)* | **Year ended 31 December 2010** *(Number of individuals)* | **Six months ended 30 June 2010** *(Number of individuals) (Unaudited)* | **Six months ended 30 June 2011** *(Number of individuals)* |
|---|---|---|---|---|---|
| Directors | – | 1 | 1 | 1 | 1 |
| Non-directors | 5 | 4 | 4 | 4 | 4 |
| 5 highest-paid individuals | 5 | 5 | 5 | 5 | 5 |

The emoluments of the above non-directors, highest paid individuals were as follows:

| | **Year ended 31 December 2008** *RMB'000* | **Year ended 31 December 2009** *RMB'000* | **Year ended 31 December 2010** *RMB'000* | **Six months ended 30 June 2010** *RMB'000 (Unaudited)* | **Six months ended 30 June 2011** *RMB'000* |
|---|---|---|---|---|---|
| Salaries and other benefits | 466 | 376 | 290 | 114 | 327 |
| Contributions to retirement benefits schemes | 26 | 15 | 17 | 18 | 6 |
| Total emoluments | 492 | 391 | 307 | 132 | 333 |

The emoluments of each of the above non-directors, highest paid individuals were below HK$1,000,000.

During the Relevant Periods, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the Relevant Periods.

**12. DIVIDENDS**

| | Year ended 31 December 2008 | Year ended 31 December 2009 | Year ended 31 December 2010 | Six months ended 30 June 2010 | Six months ended 30 June 2011 |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | *(Unaudited)* | |
| Dividends paid in respect of the following companies: | | | | | |
| Chuzhou Chuangce | – | 10,530 | 3,714 | – | 5,124 |
| Chongqing Guangjing | 1,145 | – | – | – | 3,573 |
| Sichuan Jinghong | 7,114 | 30,521 | 20,220 | – | 25,649 |
| Dividends attributable to owners of the Company | 8,259 | 41,051 | 23,934 | – | 34,346 |

No dividend has been paid or declared by the Company since its incorporation. The amounts represented the dividends paid by respective companies to their then equity holders prior to the Corporate Reorganization.

The rate of dividend and the number of shares ranking for dividends have not been presented as such information is not meaningful having regard to the purpose of this report.

**13. EARNINGS PER SHARE**

For the purpose of this report, the calculation of the basic earnings per share attributable to owners of the Company is based on (i) the profit attributable to owners of the Company for the Relevant Periods and (ii) the weighted average number of 150,000,000 shares (comprising 2 shares in issue and 149,999,998 shares to be issued under the capitalization issue as described in Appendix V "Statutory and General Information" to the document) as if these 150,000,000 shares were outstanding throughout the Relevant Periods.

No diluted earnings per share have been presented for the Relevant Periods as there were no dilutive potential ordinary shares in issue.

### 14. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Leasehold improvements | Plant and machinery | Office equipment | Motor vehicles | Moulds | Construction-in-progress | Total |
|---|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| ***Cost*** | | | | | | | | |
| Balance at 1 January 2008 | 21,474 | – | 55,826 | 459 | 1,588 | 4,577 | 130 | 84,054 |
| Additions | 38 | – | 935 | 25 | 2 | 2,956 | 69 | 4,025 |
| Disposals | – | – | (4,381) | – | (28) | – | – | (4,409) |
| Transfer | – | – | 63 | – | – | – | (63) | – |
| Balance at 31 December 2008 | 21,512 | – | 52,443 | 484 | 1,562 | 7,533 | 136 | 83,670 |
| Additions | – | – | 1,037 | 40 | 123 | 2,453 | – | 3,653 |
| Disposals | – | – | (568) | (8) | – | – | – | (576) |
| Transfer | – | – | 64 | – | – | – | (64) | – |
| Balance at 31 December 2009 | 21,512 | – | 52,976 | 516 | 1,685 | 9,986 | 72 | 86,747 |
| Additions | – | – | 751 | 68 | 704 | 2,795 | 8 | 4,326 |
| Disposals | – | – | (532) | – | – | (828) | – | (1,360) |
| Transfer | – | – | 72 | – | – | – | (72) | – |
| Balance at 31 December 2010 | 21,512 | – | 53,267 | 584 | 2,389 | 11,953 | 8 | 89,713 |
| Additions | 65 | 208 | 41 | 289 | 452 | 2,361 | 56 | 3,472 |
| Disposals | – | – | – | – | (191) | (10) | (8) | (209) |
| Effect of foreign currency exchange differences | – | (3) | – | – | – | – | – | (3) |
| Balance at 30 June 2011 | 21,577 | 205 | 53,308 | 873 | 2,650 | 14,304 | 56 | 92,973 |
| ***Accumulated depreciation and impairment*** | | | | | | | | |
| Balance at 1 January 2008 | 2,613 | – | 26,975 | 260 | 547 | 828 | – | 31,223 |
| Depreciation expense | 1,041 | – | 5,219 | 65 | 273 | 1,180 | – | 7,778 |
| Eliminated on disposals | – | – | (1,493) | – | (24) | – | – | (1,517) |
| Balance at 31 December 2008 | 3,654 | – | 30,701 | 325 | 796 | 2,008 | – | 37,484 |
| Depreciation expense | 1,044 | – | 3,093 | 58 | 247 | 1,779 | – | 6,221 |
| Eliminated on disposals | – | – | (504) | (2) | – | – | – | (506) |
| Balance at 31 December 2009 | 4,698 | – | 33,290 | 381 | 1,043 | 3,787 | – | 43,199 |
| Depreciation expense | 1,043 | – | 3,028 | 45 | 197 | 2,138 | – | 6,451 |
| Eliminated on disposals | – | – | (478) | – | – | (511) | – | (989) |
| Balance at 31 December 2010 | 5,741 | – | 35,840 | 426 | 1,240 | 5,414 | – | 48,661 |
| Depreciation expense | 502 | – | 1,494 | 40 | 161 | 1,270 | – | 3,467 |
| Eliminated on disposals | – | – | – | – | (64) | (1) | – | (65) |
| Balance at 30 June 2011 | 6,243 | – | 37,334 | 466 | 1,337 | 6,683 | – | 52,063 |
| ***Carrying amounts*** | | | | | | | | |
| Balance at 30 June 2011 | 15,334 | 205 | 15,974 | 407 | 1,313 | 7,621 | 56 | 40,910 |
| Balance at 31 December 2010 | 15,771 | – | 17,427 | 158 | 1,149 | 6,539 | 8 | 41,052 |
| Balance at 31 December 2009 | 16,814 | – | 19,686 | 135 | 642 | 6,199 | 72 | 43,548 |
| Balance at 31 December 2008 | 17,858 | – | 21,742 | 159 | 766 | 5,525 | 136 | 46,186 |

The above items of property, plant and equipment other than construction-in-progress are depreciated on a straight-line basis at the following rates per annum:

| | |
|---|---|
| Buildings | Over the term of the leases, or 20 years whichever is the shorter |
| Leasehold improvements | 20% or over the relevant lease terms whichever is the shorter |
| Plant and machinery | 10% – 20% |
| Office equipment | 20% |
| Motor vehicles | 20% – 40% |
| Moulds | 20% |

The carrying amounts of buildings shown above comprise:

| | As at 31 December 2008 | As at 31 December 2009 | As at 31 December 2010 | As at 30 June 2011 |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Situated on leasehold land in the PRC under medium-term lease | 17,858 | 16,814 | 15,771 | 15,334 |

At 31 December 2008, 2009, 2010 and 30 June 2011, buildings with carrying amounts of approximately RMB17,527,000, RMB16,504,000, RMB3,142,000 and RMB3,120,000 respectively were pledged to secure certain short-term bank loans (Note 23) of the Group.

**15. PREPAID LEASE PAYMENTS**

The Group's prepaid lease payments comprise:

| | As at 31 December 2008 | As at 31 December 2009 | As at 31 December 2010 | As at 30 June 2011 |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Leasehold land in the PRC under medium-term lease | 3,123 | 3,100 | 3,025 | 2,989 |
| Analyzed for reporting purposes as: | | | | |
| Current assets | 70 | 71 | 71 | 71 |
| Non-current assets | 3,053 | 3,029 | 2,954 | 2,918 |
| | 3,123 | 3,100 | 3,025 | 2,989 |

The Group's prepaid lease payments are amortized on a straight-line basis over the term of the leases of the land use rights.

At 31 December 2008, 2009, 2010 and 30 June 2011, prepaid lease payments with carrying amounts of approximately RMB3,123,000, RMB3,100,000, RMB1,402,000 and RMB1,385,000 respectively were pledged to secure certain short-term bank loans (Note 23) of the Group.

## 16. INVENTORIES

| | As at 31 December 2008 *RMB'000* | As at 31 December 2009 *RMB'000* | As at 31 December 2010 *RMB'000* | As at 30 June 2011 *RMB'000* |
|---|---|---|---|---|
| Raw materials | 1,830 | 2,348 | 4,069 | 3,736 |
| Work-in-progress | 44 | 124 | 116 | 188 |
| Finished goods | 6,449 | 5,129 | 5,186 | 5,842 |
| Packaging materials and consumables | 955 | 1,196 | 1,807 | 1,627 |
| | 9,278 | 8,797 | 11,178 | 11,393 |

## 17. HELD-FOR-TRADING INVESTMENTS

Held-for-trading investments include:

| | As at 31 December 2008 *RMB'000* | As at 31 December 2009 *RMB'000* | As at 31 December 2010 *RMB'000* | As at 30 June 2011 *RMB'000* |
|---|---|---|---|---|
| Listed securities: | | | | |
| – Equity securities listed in the PRC | – | – | 9,811 | – |

Fair values are determined with reference to quoted market bid prices.

## 18. TRADE AND OTHER RECEIVABLES

| | The Group | | | | The Company |
|---|---|---|---|---|---|
| | As at 31 December 2008 *RMB'000* | As at 31 December 2009 *RMB'000* | As at 31 December 2010 *RMB'000* | As at 30 June 2011 *RMB'000* | As at 30 June 2011 *RMB'000* |
| Trade receivables | 52,372 | 56,348 | 56,303 | 83,609 | – |
| Note receivables | 20,278 | 15,767 | 27,345 | 28,895 | – |
| Deposits in advance | 299 | 651 | 600 | 215 | – |
| Prepayments | 146 | 125 | 332 | 304 | – |
| Prepaid [•••] expenses | – | – | – | 7,825 | 7,825 |
| Other deposits | 10 | 10 | 10 | 10 | – |
| Other receivables | 53 | 131 | 187 | 1,532 | – |
| | 73,158 | 73,032 | 84,777 | 122,390 | 7,825 |

The above trade and other receivables are denominated in the functional currencies of the relevant group entities.

The following is an aged analysis of the Group's trade receivables (net of allowance for doubtful debts) at the end of each of the Relevant Periods, presented based on the invoice date:

| | As at 31 December 2008 | As at 31 December 2009 | As at 31 December 2010 | As at 30 June 2011 |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Within 90 days | 51,759 | 49,485 | 51,303 | 71,085 |
| 91-180 days | 513 | 6,254 | 4,563 | 7,611 |
| 181-365 days | 47 | 62 | 56 | 4,679 |
| Over 365 days | 53 | 547 | 381 | 234 |
| Total | 52,372 | 56,348 | 56,303 | 83,609 |

The Group normally allows a credit period ranging from 30 days to 180 days, from 30 days to 180 days, from 30 days to 180 days and from 30 days to 180 days, at 31 December 2008, 2009, 2010 and 30 June 2011, respectively, to its trade customers with trading history, or otherwise sales on cash terms are required.

Before accepting any new customers, the Group assesses the potential customers' credit quality and defines credit limits by customers.

Trade receivables disclosed above include amounts (see below for aged analysis) which are past due at the end of each of the Relevant Periods for which the Group has not recognized an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

**Age of receivables that are past due but not impaired**

| | As at 31 December 2008 | As at 31 December 2009 | As at 31 December 2010 | As at 30 June 2011 |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Within 90 days | 4,953 | 7,523 | 4,655 | 6,503 |
| 91-180 days | 47 | 195 | – | – |
| 181-365 days | – | 251 | 56 | – |
| Over 365 days | 53 | 163 | 381 | 234 |
| Total | 5,053 | 8,132 | 5,092 | 6,737 |

**Movement in the allowance for doubtful debts**

| | As at 31 December 2008 RMB'000 | As at 31 December 2009 RMB'000 | As at 31 December 2010 RMB'000 | As at 30 June 2011 RMB'000 |
|---|---|---|---|---|
| Balance at beginning of the year | – | – | – | – |
| Impairment losses recognized on receivables | 1 | – | – | – |
| Amounts written off as uncollectible | (1) | – | – | – |
| Balance at end of the year | – | – | – | – |

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of each of the Relevant Periods.

During the year ended 31 December 2008, 2009, 2010 and the six months ended 30 June 2011, the Group recognized impairment losses in respect of trade receivables from third party customers amounting to approximately RMB1,000, Nil, Nil and Nil, respectively. The Group did not hold any collateral over these balances.

## 19. AMOUNTS DUE TO DIRECTORS

| Name of directors | As at 31 December 2008 RMB'000 | As at 31 December 2009 RMB'000 | As at 31 December 2010 RMB'000 | As at 30 June 2011 RMB'000 |
|---|---|---|---|---|
| **Executive directors** | | | | |
| Mr. Chao | – | 715 | – | 10 |
| Ms. Zhou Zheng Bin | – | – | – | 10 |
| Ms. Chen Fen | – | – | – | 10 |
| Mr. Zuo Ji Lin | – | – | – | 10 |
| **Independent non-executive directors** | | | | |
| Mr. Chan Chun Chi | – | – | – | 6 |
| Mr. Yu Xi Chun | – | – | – | 3 |
| Mr. Wu Hao Tian | – | – | – | 3 |
| | – | 715 | – | 52 |

The amounts represented the remuneration payable to directors, which was non-trade in nature. The amounts due to directors were unsecured, interest-free and had no fixed terms of repayment. The amounts due to directors have been fully settled prior to the [•••] of the Company's shares on the [•••].

The above balances are denominated in the functional currencies of the relevant group entities.

## 20. AMOUNTS DUE FROM/(TO) RELATED COMPANIES

| Name of related companies | As at 31 December 2008 *RMB'000* | As at 31 December 2009 *RMB'000* | As at 31 December 2010 *RMB'000* | As at 30 June 2011 *RMB'000* |
|---|---|---|---|---|
| Conca Investments | 7,251 | 8,321 | 388 | – |
| 重慶景康塑膠製品有限公司 (Chongqing Jingkang Plastics Materials Company Limited*) | 220 | (19) | – | – |
| 重慶創策包裝材料有限公司 (Chongqing Chuangce Packing Material Company Limited*) | 207 | (3) | – | – |
| 深圳市啟順貿易有限公司 (Shenzhen Qi Shun Trading Company Limited*) | 17,326 | 17,326 | – | – |
| | 25,004 | 25,625 | 388 | – |

* *English translated name is for identification purpose only.*

Maximum amounts outstanding during each of the Relevant Periods

| Name of related companies | As at 31 December 2008 *RMB'000* | As at 31 December 2009 *RMB'000* | As at 31 December 2010 *RMB'000* | As at 30 June 2011 *RMB'000* |
|---|---|---|---|---|
| Conca Investments | 7,251 | 9,795 | 10,625 | 388 |
| Chongqing Jingkang Plastics Materials Company Limited | 450 | 515 | N/A | N/A |
| Chongqing Chuangce Packing Material Company Limited | 448 | 448 | N/A | N/A |
| Shenzhen Qi Shun Trading Company Limited | 17,326 | 17,326 | 17,326 | N/A |

Mr. Chao had indirect beneficial interests in Chongqing Jingkang Plastics Materials Company Limited and Chongqing Chuangce Packing Material Company Limited.

Ms. Zhou Zheng Bin, the spouse of Mr. Chao, had beneficial interests in Shenzhen Qi Shun Trading Company Limited.

The amounts due arose from temporary fund transfers, which were non-trade in nature. The amounts due from the above related companies were unsecured, interest-free and had no fixed terms of repayment. The amounts due from the above related companies have been fully settled prior to the [•••] of the Company's [•••] on the [•••].

The above balances are denominated in the functional currencies of the relevant group entities.

## 21. CASH AND BANK BALANCES/PLEDGED BANK DEPOSITS

Cash and bank balances comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less which carry interest at market rates ranging from 0.36% to 1.71% per annum, from 0.36% to 1.17% per annum, from 0.36% to 1.35% per annum and from 0.36% to 1.21% per annum, at 31 December 2008, 2009, 2010 and 30 June 2011, respectively.

Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to approximately Nil, RMB846,000, RMB333,000 and Nil at 31 December 2008, 2009, 2010 and 30 June 2011, respectively (Note 22), have been pledged to secure note payables and are therefore classified as current assets. The pledged bank deposits will be released upon the settlement of relevant note payables. Pledged bank deposits are denominated in RMB, the functional currency of the relevant group entities.

Certain of the Group's cash and bank balances with an aggregate amount of approximately RMB59,410,000, RMB30,360,000, RMB42,433,000 and RMB21,939,000 at 31 December 2008, 2009, 2010 and 30 June 2011, respectively, were denominated in RMB which is not a freely convertible currency in the international market. The government of the PRC has implemented foreign exchange control and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the government of the PRC.

**22. TRADE AND OTHER PAYABLES**

| | **As at 31 December 2008** | **As at 31 December 2009** | **As at 31 December 2010** | **As at 30 June 2011** |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade payables | 36,318 | 33,210 | 26,159 | 35,511 |
| Note payables | – | 846 | 333 | – |
| Receipts in advance | 58 | 42 | 3,380 | 5,940 |
| Accruals | 1,047 | 1,065 | 974 | 692 |
| Other taxes payable | 2,382 | 780 | 70 | 2,218 |
| Others | 745 | 915 | 1,262 | 2,488 |
| | 40,550 | 36,858 | 32,178 | 46,849 |

The above trade and other payables are denominated in the functional currencies of the relevant group entities.

The following is an aged analysis of the Group's trade payables at the end of each of the Relevant Periods, presented based on the invoice date:

| | **As at 31 December 2008** | **As at 31 December 2009** | **As at 31 December 2010** | **As at 30 June 2011** |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Within 90 days | 33,514 | 25,407 | 23,864 | 30,887 |
| 91-180 days | 2,475 | 2,080 | 2,030 | 2,940 |
| 181-365 days | 108 | 78 | 94 | 1,569 |
| Over 365 days | 221 | 5,645 | 171 | 115 |
| | 36,318 | 33,210 | 26,159 | 35,511 |

At 31 December 2008, 2009, 2010 and 30 June 2011, the average credit period on purchases of certain goods is ranging from 30 days to 90 days, from 30 days to 90 days, from 30 days to 90 days and from 30 days to 90 days respectively. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

At 31 December 2008, 2009, 2010 and 30 June 2011, note payables secured by a charged over certain of the Group's assets (Note 21 and 30).

### 23. BANK BORROWINGS

| | As at 31 December 2008 *RMB'000* | As at 31 December 2009 *RMB'000* | As at 31 December 2010 *RMB'000* | As at 30 June 2011 *RMB'000* |
|---|---|---|---|---|
| Bank loans – secured | 8,000 | – | 4,000 | 4,000 |
| Carrying amount repayable: | | | | |
| Amounts due on demand or within one year shown under current liabilities | 8,000 | – | 4,000 | 4,000 |

At 31 December 2008, 2009, 2010 and 30 June 2011, bank loans secured by a charged over certain of the Group's assets (Note 30) and bear interest ranging from 5.31% to 5.58% per annum, at 5.58 per annum, at 5.56% per annum and at 5.56% per annum, respectively.

### 24. DEFERRED TAXATION

The following is the major deferred tax assets/(liabilities) recognized and movements thereon during the Relevant Periods:

| | Write-down of inventories *RMB'000* | Provision for unrealized profits *RMB'000* | Withholding tax *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|
| At 1 January 2008 | – | – | – | – |
| Charge to profit and loss | – | (161) | – | (161) |
| At 31 December 2008 | – | (161) | – | (161) |
| Charge to profit and loss | – | (99) | – | (99) |
| At 31 December 2009 | – | (260) | – | (260) |
| Credit/(charge) to profit and loss | 59 | (418) | – | (359) |
| At 31 December 2010 | 59 | (678) | – | (619) |
| Credit/(charge) to profit and loss | 13 | 598 | (807) | (196) |
| At 30 June 2011 | 72 | (80) | (807) | (815) |

The following is the analysis of the deferred tax balances for financial reporting purposes:

| | As at 31 December 2008 *RMB'000* | As at 31 December 2009 *RMB'000* | As at 31 December 2010 *RMB'000* | As at 30 June 2011 *RMB'000* |
|---|---|---|---|---|
| Deferred tax assets | – | – | 59 | 72 |
| Deferred tax liabilities | (161) | (260) | (678) | (887) |
| | (161) | (260) | (619) | (815) |

At 31 December 2008, 2009, 2010 and 30 June 2011, the Group has unused tax losses of approximately RMB1,175,000, RMB1,567,000, Nil and Nil, respectively, available for offset against future profits. No deferred tax asset has been recognized in respect of such tax losses due to the unpredictability of future profit streams. The tax losses of approximately RMB1,175,000, RMB1,567,000, Nil and Nil at 31 December 2008, 2009, 2010 and 30 June 2011, respectively, will expire in 5 years.

**25. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY**

The amount arose from fund transfers, which was non-trade in nature. The amount due to immediate holding company was unsecured, interest-free and had no fixed terms of repayment. The amount due to immediate holding company has been fully settled prior to the [•••] of the Company's shares on the [•••] (Section C below).

The above balance is denominated in the functional currencies of the relevant group entities.

**26. SHARE CAPITAL**

| | **Number of shares** | **Share capital** |
|---|---|---|
| | | *HK$* |
| Authorized | | |
| Ordinary shares of HK$0.01 each | | |
| At date of incorporation | 38,000,000 | 380,000 |
| Increase in authorized share capital on 10 June 2011 | 962,000,000 | 9,620,000 |
| Ordinary share of HK$0.01 each at 30 June 2011 | 1,000,000,000 | 10,000,000 |
| Issued and fully paid | | |
| Ordinary shares of HK$0.01 each | | |
| At date of incorporation | 1 | 0.01 |
| Issue of new share on 4 April 2011 | 1 | 0.01 |
| Ordinary share of HK$0.01 each at 30 June 2011 | 2 | 0.02 |

| | *RMB'000* |
|---|---|
| Shown on the consolidated statement of financial position | – |

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 4 January 2011 with an initial authorized share capital of HK$380,000 divided into 38,000,000 shares of HK$0.01 each and one share was issued thereafter. On 4 April 2011, one share of the Company was allotted and issued to Rich Gold, a company wholly-owned by Mr. Chao, at a consideration of HK$142,316,243. Pursuant to the written resolutions passed by the shareholders of the Company on 10 June 2011, the authorized share capital of the Company was increased from HK$380,000 to HK$10,000,000 by the creation of an additional of 962,000,000 shares of HK$0.01 each, each ranking pari passu with the shares then in issue in all respects.

For the purpose of the preparation of the consolidated statements of financial position, the balance of share capital at 31 December 2008, 2009 and 2010 represents the aggregate of the share and paid up capital of the subsidiaries comprising the Group held by Mr. Chao, the controlling shareholder, prior to the Corporate Reorganization.

## 27. RESERVES

### (a) Capital reserve

Exchange differences relating to the translation of the capital contributions by the equity owners from foreign currency to RMB are recognized directly in other comprehensive income and accumulated in the capital reserve.

### (b) PRC statutory reserves

As stipulated by the relevant laws and regulations for foreign investment enterprises in the PRC, the Company's PRC subsidiaries are required to maintain two statutory reserves, being an enterprise expansion fund and a statutory surplus reserve fund which are non-distributable. Appropriations to such reserves are made out of net profit after taxation reported in the statutory financial statements of the PRC subsidiaries while the amounts and allocation basis are decided by their board of directors annually but must not be less than 10% of the net profit after tax, until such reserves reach 50% of the registered capital of the relevant subsidiaries. The statutory surplus reserve fund can be used to make up their prior year losses, if any, and can be applied in conversion into capital by means of capitalization issue. The enterprise expansion fund is used for expanding the capital base of the PRC subsidiaries by means of capitalization issue.

### (c) Acquisition of additional interest in a subsidiary

In September 2008, Conca Investments, a company controlled by Mr. Chao, acquired 35% equity interests of Sichuan Jinghong held by Sichuan Changhong Chuangxin at a consideration of RMB32 million which was determined with reference to the net asset valuation of Sichuan Jinghong as at 30 June 2008 which amounted to RMB60,646,100 based on a valuation report issued by a PRC valuer on 15 July 2008. Sichuan Jinghong then became a wholly-owned subsidiary of Conca Investments.

### (d) Special reserve

As part of the Corporate Reorganization set out in Note 1, Metro Master entered into respective equity transfer agreements with Conca Investments, pursuant to which Conca Investments transferred the entire equity interests in Chuzhou Chuangce, Chongqing Guangjing and Sichuan Jinghong at an aggregated considerations of RMB119,790,000. The aforesaid equity transfer transactions were completed in March 2011 and the Company became the holding company of the Group. In order to provide the necessary funding to Metro Master for the acquisition of the equity interests of Chuzhu Chuangce, Chongqing Guangjing and Sichuan Jinghong from Conca Investments, Mr. Chao, through Rich Gold, subscribed one share of the Company at a consideration of HK$142,316,243 on 4 April 2011. Such subscription proceeds were applied by Metro Master to finance its payment obligations under the aforesaid equity transfer agreements entered into with Conca Investments and the aforesaid payments had been fully settled on 4 April 2011.

Special reserve of the Group represents the difference between the aggregate amount of considerations paid by the Group for the acquisition of Chuzhou Chuangce, Chongqing Guangjing and Sichuan Jinghong, and the aggregate amount of paid-in capital of the aforesaid subsidiaries acquired pursuant to the Corporate Reorganization.

## 28. RETIREMENT BENEFIT PLANS

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit plan operated by the government of the PRC. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions. The total expenses recognized in the consolidated statements of comprehensive income amounted to approximately RMB991,000, RMB1,011,000, RMB1,237,000 and RMB980,000 for the years ended 31 December 2008, 2009 and 2010 and six months ended 30 June 2011, respectively, and represented contributions payable to these plans by the Group at rates specified in the rules of plans.

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the plans are held separately from those of the Group in funds under the control of trustees. The total expenses recognized in the consolidated statements of comprehensive income amount to approximately Nil, Nil, Nil and RMB3,000 for the years ended 31 December 2008, 2009 and 2010 and six months ended 30 June 2011, respectively, and represent contributions payable to these plans by the Group at rates specified in the rules of the plans.

**29. RELATED PARTY DISCLOSURES**

**(a) Outstanding balances with related parties**

Details of outstanding balances with related parties of the Group at the end of each of the Relevant Periods are set out in Notes 19, 20 and 25.

**(b) Transactions with related parties**

As disclosed in Note 27(c), Sichuan Changhong Chuangxin was a non-controlling interest equity holder of Sichuan Jinghong. Sichuan Changhong Chuangxin was controlled and beneficially held by Sichuan Changhong Electric Co. Ltd. (四川長虹電器股份有限公司) ("Sichuan Changhong Electric"). For the period from 1 January 2008 to 26 September 2008 (the completion date of which the 35% equity interests of Sichuan Jinghong held by Sichuan Changhong Chuangxin were transferred to Conca Investments), the Group had entered into the following significant transactions with Sichuan Changhong Electric based on the terms mutually agreed by both parties.

| | *RMB'000* |
|---|---|
| Rental expense paid to Sichuan Changhong Electric | 958 |
| Utilities expenses paid to Sichuan Changhong Electric | 5,670 |
| Revenue arising from sale of goods to Sichuan Changhong Electric | 122,657 |

**(c) Compensation of key management personnel**

The emoluments of the Company's directors, who are also identified as members of key management of the Group, are set out in Note 11.

**30. PLEDGE OF ASSETS**

Assets with the following carrying amounts have been pledged to secure general banking facilities granted to the Group or borrowings of the Group (Notes 22 and 23):

| | **As at 31 December 2008** | **As at 31 December 2009** | **As at 31 December 2010** | **As at 30 June 2011** |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Buildings | 17,527 | 16,504 | 3,142 | 3,120 |
| Prepaid lease payments | 3,123 | 3,100 | 1,402 | 1,385 |
| Bank deposits | – | 846 | 333 | – |
| Total pledged assets | 20,650 | 20,450 | 4,877 | 4,505 |

## 31. OPERATING LEASES

**The Group as lessee**

| | Year ended 31 December 2008 | Year ended 31 December 2009 | Year ended 31 December 2010 | Six months ended 30 June 2011 |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Minimum lease payments paid under operating leases for premises | – | 2 | 4,367 | 4,757 |

At the end of each of the Relevant Periods, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | As at 31 December 2008 | As at 31 December 2009 | As at 31 December 2010 | As at 30 June 2011 |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Within one year | – | 2 | 1,462 | 1,892 |
| In the second to fifth years inclusive | – | – | 2,905 | 2,865 |
| | – | 2 | 4,367 | 4,757 |

Operating lease payments represent rentals payable by the Group for warehouse and premises. Leases are negotiated and rentals are fixed for terms ranging from one to three years.

## 32. CAPITAL COMMITMENTS

| | As at 31 December 2008 | As at 31 December 2009 | As at 31 December 2010 | As at 30 June 2011 |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Capital expenditure contracted for but not provided in the Financial Information in respect of the acquisition of property, plant and equipment | 4 | – | – | 68 |

## 33. INVESTMENTS IN SUBSIDIARIES

**The Company**

**(a) Investments in subsidiaries**

| | As at 30 June 2011 |
|---|---|
| | *RMB'000* |
| Unlisted investment in a directly owned subsidiary | – |

**(b) Amounts due from subsidiaries**

| Name of subsidiary | As at 30 June 2011 |
|---|---|
| | *RMB'000* |
| Cheng Hao | 25 |
| Metro Master | 120,265 |
| | 120,290 |

The amounts due arose from temporary fund transfers, which was non-trade in nature. The amounts due from the above subsidiaries were unsecured, interest-free and had no fixed terms of repayment.

The above balances are denominated in the functional currencies of the relevant group entity.

**(c) Amounts due to subsidiaries**

| Name of subsidiary | As at 30 June 2011 |
|---|---|
| | *RMB'000* |
| Chuzhou Chuangce | 901 |
| Sichuan Jinghong | 123 |
| | 1,024 |

The amounts due arose from temporary fund transfers, which were non-trade in nature. The amounts due to the above subsidiaries were unsecured, interest-free and had no fixed terms of repayment.

The above balances are denominated in the functional currencies of the relevant group entities.

## 34. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged throughout the Relevant Periods.

The capital structure of the Group consists of net debt (which includes trade and other payables, amounts due to directors, amounts due to related companies, amount due to immediate holding company and bank borrowings), cash and cash equivalents and equity attributable to owners of the Company (comprising issued share capital and reserves).

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associated with each class of the capital. The Group seeks to balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The net debt to equity ratio at the end of each of the Relevant Periods were as follows:

| | As at 31 December 2008 *RMB'000* | As at 31 December 2009 *RMB'000* | As at 31 December 2010 *RMB'000* | As at 30 June 2011 *RMB'000* |
|---|---|---|---|---|
| Debts | 46,168 | 36,815 | 36,108 | 57,606 |
| Cash and cash equivalents | (59,418) | (30,368) | (42,440) | (23,440) |
| Net debt | (13,250) | 6,447 | (6,332) | 34,166 |
| Equity | 163,276 | 145,821 | 157,612 | 143,559 |
| Net debt-to-equity ratio | N/A | 4% | N/A | 24% |

## 35. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

| | The Group | | | | The Company |
|---|---|---|---|---|---|
| | As at 31 December 2008 *RMB'000* | As at 31 December 2009 *RMB'000* | As at 31 December 2010 *RMB'000* | As at 30 June 2011 *RMB'000* | As at 30 June 2011 *RMB'000* |
| **Financial assets** | | | | | |
| ***Fair value through profit or loss*** | | | | | |
| Held-for-trading investments | – | – | 9,811 | – | – |
| ***Loans and receivables*** | | | | | |
| Financial assets included in trade and other receivables | 73,012 | 72,907 | 84,445 | 114,261 | – |
| Amounts due from related companies | 25,004 | 25,647 | 388 | – | – |
| Amounts due from subsidiaries | – | – | – | – | 120,290 |
| Pledged bank deposits | – | 846 | 333 | – | – |
| Cash and bank balances | 59,418 | 30,368 | 42,440 | 23,440 | 25 |
| | 157,434 | 129,768 | 137,417 | 137,701 | 120,315 |
| **Financial liabilities** | | | | | |
| ***Financial liabilities at amortized cost*** | | | | | |
| Financial liabilities included in trade and other payables | 38,168 | 36,078 | 32,108 | 44,631 | – |
| Amounts due to directors | – | 715 | – | 52 | – |
| Amounts due to related companies | – | 22 | – | – | – |
| Amount due to immediate holding company | – | – | – | 8,923 | 8,923 |
| Amounts due to subsidiaries | – | – | – | – | 1,024 |
| Bank borrowings | 8,000 | – | 4,000 | 4,000 | – |
| | 46,168 | 36,815 | 36,108 | 57,606 | 9,947 |

**(b) Financial risk management objectives and policies**

The Group's major financial instruments include trade and other receivables, amounts due to/from related companies, amount due to immediate holding company, amounts due to directors, cash and bank balances, pledged bank deposits, trade and other payables, and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with certain of these financial instruments include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

There has been no significant change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks throughout the Relevant Periods.

***Foreign currency risk management***

Transactional currency exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Substantially all the Group's sales and purchases are denominated in the functional currency of the operating units making the sales (i.e. RMB), and substantially all the costs are denominated in the units' functional currency. Accordingly, the directors of the Company consider that the Group is not exposed to significant currency risk.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

***Interest rate risk management***

The Group's fair value interest rate risk relates primarily to its fixed-rate bank borrowings. The cash flow interest rate risk of the Group relates primarily to the restricted bank deposits and bank balances and cash. The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

***Equity price risk management***

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes of the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as held-for-trading investments (Note 17) at the end of each of the Relevant Periods. The Group's listed investments are listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange and are valued at quoted market prices at the end of each of the Relevant Periods.

*Equity price sensitivity analysis*

The sensitivity analyses have been determined based on the exposure to equity price risk at the end of each of the Relevant Periods. If equity prices had been 5% higher/lower, the profit of the Group for each of the Relevant Periods would increase/decrease by Nil, Nil, approximately RMB491,000 and Nil, respectively. This is mainly due to the changes in fair value of held-for-trading investments.

The management of the Company determined to discontinue the securities trading activity, the Group disposed of all the investments in the listed equity securities in January 2011 and recorded a net loss from disposal of held-for-trading investments of approximately RMB1,241,000 for the six months ended 30 June 2011.

***Credit risk management***

At the end of each of the Relevant Periods, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the statements of financial position.

There is significant concentration of credit risk as the top five biggest customers account over approximately 98%, 99%, 99% and 98% of the carrying amounts of trade receivables as at 31 December 2008, 2009 and 2010 and 30 June 2011, respectively. In order to minimize the credit risk, the management of the Group generally grants credit terms only to customers with good credit ratings and also closely monitors overdue trade debts. The recoverable amount of each individual trade debt is reviewed at the end of each reporting period and adequate impairment for doubtful debts has been made for irrecoverable amounts. In this regard, the directors of the Company consider that the credit risk of the Group is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation or high credit ratings assigned by international credit-rating agencies.

***Liquidity risk management***

In the management of the liquidity risk, the Group and the Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's and the Company's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilization of borrowings and ensures compliance with loan covenants.

The following table details the Group's and the Company's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. The table includes both contractual interest and principal cash flows.

*Liquidity table*

**The Group**

| Non-derivative financial liabilities | Weighted average interest rate | On demand or less than 1 year | More than 1 year | Total undiscounted cash flows | Total carrying amount |
|---|---|---|---|---|---|
| | % | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **As at 31 December 2008** | | | | | |
| Trade and other payables | – | 38,168 | – | 38,168 | 38,168 |
| Bank borrowings | 5.48% | 8,438 | – | 8,438 | 8,000 |
| | | 46,606 | – | 46,606 | 46,168 |
| **As at 31 December 2009** | | | | | |
| Trade and other payables | – | 36,078 | – | 36,078 | 36,078 |
| Amount due to a director | – | 715 | – | 715 | 715 |
| Amounts due to related companies | – | 22 | – | 22 | 22 |
| | | 36,815 | – | 36,815 | 36,815 |
| **As at 31 December 2010** | | | | | |
| Trade and other payables | – | 32,108 | – | 32,108 | 32,108 |
| Bank borrowings | 5.56% | 4,222 | – | 4,222 | 4,000 |
| | | 36,330 | – | 36,330 | 36,108 |
| **As at 30 June 2011** | | | | | |
| Trade and other payables | – | 44,631 | – | 44,631 | 44,631 |
| Amounts due to directors | – | 52 | – | 52 | 52 |
| Amount due to immediate holding company | – | 8,923 | – | 8,923 | 8,923 |
| Bank borrowings | 5.56% | 4,110 | – | 4,110 | 4,000 |
| | | 57,716 | – | 57,716 | 57,606 |

**The Company**

| Non-derivative financial liabilities | Weighted average interest rate | On demand or less than 1 year | More than 1 year | Total undiscounted cash flows | Total carrying amount |
|---|---|---|---|---|---|
| | % | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **As at 30 June 2011** | | | | | |
| Amount due to immediate holding company | – | 8,923 | – | 8,923 | 8,923 |
| Amounts due to subsidiaries | – | 1,024 | – | 1,024 | 1,024 |
| | | 9,947 | – | 9,947 | 9,947 |

**(c) Fair values of financial instruments**

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid and ask prices respectively.
- The fair values of other financial assets and financial liabilities (excluding those described above) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

***Fair value measurements recognized in the statement of financial position***

An analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable was as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). During the Relevant Periods, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

The held-for-trading investments at the end of each of the Relevant Periods are measured using level 1 fair value measurements which are derived from quoted prices (unadjusted) in active market.

The directors of the Company consider that the carrying amounts of other financial assets and financial liabilities recorded at amortized cost in the Financial Information approximate their fair values.

## B. DIRECTORS' REMUNERATION

Save as disclosed in this report, no remuneration has been paid or is payable to the Company's directors by the Company or any of its subsidiaries during the Relevant Periods. Under the arrangements presently in force, the aggregate remuneration of the Company's directors for the year ending 31 December 2011 is expected to be approximately RMB631,000.

## C. SUBSEQUENT EVENTS

Save as disclosed elsewhere in this report, the following significant events took place subsequent to 30 June 2011:

(a) On [•••], Rich Gold, a company wholly-owned by Mr. Chao and the holding company of the Company, executed a deed of release in favour of the Company, pursuant to which Rich Gold unconditionally and irrevocably released and discharged the repayment of a shareholder's loan from Rich Gold to the Company in the amount of HK$12,500,000 and any claim regarding such repayment.

## D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group have been prepared in respect of any period subsequent to 30 June 2011.

Yours faithfully,
**HLB Hodgson Impey Cheng**
*Chartered Accountants*
*Certified Public Accountants*
Hong Kong

*The following is the text of a letter, summary of value and valuation certificate, prepared for the purpose of incorporation in this document received from Asset Appraisal Limited, an independent valuer, in connection with its valuation as at 30 September 2011 of the Properties held by the Group.*

**Asset Appraisal Limited**
**資產評值顧問有限公司**

Add Rm 901 9/F On Hong Commercial Building
145 Hennessy Road Wanchai Hong Kong
地址 香港灣仔軒尼詩道145號安康商業大廈9樓901室
Tel: (852) 2529 9448
Fax: (852) 3521 9591

[•••] 2011

**The Board of Directors**
**Jin Bao Bao Holdings Limited**
**Cinda International Capital Limited**

Dear Sirs,

**Re: Valuation of various properties in the People's Republic of China (the "PRC")**

In accordance with the instructions from Jin Bao Bao Holdings Limited (the "Company") to value the property interests (the "Properties") of the Company and its subsidiaries (hereinafter together referred to as the "Group") in the PRC, we confirm that we have carried out inspections of the Properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the Properties as at 30 September 2011 (the "date of valuation").

## BASIS OF VALUATION

Our valuation of the Properties represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

## TITLESHIP

We have been provided with copies of legal documents regarding the Properties. However, we have not verified ownership of the Properties and the existence of any encumbrances that would affect its ownership.

We have also relied upon the legal opinion provided by the PRC legal adviser, namely Shu Jin Law Firm (the "PRC Legal adviser"), to the Company on the relevant laws and regulations in the PRC, on the nature of the Group's interests in the Properties situated in the PRC. Its material content has been summarized in the valuation certificate attached herewith.

## VALUATION METHODOLOGY

Due to the nature of the buildings and structures of properties numbered 1 and 2 in Group I and the particular locations in which they are situated, no relevant market for them can be identified and hence no relevant market comparable transaction is available for comparison. The property interests have therefore been valued by depreciation replacement cost method.

Depreciation replacement cost is defined as the current cost of replacement (reproduction) of a property of identical or closely similar utility with deductions for physical depreciation and all relevant forms of obsolescence and optimization. It is based on an estimate of the market value for the existing use of the land portion plus the current costs of replacement (reproduction) of the land improvement erected thereon less physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement costs of the property interests are subject to adequate potential profitability of the concerned business underlying the property interests.

We have attributed no commercial value to the property interests in Group II, which are properties rented by the Group, due either to the short-term nature of the leases or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

## ASSUMPTIONS

Our valuation has been made on the assumption that the owner sells the properties in Group I on the market without the benefit of deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to affect the value of the Properties.

As the properties in Group I are held by the owner by means of long term Land Use Rights granted by the Government, we have assumed that the owners have free and uninterrupted rights to use the Properties for the whole of the unexpired term of the land use rights.

Other special assumptions for our valuation (if any) would be stated out in the footnotes of the valuation certificate attached herewith.

## LIMITING CONDITIONS

No allowance has been made in our report for any charges, mortgages or amounts owing on the Properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

We have relied to a very considerable extent on the information given by the Company and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, tenancy and all other relevant matters.

We have not carried out detailed site measurements to verify the correctness of the land areas and floor areas in respect of the Properties but have assumed that the floor areas shown on the documents and official site plans and floor plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

We have inspected the exterior and, where possible, the interior of the buildings and structures of the Properties. However, no structural survey has been made for them. In the course of our inspection, we did not note any apparent defects. We are not, however, able to report whether the buildings and structures inspected by us are free of rot, infestation or any structural defect. No test was carried out on any of the building services and equipment.

We must point out that we have not carried out site investigations to determine the suitability of the ground conditions or the services for any undeveloped portion of the Properties. Our valuation is on the basis that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

**REMARKS**

In valuing the properties, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors effective from 1 January 2005.

All monetary sums stated in this report are in Renminbi (RMB).

Our summary of valuation and valuation certificate are attached herewith.

Yours faithfully,
for and on behalf of
**Asset Appraisal Limited**

**Tse Wai Leung**
*MFin MRICS MHKIS RPS(GP)*
*Director*

*TSE Wai Leung is a member of the Royal Institute of Chartered Surveyors, Hong Kong Institute of Surveyors and a Registered Professional Surveyor in General Practice. He is on the list of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers of the Hong Kong Institute of Surveyors, Registered Business Valuer under the Hong Kong Business Forum and has over 10 years' experience in valuation of properties in Hong Kong and in the PRC.*

## SUMMARY OF VALUATION

| Property | | Market value in existing state as at 30 September 2011 | Interest Attributable to the Company | Value of property interest attributable to the Company as at 30 September 2011 |
|---|---|---|---|---|
| **Group I – Property interests held by the Group for self occupation** | | | | |
| 1. | An industrial complex situated at No. 791 Nanqiaonan Road, Chuzhou Development Zone, Chuzhou City, Anhui Province, the PRC. | RMB8,100,000 | 100% | RMB8,100,000 |
| 2. | No. 1, Block 1 to 3, Yishe, Pengqiao Village, Guangxing Town, Jiangji District, Chongqing City, the PRC. | RMB14,700,000 | 100% | RMB14,700,000 |
| | Total: | **RMB22,800,000** | | **RMB22,800,000** |
| **Group II – Property rented by the Group** | | | | |
| 3. | Factory 604#, 604C# and C1#, Changhong Fourth Industrial Zone, Mianyang City, Sichuan Province, the PRC. | No commercial value | 100% | No commercial value |
| 4. | Unit No. 2118 on 21st Floor, China Merchants Tower, Shun Tak Centre, Nos. 168-200 Connaught Road Central, Hong Kong. | No commercial value | 100% | No commercial value |
| | **Grand Total:** | **RMB22,800,000** | | **RMB22,800,000** |

## VALUATION CERTIFICATE

### Group I – Property interests held by the Group for self occupation

| Property | Description and tenure | Particulars of occupancy | Market Value in Existing State as at 30 September 2011 *RMB* |
|---|---|---|---|
| 1. An industrial complex situated at No. 791 Nanqiaonan Road, Chuzhou Development Zone, Chuzhou City, Anhui Province, the PRC. (安徽省滁州市滁州開發區南譙南路791號的土地和建築物) | The property comprises a parcel of industrial land with an area of 18,142 square metres on which the following major buildings, ancillary buildings and structures are erected: | The property is occupied by the Group as production workshops, warehouses and administrative offices. | 8,100,000<br><br>(100% interest attributable to the Group: 8,100,000) |

| Use | No. of Storey | Gross Floor Area ($m^2$) |
|---|---|---|
| 1#, 2# Warehouse | 1 | 4,361.58 |
| 3# Warehouse | 1 | 865.83 |
| 4# Warehouse | 1 | 1,948.77 |
| Production Workshop | 2 | 1,717.12 |
| Production Workshop | 1 | 289.72 |
| Boiler Room | 1 | 156.62 |
| New Boiler Room | 1 | 190.35 |
| Office Building | 1 | 245.82 |
| New Office Building | 1 | 163.24 |
| **Total:** | | **9,939.05** |

The ancillary buildings and structures mainly include switching room, compressor room, coal shed, boundary fences, guard room and gates.

The above buildings ancillary buildings and structures were completed in between 2001 to 2006.

The land use rights of the property have been granted for a term expiring on 25 July 2051 for industrial use.

*Notes:*

1. The land parcel of the property was acquired by Chuzhou Chuangce Packaging Materials Company Limited (滁州創策包裝材料有限公司), an indirectly wholly-owned subsidiary of the Company, via a Land Sale Supplement Agreement dated 9 July 2001 and another Land Sale Supplement Agreement dated 7 December 2004 both entered between Chuzhou Economic Technology Development Zone Administration Committee (滁州經濟技術開發區管委會) as Vendor and Chuzhou Chuangce Packaging Company Ltd. (a wholly-owned subsidiary of the Company) as Purchaser.

2. A Land Use Rights Certificate (Ref. Chu Guo Yong (2007) Di No. 00015 (滁國用(2007)第00015號)) has been issued for the land parcel of the property (Lot No. 12013031051-1) with an area of 18,142 square metres in the name of Chuzhou Chuangce Packaging Company Limited. As stipulated in the Land Use Rights Certificate, the land use rights of the land parcels are held for a term expiring on 25 July 2051 for industrial use.

3. A Building Ownership Certificate (Ref. Chu Fang Quan Zheng 2001 Zi Di No. 06877 (滁房權証2001字第06877號) has been issued in 2001 for the office building, the boiler room, the 2-storey workshop and the warehouse of the property with a total gross floor area of 6,770.86 square metres in the name of Chuzhou Chuangce Packaging Materials Company Limited.

4. A Building Ownership Certificate (Ref. Chu Fang Quan Zheng 2007 Zi Di No. 00013 (滁房權証2007字第00013號)) has been issued on 11 January 2007 for the single-storey workshop and the new boiler room of the property with a total gross floor area of 2,139.12 square metres in the name of Chuzhou Chuangce Packaging Materials Company Limited.

5. A Building Ownership Certificate (Ref. Fang Di Quan Zheng Chu Zi Di No. 2011001134 (房地權証滁字第2011001134號)) has been issued on 30 January 2011 for a single-storey office building of the property with a gross floor area of 163.24 square metres in the name of Chuzhou Chuangce Packaging Materials Company Limited.

6. A Building Ownership Certificate (Ref. Fang Di Quan Zheng Chu Zi Di No. 2011001135 (房地權証滁字第2011001135號)) has been issued on 30 January 2011 for a single-storey warehouse of the property with a gross floor area of 865.83 square metres in the name of Chuzhou Chuangce Packaging Materials Company Limited.

7. The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the opinion of the Company's legal adviser on the PRC law is as follows:

| | | |
|---|---|---|
| Land Use Rights Certificate | : | Yes |
| Building Ownership Certificates | : | Yes |
| Planning Permit for Construction of Land | : | Yes |
| Planning Permits of Construction Work | : | Yes |
| Construction Work Commencement Permit | : | Yes |

8. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, which contains, inter alia, the followings:

   8.1 A Land Use Rights Certificate (Ref. Chu Guo Yong (2007) Di No. 00015 (滁國用(2007)第00015號)) has been issued for the land parcel of the property (Lot No. 12013031051-1) with an area of 18,142 square metres in the name of Chuzhou Chuangce Packaging Materials Company Limited. The land use rights of the land parcels are held for a term expiring on 25 July 2051 for industrial use.

8.2 A Building Ownership Certificate (Ref. Chu Fang Quan Zheng 2001 Zi Di No. 06877 (滁房權証2001字第06877號)) has been issued to certain buildings of the property with a total gross floor area of 6,770.86 square metres in the name of Chuzhou Chuangce Packaging Materials Company Limited.

8.3 A Building Ownership Certificate (Ref. Chu Fang Quan Zheng 2007 Zi Di No. 00013 (滁房權証2007字第00013號)) has been issued on 11 January 2007 to certain buildings of the property with a total gross floor area of 2,139.12 square metres in the name of Chuzhou Chuangce Packaging Materials Company Limited.

8.4 A Building Ownership Certificate (Ref. Fang Di Quan Zheng Chu Zi Di No. 2011001134 (房地權証滁字第2011001134號)) has been issued on 30 January 2011 to certain buildings of the property with a gross floor area of 163.24 square metres in the name of Chuzhou Chuangce Packaging Materials Company Limited.

8.5 A Building Ownership Certificate (Ref. Fang Di Quan Zheng Chu Zi Di No. 2011001135 (房地權証滁字第2011001135號)) has been issued on 30 January 2011 to certain buildings of the property with a gross floor area of 865.83 square metres in the name of Chuzhou Chuangce Packaging Materials Company Limited.

8.6 Pursuant to a Mortgage Contract entered into between Chuzhou Chuangce Packaging Materials Company Limited and Bank of China Limited – Chuzhou Sub-Branch (中國銀行股份有限公司滁州分行) on 29 November 2010, the property interests mentioned in notes 8.1, 8.2 and 8.3 (Ref. Chu Guo Yong (2007) Di No. 00015 (滁國用(2007)第00015號), Chu Fang Quan Zheng 2001 Zi Di No. 06877 (滁房權証2001字第06877號) and Chu Fang Quan Zheng 2007 Zi Di No. 00013 (滁房權証2007字第00013號) were subject to mortgage in favour of Bank of China Limited – Chuzhou Sub-Branch for a maximum loan amount of RMB8,000.000;

8.7 The land use rights and the building ownership rights of the property are legally owned by Chuzhou Chuangce Packaging Materials Company Limited;

8.8 The aforesaid mortgage entered into between Chuzhou Chuangce Packaging Materials Company Limited and Bank of China Limited – Chuzhou Sub-Branch is legal and valid. Chuzhou Chuangce Packaging Materials Company Limited is entitled to transfer, lease or disposal by any other lawful way of the property subject to prior consent of the mortgagee; and

8.9 The property is free from liens or other restrictions that would impact to the use of the property.

## VALUATION CERTIFICATE

**Group I – Property interests held by the Group for self occupation**

| Property | Description and tenure | Particulars of occupancy | Market Value in Existing State as at 30 September 2011 *RMB* |
|---|---|---|---|
| 2. No. 1, Block 1 to 3, Yishe, Pengqiao Village, Guangxing Town, Jiangji District, Chongqing City, the PRC.<br><br>(重慶市江津區廣興鎮彭橋村一社1至3幢1號) | The property comprises a parcel of industrial land with an area of 17,600.85 square metres on which the following major buildings and ancillary structures are erected: (see table below)<br><br>The ancillary structures include boundary fences, guard room and gates.<br><br>The above buildings and ancillary structures were completed in 2006.<br><br>The land use rights of the property have been granted for a term expiring on 11 January 2056 for industrial use. | The property is occupied by the Group as production workshops, warehouses and administrative offices. | 14,700,000<br><br>(100% interest attributable to the Group: 14,700,000) |

| Block No. | Use | No. of Storey | Gross Floor Area ($m^2$) |
|---|---|---|---|
| 1 | Office, Workshop and Warehouse | 2 | 14,758.43 |
| 2 | Workshop and Warehouse | 1 | 169.98 |
| 3 | Boiler, Electrical, air compressor room and ancillary structures | 1 | 945.92 |
| **Total:** | | | **15,874.33** |

*Notes:*

1. As stipulated in a Building and Land Ownership Certificate (Ref. 203 Fang Di Zheng 2006 Di No. 01732 (203房地証2006第01732號)) dated 28 February 2006, the property is held by Chongqing Guangjing Packaging Products Company Limited (重慶光景包裝製品有限公司), an indirectly wholly-owned subsidiary of the Company, for a term expiring on 11 January 2056 for industrial use.

2. The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the opinion of the Company's legal adviser on the PRC law is as follows:

| | | |
|---|---|---|
| Building and Land Ownership Certificate | : | Yes |
| Planning Permit for Construction of Land | : | Yes |
| Planning Permits of Construction Work | : | Yes |
| Construction Works Commencement Permit | : | Yes |

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, which contains, inter alia, the followings:

 3.1 As stipulated in a Building and Land Ownership Certificate (Ref. 203 Fang Di Zheng 2006 Di No. 01732 (203房地証2006第01732號)), the property with a site area of 17,600.85 square metres and total gross floor area of 15,874.33 square metres is held by Chongqing Guangjing Packaging Products Company Limited (重慶光景包裝製品有限公司) for a term expiring on 11 January 2056 for industrial use;

 3.2 The land use rights and the building ownership rights of the property are legally owned by Chongqing Guangjing Packaging Products Company Limited (重慶光景包裝製品有限公司); and

 3.3 The property is free from mortgages, liens or other restrictions that would adversely impact to the use of the property. Chongqing Guangjing Packaging Products Company Limited (重慶光景包裝製品有限公司) has the rights to use the property.

## VALUATION CERTIFICATE

**Group II – Property rented by the Group**

| **Property** | **Description and tenure** | **Particulars of occupancy** | **Market Value in Existing State as at 30 September 2011** *RMB* |
|---|---|---|---|
| 3. Factory 604#, 604C# and C1#, Changhong Fourth Industrial Zone, Mianyang City, Sichuan Province, the PRC.<br><br>(四川省綿陽市長虹新四廠區604#, 604C# and C1#廠房) | The property comprises three contiguous factory buildings which were completed in between 1997 to 2004.<br><br>The total gross floor area of the property is approximately 17,293.59 square metres.<br><br>The property is rented by the Group under a tenancy for a lease term commencing on 1 January 2011 and expiring on 31 December 2013 for industrial and office uses at a monthly rental of RMB121,055.13 payable quarterly exclusive of management fees and other outgoings. | The property is occupied by the Group as production workshops, warehouses and administrative offices. | No commercial value |

*Notes:*

1. As stipulated in the Land Use Rights Certificate (Ref. Mian Cheng Guo Yong (2005) Di No. 01615 (綿城國用(2005)第01615號)) dated 28 March 2005 issued by the Municipal Government of Mianyang (綿陽市人民政府), the land use rights of the land parcel are held by Sichuan Changhong Electric Company Limited (四川長虹電器股份有限公司) for a term expiring on 28 December 2048 for industrial use.

2. As stipulated in the Building Ownership Certificates (Ref. Mian Quan Gao Xin Zi Di No. 0150) dated 12 June 1998 issued by the Mianyang High New Technology Industry Development Zone Property Administration Bureau (綿陽高新技術產業開發區房產管理局), the building ownership rights of one of the three contiguous buildings of the property with a gross floor area of 6,741.66 square metres is held by [State Run Changhong Machine Factory] (國營長虹機器廠).

3. Pursuant to a tenancy agreement dated 28 December 2010, [Sichuan Jinghong Packaging Products Company Limited] (四川景虹包裝制品有限公司), an indirectly wholly-owned subsidiary of the Company, rented the property with a total gross floor area of 17,293.59 square metres from Sichuan Changhong Electric Company Limited (四川長虹電器股份有限公司) for a term commencing on [1 January 2011] and expiring on [31 December 2013] for industrial and office uses at a monthly rental of RMB[121,055.13].

4. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, which contains, inter alia, the followings:

   4.1 Pursuant to a tenancy agreement (Ref. 2011-JGB-06) dated 27 December 2010, Sichuan Jinghong Packaging Products Company Limited (四川景虹包裝制品有限公司) rented the property with a total gross floor area of 17,293.59 square metres from Sichuan Changhong Electric Company Limited (四川長虹電器股份有限公司) for a term commencing on 1 January 2011 and expiring on 31 December 2013;

   4.2 Pursuant to a Explanatory Letter (關於604#、604C#廠房所有權的說明函) issued by [State Run Changhong Machine Factory] (國營長虹機器廠) on 25 January 2011, the building ownership rights of the property (604#、604C#、C1#) have been transferred to Sichuan Changhong Electric Company Limited (四川長虹電器股份有限公司);

   4.3 The land use rights and the building ownership rights of the property are legally owned by Sichuan Changhong Electric Company Limited (四川長虹電器股份有限公司); and

   4.4 The aforesaid tenancy agreement entered into between Sichuan Jinghong Packaging Products Company Limited (四川景虹包裝制品有限公司) and Sichuan Changhong Electric Company Limited (四川長虹電器股份有限公司) is legal, valid and binding on both contracting parties. Sichuan Jinghong Packaging Products Company Limited has the rights to use the property.

## VALUATION CERTIFICATE

**Group II – Property rented by the Group**

| **Property** | **Description and tenure** | **Particulars of occupancy** | **Market Value in Existing State as at 30 September 2011** *RMB* |
|---|---|---|---|
| 4. Unit No. 2118 on 21st Floor, China Merchants Tower, Shun Tak Centre, Nos. 168-200 Connaught Road Central, Hong Kong | The property comprises an office unit on 21st Floor of a 39-storey office tower surmounting a commercial/ ferry terminal podium. The development was completed in 1985.<br><br>The gross floor area and the saleable area of the property are approximately 107.58 square metres (1,158 square feet) and 70.14 square metres (755 square feet) respectively.<br><br>The property is rented by the Group under a tenancy for a lease term commencing from 17 January 2011 and expiring on 16 January 2014 for office use at a monthly rental of HK$41,688 exclusive of management fees, rates, Government rent, air-conditioning charges and other outgoing. The Group is entitled to a rent free period spanning between 17 January 2011 and 16 April 2011 (both dates inclusive). | The property is occupied by the Group as administrative offices. | No commercial value |

*Notes:*

1. The registered owners of the property are Ching Man Leuk and Wong Wing Yee Jessie (Joint Tenants) registered via memorial no. 06100601130033 dated 11 September 2006.

2. Pursuant to a tenancy agreement dated 8 March 2011 and a supplemental agreement dated 7 June 2011 entered into between Ching Man Leuk and Wong Wing Yee Jessie (as Landlords) and Metro Master Limited (as Tenant), an indirectly wholly-owned subsidiary of the Company, the Tenant rented the property from the Landlords for a term commencing from 17 January 2011 and expiring on 16 January 2014 at a monthly rental of HK$41,688 exclusive of management fees, rates, Government rent, air-conditioning charges and other outgoing. The Tenant is entitled to a rent free period spanning between 17 January 2011 and 16 April 2011 (both dates inclusive).

3. The property falls within an area zoned "Commercial" under the Central District Outline Zoning Plan No. S/H4/13.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 4 January 2011 under the Cayman Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (the "Memorandum") and the Amended and Restated Articles of Association (the "Articles").

## 1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum provides, inter alia, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and since the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified therein.

## 2. ARTICLES OF ASSOCIATION

The Articles were adopted on [Date]. The following is a summary of certain provisions of the Articles:

### (a) Shares

#### *(i) Classes of shares*

The share capital of the Company consists of ordinary shares.

#### *(ii) Share certificates*

Every person whose name is entered as a member in the register of members shall be entitled without payment to receive a certificate for his shares. The Cayman Companies Law prohibits the issue of bearer shares to any person other than an authorised or recognised custodian defined in the Cayman Companies Law. The requirement on all service providers to implement appropriate due diligence procedures on the identity of a client in order to "know your client" as a result of proceeds of crime legislation mandates that special procedures should be followed when issuing bearer shares.

Every certificate for shares, warrants or debentures or representing any other form of securities of the Company shall be issued under the seal of the Company, and shall be signed autographically by one Director and the Secretary, or by 2 Directors, or by some other person(s) appointed by the Board for the purpose. As regards any certificates for shares or debentures or other securities of the Company, the Board may by resolution determine that such signatures or either of them shall be dispensed with or affixed by some method or system of mechanical signature other than autographic or may be printed thereon as specified in such resolution or that such certificates need not be signed by any person. Every share certificate issued shall specify the number and class of shares in respect of which it is issued and the amount paid thereon and may otherwise be in such form as the Board may from time to time prescribe. A share certificate shall relate to only one class of shares, and where the capital of the Company includes shares with different voting rights, the designation of each class of shares, other than those which carry the general right to vote at general meetings, must include the words "restricted voting" or "limited voting" or "non-voting" or some other appropriate designation which is commensurate with the rights attaching to the relevant class of shares. The Company shall not be bound to register more than 4 persons as joint holders of any share.

**(b) Directors**

***(i) Power to allot and issue shares and warrants***

Subject to the provisions of the Cayman Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that upon the happening of a specified event or upon a given date and either at the option of the Company or the holder thereof, they are liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate thereof shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate thereof has been destroyed and the Company has received an indemnity in such form as the Board shall think fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

***(ii) Power to dispose of the assets of the Company or any subsidiary***

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

***(iii) Compensation or payments for loss of office***

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

***(iv) Loans and provision of security for loans to Directors***

There are provisions in the Articles prohibiting the making of loans to Directors and their associates which are equivalent to provisions of Hong Kong law prevailing at the time of adoption of the Articles.

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective associates, or if any one or more of the Directors hold (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

***(v) Disclosure of interest in contracts with the Company or with any of its subsidiaries***

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and, upon such terms as the Board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, either as vendor, purchaser or otherwise, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any Share by reason that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to the Company.

A Director shall not vote (nor shall he be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or other proposal in which he or his associate(s) is/are materially interested, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters namely:

(aa) the giving of any security or indemnity to the Director or his associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any proposal concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a member or in which the Director or his associate(s) is/are beneficially interested in shares of that company, provided that the Director and any of his associates are not in aggregate beneficially interested in 5% or more of the issued shares of any class of such company (or of any third company through which his interest or that of his associate(s) is derived) or of the voting rights;

(ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to Directors, his associate(s) and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not generally accorded to the employees to which such scheme or fund relates; or

(ff) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

***(vi) Remuneration***

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree or failing agreement, equally, except that in such event any Director holding office for only a portion of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he has held office. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with other companies (being subsidiaries of the Company or with which the Company is associated in business), or may make contributions out of the Company's monies to, such schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

In addition, the Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

***(vii) Appointment, retirement and removal***

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

At each annual general meeting, one third of the Directors for the time being will retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors who shall retire in each year will be those who have been longest in the office since their last re-election or appointment but as between persons who become or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the registration office. The period for lodgment of such notices will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting and the minimum length of the period during which such notices to the Company may be given must be at least 7 days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to the Board or retirement therefrom.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. The number of Directors shall not be less than two.

In addition to the foregoing, the office of a Director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to the Company at the registered office or head office of the Company for the time being or tendered at a meeting of the Board;

(bb) if he dies or becomes of unsound mind as determined pursuant to an order made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Board resolves that his office be vacated;

(cc) if, without special leave, he is absent from meetings of the Board for six (6) consecutive months, and the Board resolves that his office is vacated;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(ee) if he is prohibited from being a director by law;

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles;

(gg) if he has been validly required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director and the relevant time period for application for review of or appeal against such requirement has lapsed and no application for review or appeal has been filed or is underway against such requirement; or

(hh) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) then in office.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director or Directors and other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

***(viii) Borrowing powers***

Pursuant to the Articles, the Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The provisions summarized above, in common with the Articles of Association in general, may be varied with the sanction of a special resolution of the Company.

***(ix) Register of Directors and officers***

Pursuant to the Cayman Companies Law, the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers.

***(x) Proceedings of the Board***

Subject to the Articles, the Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

**(c) Alterations to the constitutional documents**

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed by the Company by special resolution.

**(d) Variation of rights of existing shares or classes of shares**

Subject to the Cayman Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings shall mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or in the case of a shareholder being a corporation, by its duly authorized representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

**(e) Alteration of capital**

The Company may, by an ordinary resolution of its members, (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; and (e) cancel shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorized and subject to any conditions prescribed by law.

Reduction of share capital – subject to the Cayman Companies Law and to confirmation by the court, a company limited by shares may, if so authorised by its Articles of Association, by special resolution, reduce its share capital in any way.

**(f) Special resolution – majority required**

In accordance with the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. However, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given.

Under Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than fourteen clear days' notice has been given and held in accordance with the Articles. A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

**(g) Voting rights (generally and on a poll) and right to demand a poll**

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote, and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purpose as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded or otherwise required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles). A poll may be demanded by:

(i) the chairman of the meeting; or

(ii) at least two members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or

(iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s), be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s), as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

**(h) Annual general meetings**

The Company must hold an annual general meeting each year. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

***(i) Accounts and audit***

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Law necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account or book or document of the Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarized financial statements to shareholders who has, in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles), consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles), and must be sent to the shareholders not less than twenty-one days before the general meeting to those shareholders that have consented and elected to receive the summarized financial statements.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

***(j) Notices of meetings and business to be conducted thereat***

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution must be called by at least 21 days' notice in writing, and any other extraordinary general meeting shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting, and particulars of the resolution(s) to be considered at that meeting, and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member either personally or by sending it through the post in a prepaid envelope or wrapper addressed to such member at his registered address as appearing in the Company's register of members or by leaving it at such registered address as aforesaid or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which for the purpose of service of notice shall be deemed to be his registered address. Where the registered address of the member is outside Hong Kong, notice, if given through the post, shall be sent by prepaid airmail letter where available. Subject to the Cayman Companies Law and the Listing Rules, a notice or document may be served or delivered by the Company to any member by electronic means to such address as may from time to time be authorised by the member concerned or by publishing it on a website and notifying the member concerned that it has been so published.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the issued shares giving that right.

All business transacted at an extraordinary general meeting shall be deemed special business and all business shall also be deemed special business where it is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of Directors in place of those retiring;

(dd) the appointment of auditors;

(ee) the fixing of the remuneration of the Directors and of the auditors;

(ff) the granting of any mandate or authority to the Board to offer, allot, grant options over, or otherwise dispose of the unissued shares of the Company representing not more than 20% in nominal value of its existing issued share capital (or such other percentage as may from time to time be specified in the rules of the Stock Exchange) and the number of any securities repurchased by the Company since the granting of such mandate; and

(gg) the granting of any mandate or authority to the Board to repurchase securities in the Company.

***(k) Transfer of shares***

Subject to the Cayman Companies Law, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve provided always that it shall be in such form prescribed by the Stock Exchange and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers in any case in which it in its discretion thinks fit to do so, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share option scheme upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The Board may decline to recognize any instrument of transfer unless a fee of such maximum sum as the Stock Exchange may determine to be payable or such lesser sum as the Board may from time to time require is paid to the Company in respect thereof, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules (as defined in the Articles), be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction with respect to the right of the holder thereof to transfer such shares (except when permitted by the Stock Exchange) and shall also be free from all liens.

***(l) Power of the Company to purchase its own shares***

The Company is empowered by the Cayman Companies Law and the Articles to purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles, code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price, and if purchases are by tender, tenders shall be available to all members alike.

***(m) Power of any subsidiary of the Company to own shares in the Company***

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

***(n) Dividends and other methods of distribution***

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

(i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share; and

(ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared on the share capital of the Company, the Board may resolve:

(aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or

(bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, but in the case of joint holders, shall be addressed to the holder whose name stands first in the register of members of the Company in respect of the shares at his address as appearing in the register, or addressed to such person and at such address as the holder or joint holders may in writing so direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the moneys so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

***(o) Proxies***

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that any form issued to a member for use by him for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

### *(p) Calls on shares and forfeiture of shares*

The Board may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for the payment thereof to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Board may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and it shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all moneys which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20 per cent per annum as the Board may prescribe.

***(q) Inspection of corporate records***

Members of the Company have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. However, the members of the Company will have such rights as may be set forth in the Articles. The Articles provide that for so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of member is closed) without charge and require the provision to him of copies or extracts thereof in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or outside the Cayman Islands, as its directors may, from time to time, think fit.

***(r) Quorum for meetings and separate class meetings***

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

***(s) Rights of minorities in relation to fraud or oppression***

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

***(t) Procedures on liquidation***

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

(i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed pari passu amongst such members in proportion to the amount paid up on the shares held by them respectively; and

(ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, on the shares held by them respectively.

In the event that the Company is wound up (whether the liquidation is voluntary or compelled by the court) the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator shall think fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

***(u) Untraceable members***

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

In accordance with the Articles, the Company is entitled to sell any of the shares of a member who is untraceable if:

(i) all cheques or warrants, being not less than three in total number, for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years;

(ii) upon the expiry of the 12 years and 3 months period (being the 3 months notice period referred to in sub-paragraph (iii)), the Company has not during that time received any indication of the existence of the member; and

(iii) the Company has caused an advertisement to be published in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the stock exchange of the Relevant Territory (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

***(v) Subscription rights reserve***

Pursuant to the Articles, provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

## 3. CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on 4 January 2011 subject to the Cayman Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

### (a) Company operations

As an exempted company, the Company must conduct its operations mainly outside the Cayman Islands. Moreover, the Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

**(b) Share capital**

In accordance with the Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

(i) paying distributions or dividends to members;

(ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;

(iii) any manner provided in section 37 of the Cayman Companies Law;

(iv) writing-off the preliminary expenses of the company; and

(v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, the Cayman Companies Law provides that no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

It is further provided by the Cayman Companies Law that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorized to do so by its articles of association, by special resolution reduce its share capital in any way.

The Articles include certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

**(c) Financial assistance to purchase shares of a company or its holding company**

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company when proposing to grant such financial assistance discharge their duties of care and acting in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

**(d) Purchase of shares and warrants by a company and its subsidiaries**

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. Nonetheless, if the articles of association do not authorize the manner and terms of purchase, a company cannot purchase any of its own shares without the manner and terms of purchase first being authorized by an ordinary resolution of the company. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Under Section 37A(1) the Cayman Companies Law, shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if (a) the memorandum and articles of association of the company do not prohibit it from holding treasury shares; (b) the relevant provisions of the memorandum and articles of association (if any) are complied with; and (c) the company is authorised in accordance with the company's articles of association or by a resolution of the directors to hold such shares in the name of the company as treasury shares prior to the purchase, redemption or surrender of such shares. Shares held by a company pursuant to section 37A(1) of the Companies Law shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**(e) Dividends and distributions**

With the exception of sections 34 and 37A(7) of the Cayman Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see sub-paragraph 2(n) of this Appendix for further details). Section 37A(7)(c) of the Cayman Companies Law provides that for so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

**(f) Protection of minorities and shareholders' suits**

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of Foss v. Harbottle and the exceptions thereto) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge:

(i) an act which is ultra vires the company or illegal;

(ii) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company; and

(iii) an irregularity in the passing of a resolution the passage of which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members thereof holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report thereon.

Moreover, any member of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

**(g) Disposal of assets**

There are no specific restrictions in the Cayman Companies Law on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interest of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**(h) Accounting and auditing requirements**

Section 59 of the Cayman Companies Law provides that a company shall cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters with respect to which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Section 59 of the Cayman Companies Law further states that proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

**(i) Exchange control**

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

**(j) Taxation**

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council:

(i) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and

(ii) in addition, that no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:

(aa) on or in respect of the shares, debentures or other obligations of the Company; or

(bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (1999 Revision).

The undertaking for the Company is for a period of twenty years from 15 February 2011.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments.

**(k) Stamp duty on transfers**

There is no stamp duty payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

The Cayman Companies Law contains no express provision prohibiting the making of loans by a company to any of its directors. However, the Articles provide for the prohibition of such loans under specific circumstances.

**(m) Inspection of corporate records**

The members of the company have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

**(n) Register of members**

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the Company may determine from time to time. The Cayman Companies Law contains no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

**(o) Winding up**

A Cayman Islands company may be wound up either by (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company occurs where the Company so resolves by special resolution that it be wound up voluntarily, or, where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due; or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or where the event occurs on the occurrence of which the memorandum or articles provides that the company is to be wound up. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators shall be appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed off, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that (i) the company is or is likely to become insolvent; or (b) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order shall take effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, there may be appointed one or more persons to be called an official liquidator or official liquidators; and the court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one persons are appointed to such office, the court shall declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

**(p) Reconstructions**

Reconstructions and amalgamations are governed by specific statutory provisions under the Cayman Companies Law whereby such arrangements may be approved by a majority in number representing 75% in value of members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member would have the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, nonetheless the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

**(q) Take-overs**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

**(r) Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

## 4. GENERAL

Appleby, the Company's legal adviser on Cayman Islands law, has sent to the Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the paragraph headed "Documents Available for Inspection" in Appendix [V]. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

## A. FURTHER INFORMATION ABOUT OUR COMPANY

### 1. Incorporation of our Company

Our Company is incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 4 January 2011. Our Company has been registered as a non-Hong Kong company under Part XI of the Companies Ordinance on 24 February 2011 and our principal place of business in Hong Kong is at Unit No. 2118, 21st Floor, China Merchants Tower, Shun Tak Centre, Nos. 168-200 Connaught Road Central, Hong Kong. Loong & Yeung of Suites 2001-2005, 20th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong has been appointed as the authorized representative of our Company for the acceptance of service of process and notices in Hong Kong.

As our Company is incorporated in the Cayman Islands, we are subject to the relevant laws of the Cayman Islands and our constitution which comprises the Memorandum and the Articles. A summary of the relevant aspects of the Companies Law and certain provisions of the Memorandum and the Articles is set out in Appendix IV to this document.

### 2. Changes in share capital of our Company

(a) As at the date of incorporation of our Company, our authorized share capital was HK$380,000 divided into 38,000,000 Shares of HK$0.01 each. One Share was allotted and issued fully paid to Reid Services Limited (the subscriber to the memorandum and articles of association of our Company) on 4 January 2011, which was subsequently transferred to Rich Gold at a consideration of HK$0.01 on the same date.

(b) On 4 April 2011, one Share was allotted and issued to Rich Gold at a consideration of HK$142,316,243;

(c) On 10 June 2011, our sole Shareholder resolved to increase the authorized share capital of our Company from HK$[380,000] to HK$10,000,000 by the creation of an additional of 962,000,000 Shares, each ranking pari passu with our Shares then in issue in all respects.

Immediately following completion of the [•••] (without taking into account our Shares which may be issued upon exercise of any option that may be granted pursuant to the Share Option Scheme), the authorized share capital of our Company will be HK$10,000,000 divided into 1,000,000,000 Shares, of which 200,000,000 Shares will be issued fully paid or credited as fully paid, and 800,000,000 Shares will remain unissued. Other than pursuant to the general mandate to issue Shares referred to in [•••] in this Appendix and pursuant to the Share Option Scheme, we do not have any present intention to issue any of the authorized but unissued share capital of our Company and, without prior approval of our Shareholders at general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this document, there has been no alteration in our Company's share capital since its incorporation.

### 3. Corporate Reorganization

The companies comprising our Group underwent the Reorganization to rationalize our Group's structure in preparation for the [•••], pursuant to which our Company became the holding company of our Group.

[The Reorganization included the following major steps:

(a) On 22 December 2010, Metro Master was incorporated in Hong Kong with limited liability with an authorized capital of HK$10,000 divided into 10,000 shares of HK$1.00 each, one of which was allotted and issued fully paid to Cartech Limited, the subscriber to the memorandum and articles of association of Metro Master, on the same date;

(b) On 4 January 2011, our Company was incorporated under the laws of the Cayman Islands as an exempted company and one Share was allotted and issued fully paid to Reid Services Limited, the subscriber to the memorandum and articles of association of our Company on 4 January 2011, which was subsequently transferred to Rich Gold at a consideration of HK$0.01 on the same date;

(c) On 6 January 2011, Cheng Hao was incorporated in the BVI with limited liability with an authorized capital of US$50,000 divided into 50,000 shares of US$1.00 each, one of which was allotted and issued fully paid to Mr. Chao on 21 January 2011;

(d) On 15 February 2011, pursuant to the instrument of transfer referred to in [•••] in this Appendix, Mr. Chao transferred the one share he held in Cheng Hao, which represented the entire issued share capital of Cheng Hao, to our Company at a consideration of US$1.00;

(e) On 15 February 2011, pursuant to the instrument of transfer the bought note and sold note referred to in [•••] in this Appendix, Cartech Limited transferred the one share it held in Metro Master, which represented the entire issued share capital of Metro Master, to Cheng Hao at a consideration of HK$1.00;

(f) On 22 February 2011, pursuant to the equity transfer agreement referred to in[•••] in this Appendix, Conca Investments transferred 100% of its equity interest in Chongqing Guangjing to Metro Master at the consideration of RMB27.5 million;

(g) On 22 February 2011, pursuant to the equity transfer agreement referred to in [•••] in this Appendix, Conca Investments transferred 100% of its equity interest in Chuzhou Chuangce to Metro Master at the consideration of RMB40 million; and

(h) On 22 February 2011, pursuant to the equity transfer agreement referred to in [•••] in this Appendix, Conca Investments transferred 100% of its equity interest in Sichuan Jinghong to Metro Master at the consideration of RMB52.29 million.

Immediately after completion of the transfers of equity interests referred to in items (f) to (h) above, our Company became the holding company of our Group.

**4. Changes in share capital of subsidiaries**

The subsidiaries of our Company are listed in the Accountants' Report, the text of which is set out in Appendix I to this document. Save as described in the paragraph headed "Corporate Reorganization" above, there are no other changes in the share capital (or registered capital, as the case may be) of the subsidiaries of our Company which took place within the two years immediately preceding the date of this document.

## B. FURTHER INFORMATION ABOUT THE BUSINESS

### 1. Intellectual property rights

#### 1.1 Trademark

As at the Latest Practicable Date, our Group had registered the following trademark:

| Trademark | Class | Registration Number | Registration Date | Place of Registration | Registrant |
|---|---|---|---|---|---|
| Jin Bao Bao Holdings Limited 金寶寶控股有限公司 | [16, 39] | [301838025] | [21 February 2011] | [Hong Kong] | [Metro Master] |

#### 1.2 Patents

As at the [Latest Practicable Date], our Group had been licensed for the use of the following patents:

| Type of patent | Patent description | Registered owner | Effective Period | Patent number |
|---|---|---|---|---|
| Practical New Model | A type of packaging carton (一種包裝紙箱) *(Note 1)* | Sichuan Changhong Electric | 16 March 2005 to 12 February 2014 | ZL200420032818.3 |
| Practical New Model | Cargo tray (貨物托盤) *(Note 1)* | Sichuan Changhong Electric | 16 March 2005 to 12 February 2014 | ZL200420032819.8 |
| Practical New Model | Paper and plastic cushion for flat-panel television (用於平板電視機的紙塑緩衝襯墊) *(Note 2)* | Sichuan Changhong Electric | 24 June 2009 to 3 June 2018 | ZL200820301011.3 |

| Type of patent | Patent description | Registered owner | Effective Period | Patent number |
|---|---|---|---|---|
| Practical New Model | Paper and plastic packaging cushion for small-screen flat-panel television (小屏幕平板電視機的紙塑包裝襯墊) *(Note 2)* | Sichuan Changhong Electric | 22 April 2009 to 3 June 2018 | ZL200820301017.0 |
| Practical New Model | Storage box 儲物箱 *(Note 2)* | Sichuan Changhong Electric | 24 June 2009 to 14 August 2008 | ZL200820301843.5 |
| Practical New Model | Composite cushion (複合緩衝襯墊) *(Note 2)* | Sichuan Changhong Electric | 22 July 2009 to 26 September 2018 | ZL200820302273.1 |

*Notes:*

(1) Pursuant to a licensing agreement entered into between Sichuan Jinghong and Sichuan Changhong Electric on 22 August 2008, Sichuan Jinghong was licensed Sichuan Changhong Electric to use its patents in the PRC for a term of 5 years for a total consideration of RMB8,000 per year.

(2) Pursuant to a licensing agreement entered into between Sichuan Jinghong and Sichuan Changhong Electric on 20 October 2009, Sichuan Jinghong was licensed Sichuan Changhong Electric to use its patents in the PRC for a term of 5 years for a total consideration of RMB12,000 per year.

(3) [The aforesaid licensing arrangements have been registered with the relevant PRC intellectual property authority.]

### 1.3 Domain name

As at the Latest Practicable Date, our Group has registered the following domain name:

| Domain name | Date of Registration |
|---|---|
| [jinbaobao.com.hk] | [24 March 2011] |

**2. Information about the PRC subsidiaries of our Company**

| | |
|---|---|
| **Name** | **Chuzhou Chuangce** |
| Date of establishment: | 5 October 1997 |
| Corporate nature: | [Limited liability company solely owned by Taiwan, Hong Kong or Macau legal person] |
| Total Investment Amount | [RMB25,000,000] |
| Total registered capital: | [RMB25,000,000 (fully paid up)] |
| Attributable interest of our Company: | 100% |
| Term: | From 5 October 1997 to 4 October 2017 |
| Scope of business: | [Manufacture and sale of self-made plastic engineering and structural components as steel-substitutes and plastic foam packaging products for home electrical appliances and other products] |
| Legal representative: | Mr. Chao |
| **Name** | **Chongqing Guangjing** |
| Date of establishment: | 20 October 2003 |
| Corporate nature: | [Limited liability company solely owned by Taiwan, Hong Kong or Macau legal person] |
| Total Investment Amount | [US$3,300,000] |
| Total registered capital: | [US$3,300,000 (fully paid up)] |
| Attributable interest of our Company: | 100% |
| Term: | From 20 October 2003 to 19 October 2023 |

| | |
|---|---|
| Scope of business: | [Manufacture and sale of plastic engineering and structural components, and plastic foam packaging components for various home electrical appliances and other products; providing after-sale services of its products] |
| Legal representative: | Mr. Chao |
| **Name** | **Sichuan Jinghong** |
| Date of establishment: | 15 September 2005 |
| Corporate nature: | [Limited liability company solely owned by Taiwan, Hong Kong or Macau legal person] |
| Total Investment Amount | [RMB40,880,000] |
| Total registered capital: | [RMB40,880,000 (fully paid up)] |
| Attributable interest of our Company: | 100% |
| Term: | From [26 September 2008 to 15 September 2015] |
| Scope of business: | [Research and development in, manufacture and sale of shock-resistant packaging pads using macromolecular materials, and plastic engineering and structural components as steel-substitutes for home electrical appliances such as televisions and air-conditioners, and other products; design, development and sale of various moulds.] |
| Legal representative: | Mr. Chao |

## C. FURTHER INFORMATION ABOUT SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND EXPERTS

### 1. Particulars of service agreements

[Save as disclosed in this document, no Director has entered into any service agreement with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).]

**2. Directors' remuneration**

(a) The aggregate amount of remuneration paid to our Directors by our Group in respect of the three years ended 31 December 2008, 2009 and 2010 were approximately RMB53,000, RMB68,000 and RMB71,000, respectively.

(b) Under the arrangements currently in force, the aggregate emoluments (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to our Directors for the year ending 31 December 2011 will be approximately RMB445,200.

(c) Under the arrangements currently proposed, conditional upon the [•••], the basic annual remuneration (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to each of our Directors will be as follows:

| **Executive Directors** | *RMB* |
|---|---|
| Mr. Chao | 166,920 |
| Ms. Zhou | 166,920 |
| Ms. Chen Fen (陳蕡) | 166,920 |
| Mr. Zuo Ji Lin (左際林) | 166,920 |
| **Independent non-executive Directors** | *RMB* |
| Mr. Chan Chun Chi (陳駿志) | 102,720 |
| Mr. Yu Xi Chun (虞熙春) | 60,000 |
| Mr. Wu Hao Tian (吳昊天) | 60,000 |

**3. Related party transactions**

Details of the related party transactions are set out under note 28 to the accountants' reports set out in Appendix I to this document.

**D. SHARE OPTION SCHEME**

**(a) Definitions**

For the purpose of this section, the following expressions have the meanings set out below unless the context requires otherwise:

"Adoption Date" 10 June 2011, the date on which the Share Option Scheme is conditionally adopted by the Shareholder by way of written resolution

| | |
|---|---|
| "Board" | the board of Directors or a duly authorized committee of the board of Directors |
| "Group" | our Company and any entity in which our Company, directly or indirectly, holds any equity interest |
| "Scheme Period" | the period commencing on the Adoption Date and expiring at the close of business on the business day immediately preceding the tenth anniversary thereof |

**(b) Summary of terms**

The following is a summary of the principal terms of the rules of the Share Option Scheme conditionally adopted by the written resolutions of our sole Shareholder passed on 10 June 2011:

***(i) Purpose of the Share Option Scheme***

The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers of our Group and to promote the success of the business of our Group.

***(ii) Who may join and basis of eligibility***

The Board may, at its absolute discretion and on such terms as it may think fit, grant any employee (full-time or part-time), director, consultant or adviser of our Group, or any substantial shareholder of our Group, or any distributor, contractor, supplier, agent, customer, business partner or service provider of our Group, options to subscribe at a price calculated in accordance with paragraph (iii) below for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme.

The basis of eligibility of any participant to the grant of any option shall be determined by the Board (or as the case may be, the independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of our Group.

***(iii) Price of Shares***

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of: (i) the [•••]; (ii) [•••]; and (iii) [•••].

***(iv) Grant of options and acceptance of offers***

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to our Company on acceptance of the offer for the grant of an option is HK$1.

***(v) Maximum number of Shares***

(aa) subject to sub-paragraph (bb) and (cc) below, the maximum number of Shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company as from the Adoption Date (excluding, for this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) must not in aggregate exceed 10% of all our Shares in issue as at the [•••]. Therefore, it is expected that our Company may grant options in respect of up to [•••] Shares (or such numbers of Shares as shall result from a sub-division or a consolidation of such [•••] Shares from time to time) to the participants under the Share Option Scheme.

(bb) The 10% limit as mentioned above may be refreshed at any time by obtaining approval of the Shareholders in general meeting provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company must not exceed 10% of our Shares in issue as at the date of approval of the refreshed limit. Options previously granted under the Share Option Scheme and any other share option schemes of our Company (including those outstanding, cancelled or lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) will not be counted for the purpose of calculating the refreshed 10% limit. A circular must be sent to the Shareholders containing the information as required under [•••] in this regard.

(cc) our Company may seek separate approval of the Shareholders in general meeting for granting options beyond the 10% limit provided the options in excess of the 10% limit are granted only to grantees specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to the Shareholders containing a generic description of such grantees, the number and terms of such options to be granted and the purpose of granting options to them with an explanation as to how the terms of the options will serve such purpose, such other information required under [•••].

(dd) The aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company must not exceed 30% of our Shares in issue from time to time. No options may be granted under the Share Option Scheme or any other share option schemes of our Company, if this will result in such 30% limit being exceeded.

***(vi) Maximum entitlement of each participant***

The total number of Shares issued and to be issued upon exercise of options granted to any participant (including both exercised and outstanding options) under the Share Option Scheme, in any 12-month period up to the date of grant shall not exceed 1% of our Shares in issue. Any further grant of options in excess of such limit must be separately approved by Shareholders in general meeting with such grantee and his associates abstaining from voting. In such event, our Company must [•••]. The number and terms (including the subscription price) of the options to be granted must be fixed before the approval of the Shareholders and the date of the Board meeting proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

***(vii) Grant of options to certain connected persons***

(aa) Any grant of an option to a Director, chief executive or substantial shareholder of our Company (or any of their respective associates) must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the option).

(bb) Where any grant of options to a substantial Shareholder or an independent non-executive Director (or any of their respective associates) will result in the total number of Shares issued and to be issued upon exercise of all options already granted and to be granted to such person under the Share Option Scheme and any other share option schemes of our Company (including options exercised, cancelled and outstanding) in any 12-month period up to and including the date of grant:

(i) representing in aggregate over 0.1% of our Shares in issue; and

(ii) having an aggregate value, based on the [•••] of our Shares at the date of each grant, in excess of HK$5 million, such further grant of options is required to be approved by Shareholders at a general meeting of our Company, with voting to be taken by way of poll. Our Company shall [•••]. All connected persons of our Company shall abstain from voting (except where any connected person intends to vote against the proposed grant). Any change in the terms of an option granted to a substantial shareholder or an independent non-executive Director or any of their respective associates is also required to be approved by Shareholders in the aforesaid manner.

***(viii) Restrictions on the times of grant of options***

(aa) An offer for the grant of options may not be made after a [•••] event of our Group has occurred or a [•••] matter has been [•••]. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

(i) the date of the Board meeting (such date to first be notified to the [•••]) for the approval of our Company's results for any year, half-year, quarterly or other interim period (whether or not required under the [•••]); and

(ii) the deadline for our Company to [•••].

(bb) Further to the restrictions in paragraph (aa) above, no option may be granted on any day on which financial results of our Company are published and:

(i) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and

(ii) during the period of 30 days immediately preceding the publication date of the quarterly results and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

***(ix) Time of exercise of option***

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

***(x) Performance targets***

Save as determined by the Board and provided in the offer of the grant of the relevant options, there is no performance target which must be achieved before any of the options can be exercised.

***(xi) Ranking of Shares***

Our Shares to be allotted upon the exercise of an option will be subject to all the provisions of the Articles for the time being in force and will rank pari passu in all respects with the fully paid Shares in issue on the date of allotment and accordingly will entitle the holders to participate in all dividends or other distributions paid or made after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be on or before the date of allotment, save that our Shares allotted upon the exercise of any option shall not carry any voting rights until the name of the grantee has been duly entered on the register of members of our Company as the holder thereof.

***(xii) Rights are personal to grantee***

An option shall not be transferable or assignable and shall be personal to the grantee of the option.

***(xiii) Rights on cessation of employment by death***

In the event of the death of the grantee (provided that none of the events which would be a ground for termination of employment referred to in (xiv) below arises within a period of 3 years prior to the death, in the case the grantee is an employee at the date of grant), the legal personal representative(s) of the grantee may exercise the option up to the grantee's entitlement (to the extent which has become exercisable and not already exercised) within a period of 12 months following his death provided that where any of the events referred to in (xvii), (xviii) and (xix) occurs prior to his death or within such period of 12 months following his death, then his personal representative(s) may so exercise the option within such of the various periods respectively set out therein.

***(xiv) Rights on cessation of employment by dismissal***

In the event that the grantee is an employee of our Group at the date of grant and he subsequently ceases to be an employee of our Group on any one or more of the grounds that he has been guilty of serious misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group, his option shall lapse automatically (to the extent not already exercised) on the date of cessation of his employment with our Group.

***(xv) Rights on cessation of employment for other reasons***

In the event that the grantee is an employee of our Group at the date of grant and he subsequently ceases to be an employee of our Group for any reason other than his death or the termination of his employment on one or more of the grounds specified in (xiv) above, the option (to the extent not already exercised) shall lapse on the expiry of 3 months after the date of cessation of such employment (which date will be the last actual working day with our Company or the relevant member of our Group whether salary is paid in lieu of notice or not).

***(xvi) Effects of alterations to share capital***

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable, whether by way of capitalization of profits or reserves, rights issue, open offer, consolidation, subdivision or reduction of the share capital of our Company (other than an issue of Shares as consideration in respect of a transaction to which any member of our Group is a party), such corresponding adjustments (if any) shall be made in the number of Shares subject to the option so far as unexercised; and/or the subscription prices, as the auditors of or independent financial adviser to our Company shall certify or confirm in writing (as the case may be) to the Board to be in their opinion fair and reasonable in compliance with the relevant provisions of [•••], or any guideline or supplemental guideline issued by the Stock Exchange from time to time (no such certification is required in case of adjustment made on a [•••]), provided that any alteration shall give a grantee the same proportion of the issued share capital of our Company as that to which he was previously entitled, but no adjustment shall be made to the effect of which would be to enable a Share to be issued at less than its nominal value.

***(xvii) Rights on a general offer***

In the event of a general offer (whether by way of takeover offer or scheme of arrangement or otherwise in like manner) being made to all the Shareholders (or all such holders other than the offeror and/or any persons controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becoming or being declared unconditional, the grantee (or, as the case may be, his legal personal representative(s)) shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 1 month after the date on which the offer becomes or is declared unconditional.

***(xviii) Rights on winding-up***

In the event a notice is given by our Company to the members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it despatches such notice to each member of our Company give notice thereof to all grantees and thereupon, each grantee (or, as the case may be, his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than 2 business days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

***(xix) Rights on compromise or arrangement***

In the event of a compromise or arrangement between our Company and the Shareholders or the creditors of our Company being proposed in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies pursuant to the Companies Law, our Company shall give notice thereof to all the grantees (or, as the case may be, their legal personal representatives) on the same day as it gives notice of the meeting to the Shareholders or the creditors to consider such a compromise or arrangement and the options (to the extent not already exercised) shall become exercisable in whole or in part on such date not later than 2 business days prior to the date of the general meeting directed to be convened by the court for the purposes of considering such compromise or arrangement ("Suspension Date"), by giving notice in writing to our Company accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given whereupon our Company shall as soon as practicable and, in any event, no later than 3:00 p.m. on the business day immediately prior to the date of the proposed general meeting, allot and issue the relevant Shares to the grantee credited as fully paid. With effect from the Suspension Date, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. The Board shall endeavor to procure that our Shares issued as a result of the exercise of options hereunder shall for the purposes of such compromise or arrangement form part of the issued share capital of our Company on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the court (whether upon the terms presented to the court or upon any other terms as may be approved by such court), the rights of grantees to exercise their respective options shall with effect from the date of the making of the order by the court be restored in full but only up to the extent not already exercised and shall thereupon become exercisable (but subject to the other terms of the Share Option Scheme) as if such compromise or arrangement had not been proposed by our Company and no claim shall lie against our Company or any of its officers for any loss or damage sustained by any grantee as a result of such proposal, unless any such loss or damage shall have been caused by the act, neglect, fraud or willful defant on the part of our Company or any of its officers.

***(xx) Lapse of options***

An option shall lapse automatically on the earliest of:

(aa) the expiry of the period referred to in paragraph (ix) above;

(bb) the date on which the Board exercises our Company's right to cancel, revoke or terminate the option on the ground that the grantee commits a breach of paragraph (xii);

(cc) the expiry of the relevant period or the occurrence of the relevant event referred to in paragraphs (xiii), (xv), (xvii), (xviii) or (xix) above;

(dd) subject to paragraph (xviii) above, the date of the commencement of the winding-up of our Company;

(ee) the occurrence of any act of bankruptcy, insolvency or entering into of any arrangements or compositions with his creditors generally by the grantee, or conviction of the grantee of any criminal offence involving his integrity or honesty;

(ff) where the grantee is only a substantial shareholder of any member of our Group, the date on which the grantee ceases to be a substantial shareholder of such member of our Group; or

(gg) subject to the compromise or arrangement as referred to in paragraph (xix) become effective, the date on which such compromise or arrangement becomes effective.

***(xxi) Cancellation of options granted but not yet exercised***

Any cancellation of options granted but not exercised may be effected on such terms as may be agreed with the relevant grantee, as the Board may in its absolute discretion sees fit and in manner that complies with all applicable legal requirements for such cancellation.

***(xxii) Period of the Share Option Scheme***

The Share Option Scheme will remain in force for a period of ten years commencing on the date on the Adoption Date and shall expire at the close of business on the business day immediately preceding the tenth anniversary thereof unless terminated earlier by the Shareholders in general meeting.

***(xxiii) Alteration to the Share Option Scheme***

(aa) The Share Option Scheme may be altered in any respect by resolution of the Board except that alterations of the provisions of the Share Option Scheme which alters to the advantage of the grantees of the options relating to matters [•••] shall not be made except with the prior approval of the Shareholders in general meeting.

(bb) Any amendment to any terms of the Share Option Scheme which are of a material nature or any change to the terms of options granted, or any change to the authority of the Board in respect of alteration of the Share Option Scheme must be approved by Shareholders in general meeting except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

(cc) Any amendment to any terms of the Share Option Scheme or the options granted shall comply with the relevant requirements of [•••].

***(xxiv) Termination to the Share Option Scheme***

Our Company by resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but options granted prior to such termination shall continue to be valid and exercisable in accordance with provisions of the Share Option Scheme.

***(xxv) Conditions of the Share Option Scheme***

The Share Option Scheme is conditional on the [•••] granting the [•••] of, and permission to deal in our Shares may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

**(c) Present status of the Share Option Scheme**

As at the date of this document, no option has been granted or agreed to be granted under the Share Option Scheme.

## E. OTHER INFORMATION

### 1. Tax and other indemnities

[Mr. Chao and Rich Gold (the "Indemnifiers") have, pursuant to the deed of indemnity referred to in [•••] of this Appendix, given indemnities in connection with taxation (including estate duty) resulting from any income, profits or gains earned, accrued or received on or before the date on which the [•••] becomes unconditional which might be payable by any member of our Group.

Under the aforesaid deed of indemnity, the Indemnifiers have also undertaken to:

(a) indemnify our Company and each member of our Group against any actions, claims, demands, actions, proceedings, costs and expenses, losses and liabilities whatsoever which may be made, suffered or incurred by any member of our Group in respect of or arising directly or indirectly from or on the basis of or in connection with any member of our Group [on or before the date on which the [•••] becomes unconditional] in relation to the social security insurance and housing provident fund contributions to the relevant government authorities in the PRC; and

(b) indemnify our Company and each member of our Group against any actions, claims, demands, actions, proceedings, costs and expenses, losses and liabilities whatsoever which may be made, suffered or incurred by any of the member of our Group in respect of or arising directly or indirectly from or on the basis of or in connection with if, [on or before the date on which the [•••] becomes unconditional], any member of our Group having breached any of the agreement, transaction, commitment, arrangement or offer, tender or the like (which is capable of being converted into an obligation of any of the members of our Group by an acceptance or other act of some other person) binding upon any of the members of our Group which can be reasonably expected to have or have had a material effect on the financial or trading position or prospects of the Group, including [•••]; and (ii) all the sales agreements with the major customers of our Group, or the like which set out the terms and conditions of the transactions in the ordinary and usual course of business of our Group when the customers place the purchase orders from time to time (the "Relevant Contracts") or having done or omitted to do any event which may cause any breach of any of the Relevant Contracts.

The indemnities in the deed of indemnity shall not apply in, among others, the following circumstances:

(a) to the extent that provision has been made for such taxation in the audited accounts of our Company or any of our subsidiaries for each of the [three] years ended 31 December 2010 and for the six months ended 30 June 2011; or

(b) to the extent that such liability arises or is incurred as a result of a retrospective change in law (but not implementation of law) and/or rates coming into force after the date of the deed of indemnity; or

(c) to the extent that such liability fall on any member of our Group in respect of any accounting period commencing after [•••] unless such taxation or liability would not have arisen but for any act or omission or transaction entered into by any of the Indemnifiers, our Company or any of our subsidiaries (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) otherwise than in the ordinary course of business on or before the date on which the deed of indemnity becomes unconditional; or

(d) to the extent that any provision or reserve made for such taxation in the audited consolidated accounts of our Company or any of our subsidiaries up to 30 June 2011 which is finally established to be an over-provision or an excessive reserve as certified by a firm of accountants acceptable to our Company then the Indemnifiers' liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such over-provision or excess reserve; or

(e) for which any member of our Group is primarily liable in respect of or in consequence of any event occurring or income, profits or gains earned, accrued or received or transactions in the ordinary course of its business after 30 June 2011 up to and including the date on which the [•••] becomes unconditional.

Our Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands or the PRC is likely to fall on our Group.]

**2. Litigation**

As at the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to our Directors to be pending or threatened against any member of our Group.

**3. Preliminary expenses**

The preliminary expenses of our Company are estimated to be approximately [HK$42,789] and are payable by our Company.

**4. Promoter**

There is no promoter of our Company.

**5. Taxation of holders of Shares**

***(a) Hong Kong***

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

***(b) Cayman Islands***

No stamp duty is payable in the Cayman Islands on transfer of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**6. No material adverse change**

Our Directors confirm that there has not been any material adverse change in the financial trading position or prospects of our Group since [30 June 2011] (being the date to which the latest audited financial statements of our Group were made up).

**7. Miscellaneous**

(a) Save as disclosed in this document, within the two years immediately preceding the date of this document:

(i) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration than cash; and

(ii) no discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of our Company or any of our subsidiaries and no commission has been paid or is payable in connection the issue or sale of any capital of our Company or any of our subsidiaries; and

(iii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.

(b) Save as disclosed in this document, neither our Company nor any of our subsidiaries has issued or agreed to issue any founders shares, management shares, deferred shares or any debentures.

(c) Save in connection with the [•••], none of the parties listed in the paragraph headed [•••] in this Appendix:

(i) is interested legally or beneficially in any securities of our Company or any of our subsidiaries; or

(ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of our Company or any of our subsidiaries.

(d) The branch register of members of our Company will be maintained in Hong Kong by the [•••]. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by the [•••] and may not be lodged in the Cayman Islands. All necessary arrangements have been made to ensure our Shares to be admitted into [•••] for clearing and settlement.

(e) There has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this document.

(f) No company within our Group is presently listed on any stock exchange or traded on any trading system.

(g) We have no outstanding convertible debt securities.

(h) Our Directors have been advised that the use of a Chinese name pre-approved by the Registrar of Companies in the Cayman Islands by our Company in conjunction with our English name does not contravene Cayman Companies Law.

(i) The English text of this document shall prevail over the Chinese text.