HUAXI HOLDINGS COMPANY LIMITED
華禧控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1689

Share Offer

Sponsor

海通國際
HAITONG

Haitong International Capital Limited

Sole Bookrunner and Sole Lead Manager

海通國際
HAITONG

Haitong International Securities Company Limited

IMPORTANT

If you are in any doubt *about any of the contents of this prospectus, you should obtain independent professional advice.*

HUAXI HOLDINGS COMPANY LIMITED
華禧控股有限公司

(incorporated in the Cayman Islands with limited liability)

SHARE OFFER

Number of Offer Shares	**:**	**75,000,000 Shares (comprising 60,000,000 new Shares to be offered by our Company and 15,000,000 Sale Shares to be offered by the Selling Shareholder, subject to re-allocation and the Over-allotment Option)**
Number of Placing Shares	**:**	**67,500,000 Shares (subject to re-allocation and the Over-allotment Option)**
Number of Public Offer Shares	**:**	**7,500,000 Shares (subject to re-allocation)**
Offer Price	**:**	**Not more than HK$1.48 per Offer Share and expected to be not less than HK$1.18 per Offer Share (payable in full on application plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% and subject to refund)**
Nominal value	**:**	**HK$0.01 each**
Stock code	**:**	**1689**

Sponsor

Haitong International Capital Limited

Sole Bookrunner and Sole Lead Manager

Haitong International Securities Company Limited

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any of the other documents referred to above.

The Offer Price is expected to be fixed by an agreement between our Company (for ourselves and on behalf of the Selling Shareholder) and the Sole Bookrunner (for itself and on behalf of the Underwriter) on Friday, 29 November 2013 or such other date as may be agreed between our Company (for ourselves and on behalf of the Selling Shareholder) and the Sole Bookrunner (for itself and on behalf of the Underwriter), but in any event no later than Wednesday, 4 December 2013. The Offer Price will be not more than HK$1.48 per Offer Share and is expected to be not less than HK$1.18 per Offer Share. Applicants for the Offer Shares are required to pay, on application, the maximum Offer Price of HK$1.48 for each Offer Share together with brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price finally determined is lower than HK$1.48 (the maximum Offer Price).

The Sole Bookrunner (for itself and on behalf of the Underwriter), with the consent of our Company (for ourselves and on behalf of the Selling Shareholder), may reduce the indicative Offer Price range below that as stated in this prospectus (which is HK$1.18 to HK$1.48) at any time prior to the morning of the last day for lodging applications under the Public Offer. In such event, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Public Offer, cause to be published in The Standard (in English) and the Hong Kong Economic Journal (in Chinese) an announcement and to be posted on the website of the Stock Exchange (www.hkexnews.hk) and on the website of our Company (www.huaxihds.com.hk) of such change. If, for whatsoever reason, our Company (for ourselves and on behalf of the Selling Shareholder) and the Sole Bookrunner (for itself and on behalf of the Underwriter) are unable to reach an agreement on Wednesday, 4 December 2013 or such other date or time as may be agreed between our Company (for ourselves and on behalf of the Selling Shareholder) and the Sole Bookrunner (for itself and on behalf of the Underwriter), the Share Offer will not become unconditional and will lapse immediately. In such event, our Company will issue an announcement to be published in The Standard (in English) and the Hong Kong Economic Journal (in Chinese).

Prospective investors of the Share Offer should note that the Share Offer will not proceed if the Sole Bookrunner (for itself and on behalf of the Underwriter) terminate the obligations of the Underwriter under the Underwriting Agreements if any of the events set out in the paragraph headed "Grounds for termination" under the section headed "Underwriting" of this prospectus occurs prior to 8:00 a.m. on the Listing Date. It is important that you refer to the section headed "Underwriting" of this prospectus for further details.

Prior to making an investment decision, prospective investors should carefully consider all of the information set out in this prospectus, including, without limitation, the risk factors set out in the section headed "Risk factors" of this prospectus.

26 November 2013

If there are any changes in the following expected timetable of the Share Offer, our Company will issue an announcement in Hong Kong to be published in English in The Standard and in Chinese in the Hong Kong Economic Journal and to be posted on the website of our Company at www.huaxihds.com.hk and the website of the Stock Exchange at www.hkexnews.hk.

	2013 *(Note 1)*
Latest time to complete electronic applications under **White Form eIPO** Service through the designated website at www.eipo.com.hk *(Note 2)*	11:30 a.m. on Friday, 29 November 2013
Application lists of the Public Offer open *(Note 4)*	11:45 a.m. on Friday, 29 November 2013
Latest time for lodging **WHITE** and **YELLOW** Application Forms and to give **Electronic Application Instructions** to HKSCC *(Note 3)*	12:00 noon on Friday, 29 November 2013
Latest time to complete payment of **White Form eIPO** application by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Friday, 29 November 2013
Application lists of the Public Offer close *(Note 4)*	12:00 noon on Friday, 29 November 2013
Expected price determination date *(Note 5)*	Friday, 29 November 2013
Announcement of the Offer Price, the level of indication of interest in the Placing, the results of the Public Offer and the basis of allotment of the Public Offer Shares to be published in The Standard (in English) and the Hong Kong Economic Journal (in Chinese) and on the website of our Group at www.huaxihds.com.hk and the website of the Stock Exchange at www.hkexnews.hk on or before	Thursday, 5 December 2013
Results of allocation in the Public Offer will be available at www.iporesults.com.hk with a search by ID function	Thursday, 5 December 2013
Announcement of results of allotment of Public Offer (with successful applicants' identification document numbers, where applicable) available through a variety of channels as described in the paragraph headed "Publication of results" under the section headed "How to apply for the Public Offer Shares" of this prospectus	Thursday, 5 December 2013

Despatch of White Form e-Refund payment instructions/refund cheques in respect of wholly successful (if applicable) or wholly or partially unsuccessful applications on or before *(Note 6)*	Thursday, 5 December 2013
Despatch of share certificates in respect of wholly or partially successful applications on or before *(Note 7)*	Thursday, 5 December 2013
Dealings in the Shares on the Main Board of the Stock Exchange expected to commence on	Friday, 6 December 2013

Notes:

1. All times refer to Hong Kong local time. Details of the structure of the Share Offer, including its conditions, are set out in the section headed "Structure of the Share Offer" of this prospectus.

2. You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m. on the last day for submitting applications, you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

3. Applicants who apply for the Offer Shares by giving Electronic Application Instructions to HKSCC should refer to the paragraph headed "Applying by giving Electronic Application Instructions to HKSCC via CCASS" under the section headed "How to Apply for the Public Offer Shares" of this prospectus.

4. If there is a "black" rainstorm warning or a tropical cyclone warning signal number eight or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 29 November 2013, the application lists of the Public Offer will not open on that day. Particulars of the arrangements are set out in the paragraph headed "Effect of bad weather on the opening of the application lists" under the section headed "How to apply for the Public Offer Shares" of this prospectus.

5. If, for any reason, the Offer Price is not agreed between our Company (for ourselves and on behalf of the Selling Shareholder) and the Sole Bookrunner (for itself and on behalf of the Underwriter) on or prior to Friday, 29 November 2013 or such later date as may be agreed between our Company (for ourselves and on behalf of the Selling Shareholder) and the Sole Bookrunner (for itself and on behalf of the Underwriter), but in any event no later than Wednesday, 4 December 2013, the Share Offer will not proceed. In such event, our Company will issue an announcement to be published in The Standard in English and the Hong Kong Economic Journal in Chinese and to be posted on the website of the Stock Exchange (www.hkexnews.hk) and on the website of our Company (www.huaxihds.com.hk).

6. e-Refund payment instructions or refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant's Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Banks may require verification of an applicant's Hong Kong identity card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant's Hong Kong identity card number or passport number may lead to delay in encashment of or may invalidate the refund cheque.

7. Share certificates will only become valid certificates of title if the Share Offer has become unconditional in all respects and the Underwriting Agreements have not been terminated in accordance with their, respective terms, the latest time for which is expected to be around 8:00 a.m. on the Listing Date. For those applicants who apply on **WHITE** Application Forms for 1,000,000 Public Offer Shares or more and have provided all information required by the Application Forms, they may collect share certificates and/or refund cheques (if any) in person from our Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on the date notified by our Company in the newspapers and on the website of the Stock Exchange at www.hkexnews.hk and on the website of our Company at www.huaxihds.com.hk, which is expected to be on or before Thursday, 5 December 2013. Applicants being individuals who opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations which opt for personal collection may do so through their authorised representatives bearing letters of authorisation from the corporations duly stamped with the company's chop. Identification documents and (where applicable) authorisation documents acceptable to Computershare Hong Kong Investor Services Limited must be produced at the time of collection of share certificates and/or refund cheques (if any). Details are set out

under the paragraph headed "Despatch/collection of share certificates and refund monies" under the section headed "How to apply for the Public Offer Shares" of this prospectus. For those applicants who apply on **YELLOW** Application Forms for 1,000,000 Public Offer Shares or more and have provided all information required by the Application Forms, they may collect refund cheques (if any) in person but may not elect to collect their share certificates, which will be deposited into CCASS for credit to their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts. The procedures for collection of refund cheques (if any) for applicants who apply on **YELLOW** Application Forms are the same as those for applicants who apply on **WHITE** Application Forms. Uncollected share certificates and/or refund cheques (if any) will be despatched by ordinary post at the applicants' own risk to the address specified in the related Application Forms promptly after the expiry of the time of their collection. Further information is set out in the paragraph headed "Despatch/collection of share certificates and refund monies" under the section headed "How to apply for the Public Offer Shares" of this prospectus.

For details of the structure of the Share Offer, including its conditions, please see the section headed "Structure of the Share Offer" of this prospectus.

It is important that prospective investors of the Offer Shares should note that the Sole Bookrunner (for itself and on behalf of the Underwriter) is entitled to terminate the Underwriting Agreements by notice in writing to our Company upon the occurrence of any of the events set forth under the sub-paragraph headed "Grounds for termination" in the paragraph headed "Underwriting arrangements and expenses" under the section headed "Underwriting" of this prospectus at any time up to 8:00 a.m. on the Listing Date. Such events include, without limitation, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lockout. It is important that prospective investors should refer to the section headed "Underwriting" in this prospectus for further details.

You should rely only on the information contained in this prospectus and the related Application Forms to make your investment decision. Our Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus and the related Application Forms. Any information or representation not made in this prospectus and the related Application Forms must not be relied upon by you as having been authorised by our Company, the Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriter, their respective directors or affiliates of any of them or any other person or parties involved in the Share Offer.

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This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk factors" of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are principally engaged in the manufacture and sale of cigarette-related packaging materials in the PRC. In particular, we manufacture the packaging materials for the Chunghwa (中華) brand of cigarettes for Shanghai Tobacco Group Co. Ltd. (上海煙草集團有限責任公司) (the "**Shanghai Cigarette Manufacturer**") and the Jingdian Shuangxi (經典雙喜) (a sub-brand of Shuangxi (雙喜) brand) brand of cigarettes for China Tobacco Guangdong Industrial Co., Ltd. (廣東中煙工業有限責任公司) (the "**Guangdong Cigarette Manufacturer**"). Chunghwa and Shuangxi are two of the "20+10" Key Brands as designated by STMA, details of which are set out in the section headed "Industry overview" of this prospectus. We were the fourth largest manufacturer in the cigarette-related packaging materials market (comprising inner frame paper, cigarette box frame paper, tipping paper, cigarette trademark labels, cigarette paper boxes and others) with market share of approximately 7.4% in terms of total revenue in the Guangdong Province in 2012 according to the Ipsos Report. The market share of the Guangdong Province in the overall cigarette-related packaging materials market in the PRC was approximately 5.3% in terms of total revenue in 2012 according to the Ipsos Report.

During the Track Record Period, our Group was the largest supplier of tipping paper (接裝紙), cigarette box frame paper (框架紙) and inner frame paper (內襯紙) of Jingdian Shuangxi as confirmed by the Guangdong Cigarette Manufacturer. During the Track Record Period, our customers mainly comprised seven cigarette manufacturers, including the Guangdong Cigarette Manufacturer, the Shanghai Cigarette Manufacturer and other five Provincial Tobacco Industrial Companies with operation in, among other, Guangdong Province, Shanghai, Guangxi Zhuang Autonomous Region, Shaanxi Province, Fujian Province and Jiangxi Province which in aggregate contributed approximately 76.1%, 85.3%, 91.8% and 92.4% of our total revenue for each of the three years ended 31 March 2011, 2012 and 2013 and the three months ended 30 June 2013 respectively. During the Track Record Period, we also supplied cigarette-related packaging materials to other customers with operation in Hong Kong, Henan Province and Guangdong Province. For each of the three years ended 31 March 2013 and the three months ended 30 June 2013, our revenue was approximately HK$212.1 million, HK$265.8 million, HK$279.0 million and HK$51.1 million respectively. The CAGR from the year ended 31 March 2011 to the year ended 31 March 2013 was approximately 14.7%. During the same period, our net profit attributable to the owners of our Company was approximately HK$9.6 million, HK$29.7 million, HK$44.7 million and HK$8.2 million respectively. The CAGR from the year ended 31 March 2011 to the year ended 31 March 2013 was approximately 115.6%.

According to the Ipsos Report, the respective market shares of our Group (in terms of total sales value of cigarette-related packaging materials) in the PRC, Guangdong Province and Shanghai for the year ended 31 December 2012 were 0.6%, 7.4% and 2.3%.

OUR MAJOR CUSTOMERS

During the Track Record Period, the Guangdong Cigarette Manufacturer was our largest customer and the Shanghai Cigarette Manufacturer was our second largest customer. During the Track Record Period, (i) our sales to the Guangdong Cigarette Manufacturer amounted to approximately HK$100.4 million, HK$151.0 million, HK$159.1 million and HK$30.6 million respectively, representing approximately 47.3%, 56.8%, 57.0% and 59.8% of our Group's total revenue respectively and the Guangdong Cigarette Manufacturer was the sole customer of the tipping paper and cigarette trademark labels manufactured by our Group during the Track Record Period; and (ii) our sales to the Shanghai Cigarette Manufacturer amounted to approximately HK$48.3 million, HK$52.3 million, HK$59.4 million and HK$8.5 million respectively, representing approximately 22.8%, 19.7%, 21.3% and 16.5% of our Group's total revenue respectively.

The products supplied by our Group to the Guangdong Cigarette Manufacturer include cigarette box frame paper, cigarette trademark labels, tipping paper and inner frame paper of different specifications. Among our ten sales arrangements with the Guangdong Cigarette Manufacturer, six sales arrangements for our products including cigarette box frame paper, cigarette trademark labels, tipping paper and inner frame papers are for the terms from May 2011 to May 2014; three sales arrangements for our products including cigarette trademark labels, inner frame paper and cigarette box frame paper are for the terms from December 2011 to November 2014; and the remaining one for our product of tipping paper is for the term from January 2013 to May 2014. Our existing sales contracts with the Shanghai Cigarette Manufacturer will expire on 31 December 2015.

We have established business relationship with the Guangdong Cigarette Manufacturer for more than five years and the Shanghai Cigarette Manufacturer for more than ten years. As mentioned in the section headed "Industry overview" of this prospectus, the Guangdong Cigarette Manufacturer is one of the 16 Provincial Tobacco Industrial Companies and took up over 80% of the cigarette manufacturing market in Guangdong Province in 2012. It dominates the downstream cigarette manufacturing market in Guangdong Province. The Shanghai Cigarette Manufacturer is the Cigarette Group and took up the whole cigarette manufacturing market in Shanghai in 2012. It monopolises the downstream cigarette manufacturing market in Shanghai.

Our Directors consider that our Group has not unduly relied on its relationship with the Guangdong Cigarette Manufacturer, as, among other factors, our Directors are of the view that mutual reliance has been established between us and the Guangdong Cigarette Manufacturer. As confirmed by the Guangdong Cigarette Manufacturer, our Group was the largest supplier of tipping paper, cigarette box frame paper and inner frame paper of Jingdian Shuangxi (經典雙喜) (a sub-brand of Shuangxi brand) brand of cigarette products manufactured by the Guangdong Cigarette Manufacturer for the three years ended 31 March 2013; and for each of the three years ended 31 March 2013, our supply of cigarette-related packaging materials to the Guangdong Cigarette Manufacturer fell in the range of 20% to 30% of the total purchase amounts of the inner frame paper, cigarette box frame paper, tipping paper and cigarette trademark labels of the Guangdong Cigarette Manufacturer respectively. Further, according to the Ipsos Report, as a result of the industry consolidation, the number of cigarette manufacturers in the PRC has maintained at 25 in recent years. As such, there are only 25 potential customers in the PRC for our Group and our Directors are of the view that it is not uncommon for manufacturers of cigarette-related packaging materials to rely on a few major customers. As required by the STMA and the China National Tobacco Corporation, in general, cigarette manufacturers in the PRC have adopted the tendering system for the selection of suppliers of cigarette-related packaging materials. All our sales to the Guangdong Cigarette Manufacturer were made in accordance with the sales arrangement between Xinda Packing and the Guangdong Cigarette Manufacturer secured through stringent tendering process which has demonstrated the competitiveness of our products in terms of quality, services and pricing. Our Directors believe that our market position and competitiveness in the cigarette-related packaging materials industry will be further strengthened after the Listing and we will endeavour to secure new customers in other parts of the PRC in order to reduce our reliance on our existing major customers. Please refer to the paragraph headed "Sales and marketing – reliance on the Guangdong Cigarette Manufacturer" under the section headed "Business" of this prospectus for further details.

OUR PRODUCTS

Our major products include tipping paper (接裝紙), inner frame paper (內襯紙), cigarette box frame paper (框架紙) and cigarette trademark labels (封簽紙). Our inner frame paper products can be further categorised into Inner Aluminium Paper, Inner Laser Paper and Inner Vacuum Metalised Paper according to their production process. During the Track Record Period, we also manufactured certain amount of cigarette paper boxes (香煙外盒) for our customers, but the production volume of such products had diminished significantly. The aforementioned change of product mix was a result of a strategic move of our Group to improve our profitability. Having considered the high profit margin and future prospect of tipping paper and cigarette trademark labels, it was our Group's business strategy to develop our business in the manufacture and sale of tipping paper and cigarette trademark labels. We discussed with the Guangdong Cigarette Manufacturer for any business opportunities from time to time and subsequently, after the Guangdong Cigarette Manufacturer had invited tenders for tipping paper and cigarette trademark labels in 2011, we participated in the tenders and were awarded sales contracts for these products in 2011. On the other hand, given that the profit margin earned from the sales of cigarette paper boxes for some cigarette brands of existing customers was low or even negative, the sales of such product was reduced significantly during the Track Record Period. Please refer to the sub-paragraph headed "Revenue" of the paragraph headed "Management discussion and analysis" under the section headed "Financial information" of this prospectus for details.

OUR PRODUCTION FACILITIES

Our self-owned production base is located at No. 4 Wanji North Street, Wanji Industrial District, Shantou City, Guangdong Province, the PRC with a gross floor area of approximately 17,667 sq.m.. During the Track Record Period, our Group carried out its production activities at this production base. As at the Latest Practicable Date, we had two production lines for tipping paper, seven production lines for Inner Aluminium Paper and Inner Laser Paper, one production line for Inner Vacuum Metalised Paper, one production line for cigarette box frame paper, two production lines for cigarette trademark labels and two production lines for cigarette paper boxes. Please refer to the paragraph headed "Production facilities and capacity" under the section headed "Business" for details of the maximum annual production capacity, the actual production volume and the utilisation rate of our production facilities.

PURCHASES AND SUPPLIERS

The major raw materials used by our Group include base paper and aluminum foils. The purchases of base paper accounted for approximately 43.9%, 38.5%, 33.7% and 37.9%; and the purchases of aluminium foils accounted for approximately 31.5%, 32.4%, 27.0% and 24.9% of our Group's total purchases of raw materials for each of the three years ended 31 March 2013 and the three months ended 30 June 2013 respectively. Other raw materials include films, ink, glues and solutions. We have not entered into any long-term supply contracts with our suppliers. Although some of our customers require our Group to purchase raw materials from their designated suppliers, we may source raw materials from other alternative suppliers after seeking prior approval from our customers.

During each of the three years ended 31 March 2013 and the three months ended 30 June 2013, our purchases from the largest supplier accounted for approximately 13.2%, 16.1%, 12.5% and 11.8% of our Group's total purchases respectively. Our purchases from the five largest suppliers accounted for approximately 50.5%, 57.2%, 50.2% and 46.4% of our Group's total purchases respectively.

HIGHLIGHTS OF OUR COMPETITIVE STRENGTHS

Our Directors believe that our Group has the following competitive strengths:

- We are one of the approved suppliers of cigarette-related packaging materials of key cigarette manufacturers in the PRC;

- We have an experienced management team with profound industry knowledge;
- We have a stable customer base; and
- We possess quality management system and capability to produce high quality products.

HIGHLIGHTS OF OUR BUSINESS STRATEGIES

We aim to continue to establish our market presence in the cigarette-related packaging materials industry by adopting the following principal strategies:

- Enhancing our position in the cigarette-related packaging materials industry of the PRC;
- Implementing stringent quality control to maintain product quality;
- Increasing our market share by acquiring companies with long-term and good business relationship with our target customers;
- Diversifying our product portfolio; and
- Strengthening our business relationship with manufacturers producing more competitive cigarette products.

SUMMARY OF FINANCIAL INFORMATION

The following tables present a highlight of the audited combined statements of comprehensive income of our Group for the years ended 31 March 2011, 2012 and 2013 and the three months ended 30 June 2013 respectively, a highlight of the audited combined balance sheets of our Group as at 31 March 2011, 2012 and 2013 and 30 June 2013 respectively, and a highlight of the audited combined statements of cash flows of our Group for the years ended 31 March 2011, 2012 and 2013 and the three months ended 30 June 2013 respectively.

Highlight of audited combined statements of comprehensive income of our Group

	For the year ended 31 March			For the three months ended 30 June	
	2011	2012	2013	2012	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Revenue	212,143	265,821	278,983	70,709	51,121
Gross profit	27,706	50,420	78,544	15,575	15,717
Profit for the year/period attributable to owner of our Company	9,624	29,688	44,738	11,031	8,151

Highlight of audited combined balance sheets of our Group

	As at 31 March			As at 30 June
	2011	2012	2013	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Total non-current assets	49,530	49,543	53,120	57,034
Total current assets	159,499	166,249	210,063	177,642
Total current liabilities	137,497	111,191	111,031	100,564
Net current assets	22,002	55,058	99,032	77,078
Non-current liabilities	–	–	2,328	1,341
Net assets	71,532	104,601	149,824	132,771

Highlight of audited combined statements of cash flows of our Group

	For the year ended 31 March			For the three months ended 30 June	
	2011	**2012**	**2013**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Net cash (used in)/generated from operating activities	(7,523)	59,315	38,587	8,154	5,280
Net cash (used in)/generated from investing activities	(22,735)	(7,442)	(10,011)	(9,422)	9,252
Net cash generated from/ (used in) financing activities	30,684	(38,266)	(9,252)	(5,537)	(30,249)

The negative operating cash flow from operating activities for the year ended 31 March 2011 was mainly due to the increase in inventories by approximately HK$22.4 million, which was in turn mainly attributable to the piling up of raw materials close to 31 March 2011. The net cash generated from financing activities amounted to approximately HK$30.7 million for the year ended 31 March 2011 was mainly due to a borrowing of approximately HK$5.9 million and the increase in amount due to related parties of approximately HK$36.6 million, which represented primarily the advance from Mr. Zheng. The decrease in the net cash generated from financing activities in the following two years was mainly due to the repayments of borrowing as well as the repayments of advance from Mr. Zheng. The net cash generated from the investing activities for the three months ended 30 June 2013 mainly resulted from the repayment from Mr. Zheng for our advance of approximately HK$7.6 million. The net cash used in the financing activities for the three months ended 30 June 2013 was mainly attributable to the payment of dividend to Mr. Zheng of approximately HK$27.7 million. Please refer to the paragraph headed "Liquidity and capital resources" under the section headed "Financial information" for details of commentary on the cash flows during the Track Record Period.

REVENUE

Our revenue derived from the sale of major categories of our products during the Track Record Period is as follows:

	For the year ended 31 March						For the three months ended 30 June			
	2011		**2012**		**2013**		**2012**		**2013**	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%	*HK$'000* (Unaudited)	%	*HK$'000*	%
Sales of cigarette-related packaging materials products:										
– inner frame paper (內襯紙)	142,339	67.1%	174,432	65.6%	162,476	58.2%	47,931	67.8%	27,587	54.0%
– cigarette box frame paper (框架紙)	41,975	19.8%	35,748	13.4%	26,256	9.4%	6,282	8.9%	7,320	14.3%
– tipping paper (接裝紙)	–	–	26,994	10.2%	69,044	24.7%	9,946	14.1%	11,952	23.4%
– cigarette trademark labels (封簽紙)	–	–	12,099	4.6%	17,244	6.2%	4,361	6.2%	3,688	7.2%
– cigarette paper boxes (香煙外盒)	26,627	12.6%	15,285	5.8%	3,457	1.3%	2,189	3.0%	574	1.1%
	210,941	99.5%	264,558	99.6%	278,477	99.8%	70,709	100.0%	51,121	100.0%
Sales from processing services	639	0.3%	651	0.2%	255	0.1%	–	–	–	–
Others *(Note)*	563	0.2%	612	0.2%	251	0.1%	–	–	–	–
	212,143	100.0%	265,821	100.0%	278,983	100.0%	70,709	100.0%	51,121	100.0%

Note: "Others" include but not limited to revenue generated from trading of printing materials for Shantou Lejing and sales of scrapped materials.

The increase in revenue from 2011 to 2012 was mainly attributable to (i) the increase in sales of inner frame paper; and (ii) the launch of tipping paper and cigarette trademark labels, which was (iii) partially offset by the decrease in sales of cigarette paper boxes and cigarette box frame paper. The further increase in revenue from 2012 to 2013 was mainly attributable to (i) the increase in sales of tipping paper and cigarette trademark labels, which was (ii) partially offset by the decrease in sales of cigarette paper boxes, inner frame paper and cigarette box frame paper. The decrease in revenue for the three months ended 30 June 2013 as compared to the three months ended 30 June 2012 was mainly attributable to the decrease in sales of inner frame paper which was, in turn, to the best knowledge of our Directors, mainly due to the postponement of purchases made by the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer from the first half of 2013 to the second half of the same year. Please refer to the paragraphs headed "Overview" and "The three months ended 30 June 2013 compared to the three months ended 30 June 2012" under the section headed "Financial information" of this prospectus for the underlying reason for such postponement of purchases. Our sales performance improved subsequent to 30 June 2013 such that based on the unaudited management accounts, our sales for the six months ended 30 September 2013 remained at the comparable level of the corresponding period in 2012 and our sales for the three months ended 30 September 2013 increased by approximately 52.3% as compared to the three months ended 30 June 2013. Please refer to the paragraph headed "Latest development" under this section and the section headed "Financial information" of this prospectus for details. The following table sets out our Group's gross profit, gross profit margin and the percentage contribution to our total revenue by major product categories for the years/periods indicated:

	For the year ended 31 March									For the three months ended 30 June					
	2011			2012			2013			2012			2013		
	Gross profit	Gross profit margin	% of revenue contribution	Gross profit	Gross profit margin	% of revenue contribution	Gross profit	Gross profit margin	% of revenue contribution	Gross profit	Gross profit margin	% of revenue contribution	Gross profit	Gross profit margin	% of revenue contribution
	HK$'000	*%*		*HK$'000*	*%*		*HK$'000*	*%*		*HK$'000* (Unaudited)	*%*		*HK$'000*	*%*	
Gross profit analysis by cigarette-related packaging material products:															
– inner frame paper (內襯紙)	24,288	17.1%	67.1%	25,557	14.7%	65.6%	33,309	20.5%	58.2%	8,648	18.0%	67.8%	6,394	23.2%	54.0%
– cigarette box frame paper (框架紙)	7,398	17.6%	19.8%	7,800	21.8%	13.4%	6,150	23.4%	9.4%	1,327	21.1%	8.9%	1,984	27.1%	14.3%
– tipping paper (接裝紙)	-	-	-	12,145	45.0%	10.2%	32,283	46.8%	24.7%	3,825	38.5%	14.1%	6,116	51.2%	23.4%
– cigarette trademark labels (封簽紙)	-	-	-	6,643	54.9%	4.6%	7,143	41.4%	6.2%	1,780	40.8%	6.2%	1,243	33.7%	7.2%
– cigarette paper boxes (香煙外盒)	(4,233)	-15.9%	12.6%	(1,399)	-9.2%	5.8%	318	9.2%	1.3%	(5)	-0.2%	3.0%	(20)	-3.5%	1.1%
Overall gross profit margin		**13.1%**			**19.0%**			**28.2%**			**22.0%**			**30.7%**	

The increase in gross profit from 2011 to 2012 was mainly attributable to (i) the launch of tipping paper and cigarette trademark labels, which generated relatively higher gross profit margin than the existing products; and (ii) the general improvement of the gross profit of most of the existing products which was a result of, among others, more stringent control on production. The further increase in the gross profit from 2012 to 2013 was mainly caused by the general improvement of the gross profit of most of the products, which was in turn mainly due to, among others, more stringent control on production, and decrease in purchase prices of raw materials in 2013. The further increase in the gross profit for the three months ended 30 June 2013 was mainly contributed by the success of our commitment in stringent cost control on production and decrease in purchase prices of raw materials in the same period. The increase in net profit during the Track Record Period was mainly contributed by the increase in gross profit during the same period. Although our gross profit margin improved from approximately 28.2% for the year ended 31 March 2013 to approximately 30.7% for the three months ended 30 June 2013, our net profit margin decreased slightly from approximately 16.0% for the year ended 31 March 2013 to approximately 15.9% for the three months ended 30 June 2013 as a listing expense of approximately HK$3.1 million was recorded in the latter period.

Taking into consideration (i) the experience of our management team, our established business relationship with the Guangdong Cigarette Manufacturer and our capability to produce high quality products which enable our Directors to be confident in winning the bids of the cigarette-related packaging materials, including tipping paper and cigarette trademark labels, from the Guangdong Cigarette Manufacturer after the expiry of our existing sales arrangements; (ii) the expected growing demand of cigarette and cigarette-related packaging materials (details of which are set out in the section headed "Industry overview" of this prospectus); (iii) our commitment in stringent cost control on production; and (iv) the assumption that there will be no significant increase in the prices of the raw materials and other operation costs, our Directors believe that we will be able to maintain the existing level of our gross profit margins for tipping paper and cigarette trademark labels after the expiry of the existing sales arrangements with the Guangdong Cigarette Manufacturer in 2014.

SELECTED FINANCIAL RATIOS

	For the year ended 31 March			For the three months ended 30 June	
	2011	2012	2013	2012	2013
Revenue growth/(decrement)	Not applicable	25.3%	5.0%	Not applicable	(27.7%)
Net profit growth/(decrement)	Not applicable	208.5%	50.7%	Not applicable	(26.1%)
Gross profit margin	13.1%	19.0%	28.2%	22.0%	30.7%
Net profit margin	4.5%	11.2%	16.0%	15.6%	15.9%

	For the year ended 31 March			For the three months ended 30 June	For the three months ended 30 September
	2011	2012	2013	2013	2013
Average trade and note receivables turnover days	104	78	79	106	74
Average trade and notes payables turnover days	153	137	159	219	155
Average inventories turnover days	40	46	52	88	58

	As at 31 March			As at 30 June
	2011	2012	2013	2013
Current ratio	1.2	1.5	1.9	1.8
Gearing ratio	0.1	Not applicable *(Note)*	Not applicable *(Note)*	Not applicable *(Note)*

Note: Our Group did not have any borrowing as at 31 March 2012 and 2013, and 30 June 2013.

The average inventories turnover days for the three months ended 30 June 2013 increased to approximately 88 days and then decreased to approximately 58 days for the three months ended 30 September 2013. To the best knowledge of our Directors, the aforementioned change of the average inventories turnover days was mainly due to the postponement of purchases made by the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer from the first half of 2013 to the second half of the same year. For further details of the basis of calculation of the key financial ratios of our Group as set out in the table above, please refer to the section headed "Financial information" of, and Appendix I to, this prospectus.

CONTROLLING SHAREHOLDERS

Without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, immediately following completion of the Share Offer and the Capitalisation Issue, SXD Limited, a company wholly-owned by Mr. Zheng, will hold 225,000,000 Shares, representing 75% of the enlarged issued share capital of our Company. For the purpose of the Listing Rules, SXD Limited and Mr. Zheng are our Controlling Shareholders. Please refer to the section headed "Relationship with Controlling Shareholders" of this prospectus for further details.

RISK FACTORS

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk factors" of this prospectus, in particular the risks associated with (i) our heavy reliance on a limited number of major customers; (ii) the short duration of our sales contracts with our major customers; (iii) the tightened tobacco control measures in the PRC; (iv) the consolidation of manufacturers and brands in the PRC cigarette industry; (v) the determination of the PRC government in controlling the price of cigarettes; and (vi) the global trend of increasing awareness of health-related issues in connection with smoking. You should read the entire section carefully before you decide to invest in the Offer Shares.

LATEST DEVELOPMENT

The financial performance of our Group is dependent on, among others, the condition of the cigarette and cigarette-related packaging materials market in the PRC.

Subsequent to the Track Record Period, our Group recorded an unaudited revenue of approximately HK$78 million for the three months ended 30 September 2013, representing an increase of approximately 14.8% as compared with the corresponding period of 2012 and an increase of approximately 52.3% as compared to the three months ended 30 June 2013. This increase was mainly a result of the bounce back of our sales to the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer which to the best knowledge of our Directors, postponed their purchases from the first half of 2013 to the second half of the same year. Taking into consideration (i) the discussions between our Company and the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer in relation to the effect of postponement of their purchases; (ii) that our Directors are not aware of any indication from the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer that there would be any material adverse change in their purchase plans on a year-on-year basis; (iii) that based on the unaudited management accounts, our Group recorded unaudited revenue of approximately HK$129 million for the six-month period from 1 April 2013 to 30 September 2013, representing only a decrease of approximately 6.9% as compared to the corresponding period of 2012; and (iv) the forecasted growth in the cigarette-related packaging material industry in the PRC with forecasted growth in revenue with CAGR of approximately 2.2% from 2012 to 2017 according to the Ipsos Report, our Company is of the view that the impact of the postponement of purchases by the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer on our sales will be short-term. According to the Ipsos Report, based on the best knowledge and belief of our Directors and our discussions with the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer at the beginning of 2013, our Directors are not aware of any significant cigarette industry reform that would result in material adverse change in the demand in the cigarette-related packaging materials market and cigarette market in the PRC.

The total estimated listing expenses (including underwriting commission) in connection with the Share Offer was approximately HK$26.4 million based on the mid-point of the stated range of the Offer Price. For the year ended 31 March 2013, we incurred listing expenses of approximately HK$4.7 million, which was fully charged to the profit and loss accounts of our Group. For the three months ended 30 June 2013, we incurred listing expenses of approximately HK$5.8 million, of which approximately HK$3.1 million was charged to the profit and loss accounts of our Group and approximately HK$2.7 million was capitalised. It is estimated that approximately HK$5.8 million of those expenses will be capitalised after the Listing and the remaining HK$10.1 million of those expenses will be charged to the profit and loss accounts of our Group for the nine months ending 31 March 2014.

Mr. Zheng, our Controlling Shareholder, Mr. Zheng Minsheng and their respective associates have repaid all the amounts due to our Group prior to the Listing.

Our Directors confirm that there has been no material adverse change in the financial or trading position or the prospect of our Group since 30 June 2013 and up to the date of this prospectus.

DIVIDEND POLICY

Considering our financial position, we currently intend, in the absence of any circumstances which might reduce the amount of available distributable reserves, whether by losses or otherwise, to distribute to our Shareholders no less than 35% of any net consolidated distributable profit derived during the year ending 31 March 2014 and each year thereafter. We will re-evaluate our dividend policy annually.

Xinda Packing, our subsidiary, has recognised dividend as declared to Mr. Zheng, the then sole shareholder, in the sum of approximately RMB23.0 million (equivalent to approximately HK$29.1 million) on 24 April 2013. After deducting the relevant withholding tax of approximately RMB1.1 million (equivalent to approximately HK$1.4 million), the net amount of approximately RMB21.9 million (equivalent to approximately HK$27.7 million) was paid in May 2013. Our Company declared dividends of (i) RMB19.0 million (equivalent to approximately HK$24.0 million) on 10 October 2013; and (ii) RMB9.5 million (equivalent to approximately HK$12.0 million) on 11 November 2013 to SXD Limited, a company wholly owned by Mr. Zheng, all of which were settled in the form of cash payment before the Latest Practicable Date. Save for the dividend declared as disclosed above, none of our Company or our Group's subsidiary has declared any dividend up to the Latest Practicable Date.

SHARE OFFER STATISTICS

Market capitalisation at Listing *(Note)*:	Approximately HK$354 million to HK$444 million (before the exercise of the Over-allotment Option)
Offer size:	Initially 25% (excluding any Shares which may be issued upon the exercise of the Over-allotment Option) of the enlarged issued share capital of our Company
Over-allotment Option:	Up to approximately 3.6% of the enlarged issued share capital of our Company immediately following completion of the Share Offer, the Capitalisation Issue and the exercise of the Over-allotment Option
Offer Price per Share:	HK$1.18 to HK$1.48 per Share
Board lot:	2,000 Shares
Share Offer structure:	90% Placing (comprising 52,500,000 new Shares to be offered by our Company and 15,000,000 Sale Shares to be offered by the Selling Shareholder, subject to re-allocation and the Over-allotment Option) and 10% Public Offer (subject to re-allocation)

Note: The calculation of the market capitalisation of the Shares is based on 300,000,000 Shares expected to be in issue immediately following completion of the Share Offer but takes no account of any Shares which may be issued upon the exercise of any option that may be granted under the Share Option Scheme or any Shares which may be allotted, issued or repurchased by our Company pursuant to the general mandates for the allotment and issue or repurchase of Shares.

USE OF PROCEEDS

Assuming an Offer Price of HK$1.33 per Share (being the mid-point of the stated range of the Offer Price of between HK$1.48 per Share and HK$1.18 per Share), the net proceeds of the Share Offer, after deducting related expenses paid and payable by us, are estimated to be approximately HK$53.4 million. Our Directors presently intend to apply such net proceeds of the Share Offer as follows:

Amount of net proceeds (% of total net proceeds from the Share Offer)	Intended applications of proceeds
• HK$20.6 million (38.5%)	For the upgrade of our existing production base, further expansion of our production capability and increase in the production capacity
• HK$20.6 million (38.5%)	For possible strategic acquisition of other market players in the same industry as our Company. As at the Latest Practicable Date, we have not identified any specific acquisition targets
• HK$5.6 million (10.6%)	For the research and development activities of our Group
• HK$2.0 million (3.7%)	For the sales and marketing activities of our Group
• HK$2.0 million (3.7%)	For the renovation of existing production facilities and office building
• HK$2.6 million (5.0%)	For the purpose of general working capital of our Group

Please refer to the section headed "Future plans and use of proceeds" of this prospectus for further details.

UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

Unaudited pro forma adjusted combined net tangible assets per Share *(Notes)*

Based on an Offer Price of HK$1.18 per Offer Share . . . . HK$0.62

Based on an Offer Price of HK$1.48 per Offer Share . . . . HK$0.68

Notes:

1. Please refer to Appendix II to this prospectus for further details regarding the assumptions and calculation method.

2. The unaudited pro forma adjusted combined net tangible assets of our Group attributable to owner of our Company per Share has been arrived at after the adjustments referred to in Appendix II to this prospectus and on the basis of 300,000,000 Shares in issue immediately upon completion of the Share Offer but does not take into account any Shares which may be issued upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by our Company pursuant to the general mandate to issue Shares or the general mandate to repurchase Shares as described in the section headed "Share capital" of this prospectus.

In this prospectus, unless the context otherwise requires, the following expressions have the following meanings.

""20+10" Key Brands"	the 20 key national backbone cigarette brands and the other 10 key cigarette brands designated by STMA
"Application Form(s)"	**WHITE**, **YELLOW** and **GREEN** application form(s) or, where the context so requires, any of them to be used in connection with the Public Offer
"Articles"	the amended and restated articles of association of our Company adopted on 14 November 2013 and as amended from time to time, a summary of which is set out in Appendix III to this prospectus
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	our board of Directors
"BVI"	the British Virgin Islands
"CAGR"	compound annual growth rate
"Capitalisation Issue"	the allotment and issue of 239,999,999 Shares to be made upon the capitalisation of certain sums standing to the credit of the share premium account of our Company as referred to in the paragraph headed "Written resolutions of our sole Shareholder" in Appendix V to this prospectus
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person permitted to participate in CCASS as a direct clearing participant or general clearing participant
"CCASS Custodian Participant"	a person permitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
"CCASS Participants"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"China" or "PRC"	the People's Republic of China, and for the purpose of this prospectus, excludes Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan

"Cigarette Group"	cigarette conglomerate which is subordinated to the STMA and an Independent Third Party
"Companies Law"	the Companies Law (as revised) of the Cayman Islands, as amended, modified and supplemented from time to time
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, modified and supplemented from time to time
"Company"	Huaxi Holdings Company Limited 華禧控股有限公司, a company incorporated in the Cayman Islands with limited liability on 29 April 2013 under the Companies Law
"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 in the case of our Company, means Mr. Zheng and SXD Limited, and each of them a Controlling Shareholder
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"Deed of Indemnity"	the deed of indemnity dated 14 November 2013 executed by our Controlling Shareholders in favour of our Company (for ourselves and as trustee for each of our subsidiaries from time to time) regarding certain indemnities as more particularly set out in the paragraph headed "Tax and other indemnity" in Appendix V to this prospectus
"Deed of Non-competition"	the deed of non-competition undertakings dated 14 November 2013 executed by each of our Controlling Shareholders and Mr. Zheng Minsheng in favour of our Company (for ourselves and as trustee for each of our subsidiaries from time to time) regarding the non-competition undertakings as more particularly set out in the paragraph headed "Deed of Non-competition" in the section headed "Relationship with Controlling Shareholders" of this prospectus
"Director(s)"	the director(s) of our Company
"EIT Law"	the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法)

"GDP"	gross domestic product
"Green Application Form(s)"	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
"Group", "we" or "us"	our Company and its subsidiaries
"Guangdong Cigarette Manufacturer"	廣東中煙工業有限責任公司 (China Tobacco Guangdong Industrial Co., Ltd.), a state-owned cigarette manufacturer based in Guangdong Province, the PRC, an Independent Third Party
"HKSCC"	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
"HKSCC Nominees"	HKSCC Nominees Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong Share Registrar"	Computershare Hong Kong Investor Services Limited
"Implementation Rules"	the Implementation Rules of the EIT Law (中華人民共和國企業所得稅法實施條例)
"Independent Third Party(ies)"	an individual(s) or a company(ies) who or which is/are not connected with (within the meaning of the Listing Rules) any Directors, chief executives or substantial Shareholders (within the meaning of the Listing Rules) of our Company, our subsidiaries or any of their respective associates
"Ipsos Report"	a report prepared by Ipsos Hong Kong Limited, an Independent Third Party, on the cigarette and cigarette-related packaging market in the PRC, which was commissioned by us
"kg"	kilogram
"Latest Practicable Date"	18 November 2013, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information in the prospectus prior to its publication
"Listing"	listing of the Shares on the main board of the Stock Exchange

"Listing Date"	the date on which trading in the Shares on the Main Board of the Stock Exchange commences
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Memorandum"	the amended and restated memorandum of association of our Company adopted on 14 November 2013 and as amended from time to time
"Mr. Zheng"	Mr. Zheng Andy Yi Sheng (鄭毅生), our founder, Chairman, executive Director and Controlling Shareholder
"Offer Price"	the final offer price per Offer Share (exclusive of brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%) which will be not more than HK$1.48 and is expected to be not less than HK$1.18, such price to be determined in the manner as further described in the paragraph headed "Price payable on application" under the section headed "Structure of the Share Offer" of this prospectus
"Offer Shares"	the Placing Shares and the Public Offer Shares
"Over-allotment Option"	the option expected to be granted by our Company to the Placing Underwriter, exercisable by the Sole Bookrunner under the Placing Underwriting Agreement, to require our Company, at any time within a period commencing from the Listing Date until the 30th day after the last day for the lodging of applications under the Public Offer, to allot and issue up to an aggregate of 11,250,000 additional Shares, representing 15% of the Offer Shares initially being offered under the Share Offer, on the same terms as those applicable to the Share Offer, to cover over-allocations in the Placing, details of which are further described in the paragraph headed "Over-allotment Option" in the section headed "Structure of the Share Offer" of this prospectus
"Patent Owner"	Mr. Li Xinzhong (李新忠), the owner of the patent in respect of the "double-sided printing facilities and technical know-how (雙面印刷設備和雙面印刷工藝)", a personal friend of Mr. Zheng and an Independent Third Party
"PBOC"	People's Bank of China (中國人民銀行), the central bank of China

"Placing"	the conditional placing of the Placing Shares at the Offer Price with institutional, professional and private investors, details of which are described in the section headed "Structure of the Share Offer" of this prospectus
"Placing Shares"	the 67,500,000 Shares (comprising 52,500,000 new Shares being offered by our Company and 15,000,000 Sale Shares being offered by the Selling Shareholder) for subscription at the Offer Price under the Placing, subject to re-allocation as described in the section headed "Structure of the Share Offer" of this prospectus
"Placing Underwriter"	the underwriter of the Placing whose name is set out in the paragraph headed "Placing Underwriter" in the section headed "Underwriting" to this prospectus
"Placing Underwriting Agreement"	the conditional underwriting agreement to be entered into among our Company, our executive Directors, the Sponsor, the Sole Bookrunner, the Sole Lead Manager and the Placing Underwriter in relation to the underwriting of the Placing Shares by the Placing Underwriter as further described in the section headed "Underwriting" of this prospectus
"Price Determination Date"	the date, expected to be on Friday, 29 November 2013, or such other date as may be agreed between our Company (for ourselves and on behalf of the Selling Shareholder) and the Sole Bookrunner (for itself and on behalf of the Underwriter), but in any event no later than Wednesday, 4 December 2013, on which the Offer Price is fixed for the purpose of the Share Offer
"Provincial Tobacco Industrial Company(ies)"	cigarette manufacturer(s) at the provincial level or equivalent, which is/are subordinated to the STMA, each of which is an Independent Third Party
"Public Offer"	the offer to the public in Hong Kong for subscription of the Public Offer Shares at the Offer Price, on and subject to the terms and conditions stated in this prospectus and in the Application Forms, details of which are described in the section headed "Structure of the Share Offer" of this prospectus and the related Application Forms

"Public Offer Shares"	the 7,500,000 Shares initially being offered by our Company for subscription at the Offer Price under the Public Offer, subject to re-allocation as mentioned in the section headed "Structure of the Share Offer" of this prospectus
"Public Offer Underwriter"	the underwriter of the Public Offer whose name is set out in the paragraph headed "Placing and public Offer Underwriter" under the section headed "Underwriting" of this prospectus
"Public Offer Underwriting Agreement"	the conditional underwriting agreement dated 25 November 2013 entered into among our Company, our executive Directors, the Sponsor, the Sole Bookrunner, the Sole Lead Manager and the Public Offer Underwriter in relation to the underwriting of the Public Offer Shares by the Public Offer Underwriter as further described in the section headed "Underwriting" of this prospectus
"Reorganisation"	the reorganisation arrangements implemented by our Group in preparation for the listing of the Shares on the Stock Exchange, details of which are more particularly described in the section headed "History, Reorganisation and Corporate Structure" of this prospectus
"RMB"	Renminbi, the lawful currency of the PRC
"SAFE"	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"Sale Shares"	the 15,000,000 Shares being initially offered for sale by the Selling Shareholder at the Offer Price under the Placing, which are legally and beneficially owned by the Selling Shareholder, which is in turn wholly owned by Mr. Zheng, being our executive Director and Controlling Shareholder
"SAT"	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
"Selling Shareholder"	SXD Limited, a company incorporated in the BVI with limited liability on 3 April 2013, the entire issued share capital of which is held by Mr. Zheng, particulars of which are set out in the paragraph headed "Particulars of the Selling Shareholder" in Appendix V to this prospectus
"SFC"	the Securities and Futures Commission 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
"Shanghai Cigarette Manufacturer"	上海煙草集團有限責任公司 (Shanghai Tobacco Group Co. Ltd.), a state-owned cigarette manufacturer based in Shanghai, the PRC, an Independent Third Party
"Shantou Lejing"	汕頭市樂景貿易有限公司 (Shantou Lejing Trading Investment Co., Ltd.), a company established in the PRC on 18 December 1997 which is 90% owned by Mr. Zheng Minsheng, being one of our executive Directors, and 10% owned by the nephew of both Mr. Zheng and Mr. Zheng Minsheng
"Share(s)"	ordinary share(s) with nominal value of HK$0.01 each in the share capital of our Company
"Share Offer"	the Placing and the Public Offer
"Share Option Scheme"	the share option scheme conditionally adopted by our Company on 14 November 2013 as more particularly set out in the paragraph headed "Share Option Scheme" in Appendix V to this prospectus, as amended, modified and supplemented from time to time
"Shareholder(s)"	holder(s) of the Share(s)
"Sole Bookrunner" or "Sole Lead Manager"	Haitong International Securities Company Limited, a corporation licensed to carry on type 1 (dealing in securities), type 3 (leveraged foreign exchange trading) and type 4 (advising on securities) regulated activities as defined under the SFO, acting as the sole bookrunner and the sole lead manager of the Share Offer
"Sponsor"	Haitong International Capital Limited, a corporation licensed to carry on type 6 (advising on corporate finance) regulated activity under the SFO, acting as the sole sponsor to the Listing
"sq.ft."	square feet
"sq.m."	square meters
"STMA"	the State Tobacco Monopoly Administration (中國國家煙草專賣局), which was established in 1984 and is a governmental authority responsible for the management of the tobacco industry in the PRC

"Stock Borrowing Agreement"	the stock borrowing agreement dated 25 November 2013 entered into between SXD Limited and the Sole Bookrunner
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	The Codes on Takeovers and Mergers and Share Repurchases, as amended, modified and supplemented from time to time
"Track Record Period"	the three years ended 31 March 2013 and the three months ended 30 June 2013
"Underwriter"	collectively, the Placing Underwriter and the Public Offer Underwriter
"Underwriting Agreements"	collectively, the Placing Underwriting Agreement and the Public Offer Underwriting Agreement
"United States" or "US"	the United States of America
"US$"	United States dollars, the lawful currency of the US
"WFOE"	wholly foreign-owned enterprise
"White Form eIPO Service"	the application for Public Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website of www.eipo.com.hk
"White Form eIPO Service Provider"	Computershare Hong Kong Investor Services Limited
"WHO"	World Health Organisation
"XDHK"	Xin Da (Hong Kong) Investment Trading Company, an unlimited company which commenced business on 1 May 1993 and the sole shareholder of Xinda Packing until the transfer of Xinda Packing to Xin Da (HK) Limited on 18 July 2013, which ceased business on 5 September 2013
"Xin Da (HK) Limited"	Xin Da (Hong Kong) Investment Trading Company Limited, a company incorporated in Hong Kong with limited liability on 13 June 2013 under the Companies Ordinance and a wholly-owned subsidiary of our Company

"Xinda Packing"	汕頭市信達彩印包裝材料有限公司 (Shantou Xinda Colour Printing & Packing Material Co. Ltd.) (formerly known as 汕頭經濟特區信達彩印有限公司 (Shantou Special Economic Zone Xinda Colour Printing Co. Ltd.)), a wholly foreign-owned enterprise established in the PRC on 14 May 1992 and a wholly-owned subsidiary of our Company
"%"	per cent

Unless the context requires otherwise, translation of US$, HK$ and RMB is made in this prospectus, for illustration purpose only, at the rates of US$1.00 = HK$7.80 and HK$1.00 = RMB0.81 respectively.

No representation is made that any amount in HK$, US$ or RMB could have been or could be converted at the above rates or at any other rates or at all.

The English translation of the Chinese name of (i) a corporate entity established in the PRC; (ii) a PRC law, regulation or rule; (iii) a PRC governmental or regulatory authority; or (iv) an award, certificate or permit granted/issued by a PRC governmental or regulatory authority has been provided for identification and reference purposes only. If there is any inconsistency between the Chinese names of any of the aforesaid company names, laws, regulations, rules, authorities, awards, certificates or permits and their English translation, the Chinese names shall prevail.

"Inner Aluminium Paper"	復合鋁箔紙 (aluminium foil laminated paper), a type of inner frame paper, the production process of which involves the adherence of a piece of aluminium foil to a piece of white paper
"Inner Laser Paper"	鐳射鋁箔紙 (laser film laminated aluminium foil paper), a type of inner frame paper, the production process of which involves the adherence of a laser film to a piece of white paper
"Inner Vacuum Metalised Paper"	真空鍍鋁轉移內襯紙 (vacuum transfer metalised paper with aluminium coating), a type of inner frame paper, the production process of which involves the transfer of a layer of aluminium from the transparent film to a piece of white paper
"pH"	pH is a measure of the acidity or basicity of an aqueous solution
"VOC"	volatile organic compound, an organic chemical compound which may affect the environment and human health

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. In some cases we use words such as "aim", "anticipate", "believe", "estimate", "expect", "going forward", "intend", "may", "plan", "potential", "predict", "propose", "seek", "should", "will", "would" and other similar expressions to identify forward-looking statements. 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 capital commitment plans;
- the future competitive environment of the PRC;
- the regulatory environment as well as the general industry outlook for the industry which we are engaged in;
- future developments in the industry which we are engaged in; and
- the trend of the PRC economy in general.

These statements are based on numerous assumptions, including those regarding our present and future business strategy and the environment in which we will operate in the future.

Our future results could differ materially from those expressed or implied by such forward-looking statements. In addition, our future performance may be affected by various factors including, without limitation, those discussed in the sections headed "Risk factors" and "Financial information" of this prospectus.

Should one or more of those risks or uncertainties stated in the aforesaid sections materialise, or should any underlying assumptions to be proved incorrect, actual outcomes may vary materially from those indicated. Prospective investors should therefore not place undue reliance on any of these forward-looking statements. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements as set out in this section.

In this prospectus, statements of, or references to, our intentions or those of any of our Directors are made as at the date of this prospectus. Any such intentions may change in light of future developments.

Potential investors should carefully consider all of the information set out in this prospectus and, in particular, should consider the following risks and special consideration associated with an investment in our Company before making any investment decision in relation to our Company. You should pay particular attention to the fact that our Company is incorporated in the Cayman Islands and our Group has operations conducted outside Hong Kong and is governed by a legal and regulatory environment which in some respects may differ from that in Hong Kong. Any of the risks and uncertainties described below could have a material adverse effect on our business, results of operations, financial condition or on the trading price of the Shares, and could cause you to lose all or part of your investment.

RISKS ASSOCIATED WITH OUR BUSINESS

Our Group relies heavily on a limited number of major customers and the Guangdong Cigarette Manufacturer is the sole customer of our products with higher profit margins

During the Track Record Period, we have heavily relied on a limited number of major customers, in particular our largest customer.

For each of the three years ended 31 March 2013 and the three months ended 30 June 2013:

- the revenue derived from the sales to the Guangdong Cigarette Manufacturer, our largest customer throughout the Track Record Period, represented approximately 47.3%, 56.8%, 57.0% and 59.8% of the total revenue of our Group during the same period respectively; and

- the revenue derived from the sales to our five largest customers represented approximately 92.1%, 91.9%, 92.7% and 93.6% of the total revenue of our Group during the same period respectively.

Two of our products, namely tipping paper and cigarette trademark labels, have higher profit margins as compared with those of other products. During the Track Record Period, the Guangdong Cigarette Manufacturer was our sole customer of the aforesaid products.

Our Group will continue to rely on our largest customer and other major customers. There is no assurance that any of our largest customer and other major customers will continue to place orders with our Group in the future or upon the same terms and conditions. In the event that any of these major customers ceases to place orders with our Group or reduces the amount of their orders with us, or requests for more favourable terms and conditions, our business, results of operations, financial condition and future prospects may be adversely affected.

There is no minimum purchase amount under our sales arrangements with the Guangdong Cigarette Manufacturer

Under our sales arrangement with the Guangdong Cigarette Manufacturer, our largest customer during the Track Record Period, there was no minimum purchase amount of cigarette-related packaging materials which the Guangdong Cigarette Manufacturer was obliged to procure from our Group. The amount of orders of each of our products from the Guangdong Cigarette Manufacturer would be set out in the relevant purchase orders issued to us from time to time. Our Directors are not aware that there is a consistent market practice in the PRC regarding the stipulation of minimum purchase amount in the business arrangements between the cigarette manufacturers and their respective suppliers of packaging materials. In the event that the Guangdong Cigarette Manufacturer ceases or otherwise reduces its orders from our Group, the profitability and results of operation of our Group will be adversely affected.

There is no provision under the sales contracts with the Shanghai Cigarette Manufacturer stipulating the consequences of the failure of the Shanghai Cigarette Manufacturer to meet the minimum purchase amount

Our Group's sales contracts with the Shanghai Cigarette Manufacturer, our second largest customer during the Track Record Period, set out the minimum purchase amounts of cigarette-related packaging materials which the Shanghai Cigarette Manufacturer would procure from our Group during the contract term. There is, however, no provision stipulating the consequences of the failure of the Shanghai Cigarette Manufacturer to procure the respective minimum purchase amounts as set out in the sales contracts. In the event that the Shanghai Cigarette Manufacturer reduces its orders from our Group, the profitability and results of operation of our Group will be adversely affected.

Our sales contracts/arrangements with our major customers are for a limited period (usually three years) and we may not be able to secure new sales contracts/arrangements upon their expiry

During the Track Record Period, under the relevant PRC laws and regulations, the cigarette manufacturers were required to select their suppliers for packaging materials by way of open tender. In order to secure a sales contract from our customers, our Group is required to submit tender documents to the cigarette manufacturers and compete with other tenderers. The cigarette manufacturers shall have the sole discretion to select those suppliers which they consider to be suitable to them. If we are successful in the tendering process, we usually entered into sales contract/arrangement with the relevant cigarette manufacturer for a term of three years. Such sales contract will not be renewed automatically upon expiry. Among the ten sales arrangements with the Guangdong Cigarette Manufacturer, six sales arrangements for our products including cigarette box frame paper, cigarette trademark labels, tipping paper and inner frame papers are for the terms from May 2011 to May 2014; three sales arrangements for our products including cigarette trademark labels, inner frame paper and cigarette box frame paper are for the terms from December 2011 to November 2014; and the remaining one for our products of tipping paper is for the term from January 2013 to May 2014. Our existing sales contracts with the Shanghai Cigarette Manufacturer will expire on 31 December 2015. The cigarette manufacturers will be required to repeat the tendering process again shortly before the expiry of the existing term and our Group will be required to submit tender documents to bid for the new sales contract/arrangement.

There is no assurance that our Group will always be successful in bidding for the sales contract/arrangement. On the other hand, our customers may also decide to engage us to supply only some but not all the packaging materials that we are bidding for. In the event that we fail to secure any sales contract/arrangement in the tendering process, or we could only secure sales contract/arrangement in respect of some of our products, or our customers reduce the amount of orders for packaging materials placed with our Group, our results of operations may be adversely affected. Further, the tendering system may also intensify the price competition in the industry, which will in turn affect the profit margin of our Group.

We rely heavily on the PRC market

During the Track Record Period, the majority of our customers were based in the PRC. To the best knowledge of our Directors, our PRC customers also sell most of their cigarette products in the PRC. As it is likely that a substantial portion of our revenue will still be derived from the PRC in the foreseeable future, any adverse change in the political, economic and/or social environment in the PRC will adversely affect the sales of our products and our results of operations.

Our products are used by the cigarette manufacturers in the PRC as packaging materials. Any natural disaster occurred in the PRC, recession in the PRC economy or adverse change in the policies of the PRC government may adversely affect the business of the PRC cigarettes manufacturers, which will in turn affect our results of operations and business.

We may not be able to secure the continued service of our key management personnel

The development of our business is, to a large extent, attributable to the contribution of Mr. Zheng, our Chairman and an executive Director. Mr. Zheng has served our Group for more than 20 years and he has played an important role in, among others, our corporate development, market positioning, customer relationship management, financial arrangement and marketing strategies. Mr. Zheng Minsheng (鄭敏生), an executive Director and the deputy general manager of our Group and the younger brother of Mr. Zheng, also has more than 20 years in this industry and is responsible for overseeing the day-to-day operations of the production facilities of our Group. Although our Company has entered into a service agreement with each of our executive Directors for an initial term of three years, there could be an adverse impact on our operations should any of these senior management personnel terminate the service agreement with our Group or otherwise cease to serve our Group.

Our Group may not be able to renew our printing operation licence

According to our legal advisors as to PRC law, our Group is required to obtain a printing operation licence (印刷經營許可証) before we can continue our operation. The printing operation licence is usually for a term of three years and the existing permit will expire on 31 December 2013. The relevant PRC governmental authority has not announced the specific procedures for renewal of our printing operation licence. Nevertheless, we have submitted our application for renewal of the same in November 2013. According to our experience, the renewal process will be completed by late December 2013. Should our Group fail to renew the printing operation licence due to any reason whatsoever or we encounter serious delay in the renewal of such permit, our Group may be forced to cease or suspend operations. Further, any changes in the compliance standards or implementation of new laws and regulations may prohibit or restrict or increase the costs of our Group to conduct our business, which may in turn adversely affect our results of operation.

Our Group may cease to be entitled to pay enterprise income tax at the reduced rate of 15%

In November 2011, our Group was recognised as a High and New Technology Enterprise (高新技術企業) by the relevant PRC governmental authorities and awarded the High and New Technology Enterprise Certificate, which will remain effective for three years. According to our legal advisors as to PRC law, with such certificate, our Group was and will continue to be entitled to pay enterprise income tax at the reduced rate of 15% for the calendar years of 2011, 2012 and 2013. Should the relevant PRC governmental authorities refuse to continue to recognise our Group as a High and New Technology Enterprise due to any reason whatsoever, our Group will cease to be entitled to such preferential tax treatment and will be required to pay enterprise income tax at the rate of 25%. Under such circumstances, the profitability and results of operation of our Group will be adversely affected.

We may not be able to adjust the selling price of our products at our own discretion

Our businesses are mainly secured by way of tender. When the cigarette manufacturers issue invitation for tenders of cigarette-related packaging materials, they usually provide a reference price for each of the products. In our tender documents, we are required to set out the bidding price of our products, which was determined by our Group after taking into account the reference price provided by the cigarette manufacturers, the price trend of the raw materials and the historical selling price (if any).

If we are successful in our tender, we shall be obliged to supply our products at the price designated by the relevant cigarette manufacturer and bear the risks associated with the fluctuations in our operation costs and the price of the raw materials. We are not entitled to adjust the selling price of our products, even though the operation costs of our Group and/or the price of the raw materials may have increased due to any reason whatsoever.

In the event that our operation costs increase and we are not able to adjust the selling price of our products, our results of operation and profitability may be adversely affected.

We may not be able to sustain or improve our profit margin in the future

During the Track Record Period, our gross profit margins were approximately 13.1%, 19.0%, 28.2% and 30.7% respectively. For the same period, our net profit margins were approximately 4.5%, 11.2%, 16.0% and 15.9% respectively. Factors affecting our gross profit margins include, among others, the types of products, selling prices of our products, staff costs, operation costs of our production facilities, costs of raw materials, market competition etc. There is no assurance that we will be able to maintain or increase the gross profit margins of our products at a similar level in the future. In the event that we are unable to maintain or improve our gross profit margin, our profitability and results of operations may be adversely affected.

Our Group relies heavily on the sales of cigarette-related packaging materials, we may not be able to diversify our products and expand our customer base

We are principally engaged in the manufacture and sales of cigarette-related packaging materials in the PRC. For each of the three years ended 31 March 2013 and the three months ended 30 June 2013, approximately 99.5%, 99.6%, 99.8% and 100.0% of our Group's total revenue were derived from the manufacture and sales of cigarette-related packaging materials respectively. Continued and increasing market demand for cigarettes is therefore crucial to the prospects of our Group. If the demand for cigarettes decreases significantly or if the price or profit margin of our major products declines significantly, the business, financial condition and prospects of our Group may be materially and adversely affected.

Our production facilities are catered for the production of cigarette-related packaging materials. We will have to expend extra resources on our production facilities before we can diversify our product portfolio to those non-cigarette related products. In light of the aforesaid, it may be difficult for our Group to expand our customer base to those manufacturers in other industries which are not related to cigarette products. Even if those manufacturers are willing to place orders from us for the production of packaging materials or paper materials which are not related to cigarette products, our profit margin may be lower if such orders are only in a relatively small amount.

The change of our product mix may have a material effect on our performance

During the Track Record Period, our overall gross profit margins were approximately 13.1%, 19.0%, 28.2% and 30.7% respectively, and amongst our various products, the gross profit margins for tipping paper and cigarette trademark labels were higher than those of our other products and the gross profit margins for cigarette boxes were lower than those of our other products.

An analysis of our gross profit margins by product category is set out in the sub-paragraph headed "Gross profit and gross profit margin" under the paragraph headed "Management discussion and analysis" in the section headed "Financial information" of this prospectus.

Our product mix may vary as a result of any change in our business strategy, market conditions, customers' demands and other unforeseen factors. In the event that our product mix changed and a higher proportion of our products with low profit margins are manufactured and sold, our profitability may be adversely affected.

We only have one deposition facility (鍍膜設備) and one laser punching machine (激光打孔機)

As at the Latest Practicable Date, we only had one set of deposition facility and one laser punching machine. The deposition facility is used in the production of Inner Vacuum Metalised Paper for depositing a layer of aluminium on the transparent film in a vacuum environment. The laser punching machine is used in the production of tipping paper with holes for punching rows of small holes on the tipping paper. Both machineries are important to the production process of the relevant products of our Group. In the event that the deposition facility and/or the laser punching machine fail(s) to operate properly and we are not able to repair, obtain replacement equipment or engage third party to carry out the relevant production process in a timely manner, our production of the relevant products may have to be suspended, which will in turn adversely affect our operation.

We relied on certain major suppliers during the Track Record Period

The major raw materials for our products include base paper and aluminium foils. During the Track Record Period, purchases from our five largest suppliers amounted to approximately HK$97.6 million, HK$110.5 million, HK$97.8 million and HK$14.6 million respectively, representing approximately 50.5%, 57.2%, 50.2% and 46.4% of our total purchases respectively. We anticipate that we will continue to rely on these major suppliers for a significant portion of our purchases. If they fail to make timely delivery of the raw materials to our Group or substantially increase the price of the raw materials required by our Group and our Group fails to source from other suppliers in a timely and cost-effective manner, our operations may be delayed and adversely affected.

We do not have long-term contracts with our suppliers and we may encounter interruptions in the supply of raw materials

We have not entered into any long-term contracts with our suppliers. There is no assurance that any of our suppliers will not cease supplying any raw materials, or raw materials of the required quantities and/or qualities, to our Group. Any unexpected shortage or delay in the delivery of the required raw materials by our suppliers may result in interruption in our production. Further, some of our customers require our Group to procure raw materials from their designated suppliers and we may not be able to source raw materials from other alternative suppliers.

Any interruption in the supply of raw materials of the required quantities and/or quality may affect our production schedule, which may in turn adversely affect our reputation and relationship with our customers.

We may encounter fluctuations in the price of raw materials

The major raw materials used by our Group include base paper and aluminium foil. During the Track Record Period, the costs of raw materials incurred by our Group were approximately HK$166.6 million, HK$191.6 million, HK$178.3 million and HK$31.1 million respectively, representing approximately 90.4%, 89.0%, 89.0% and 87.9% of the total costs of sales of our Group during the same periods respectively.

The average price for procuring:

- base paper (i) increased by approximately 2.5% during the year ended 31 March 2012 as compared with the average price for procuring the same during the year ended 31 March 2011; (ii) decreased by approximately 2.0% during the year ended 31 March 2013 as compared with the average price for procuring the same during the year ended 31 March 2012; and (iii) further decreased by approximately 2.1% during the three months ended 30 June 2013 as compared with the average price for procuring the same during the year ended 31 March 2013; and

- aluminium foils (i) increased by approximately 12.3% during the year ended 31 March 2012 as compared with the average price for procuring the same during the year ended 31 March 2011; (ii) decreased by approximately 7.5% during the year ended 31 March 2013 as compared with the average price for procuring the same during the year ended 31 March 2012; and (iii) decreased by approximately 7.7% during the three months ended 30 June 2013 as compared with the average price for procuring the same during the year ended 31 March 2013.

Such price fluctuations will affect our production costs, which will in turn affect our gross profits margin. We cannot assure you that we will be able to transfer any increase in cost to our customers. We do not currently engage in any transactions to hedge against risks relating to fluctuations in the prices of the raw materials. As a result, any increase in the prices of the raw materials used to manufacture our products may materially and adversely affect our profitability and results of operations.

Our sales experience seasonal fluctuations

Our business experienced seasonal fluctuations during the Track Record Period. Cigarette manufacturers in the PRC generally experience their peak season in the Chinese New Year. Our Group, which is a supplier of packaging materials to these manufacturers, usually experiences peak season in the first and the fourth quarter of each year in order to meet their high production level. In the event that there is any adverse change in the market conditions in the first and the fourth quarter of the year, our business and results of operation may be adversely affected.

We have experienced periods of net cash outflow from operating activities in the past and may face the same problem in future

We have experienced periods of net cash outflow from operating activities in the past. During the year ended 31 March 2011, we had net cash outflow from operating activities of approximately HK$7.5 million, primarily due to the increase in inventory of approximately HK$22.4 million as at 31 March 2011 as compared to 31 March 2010, which was in turn, mainly due to the pile up of raw material in anticipating of increase in purchase price of base paper and aluminium foils (both of them are our major raw materials) in forthcoming period. Previously piled-up base paper and aluminium foils had been utilised in the production during the year ended 31 March 2012. For further details, please refer to the paragraph headed "Liquidity and capital resources" under the section headed "Financial information" of this prospectus.

We cannot assure you that we will not experience periods of net cash outflow from our operating activities in the future. If we continue to have net cash outflow from our operating activities in the future, our business, financial condition and results of operation may be materially and adversely affected.

We face credit risks from our customers

The credit terms (if any) are set out in the invitation for tenders issued by the cigarette manufacturers and we usually follow the credit terms as stated therein when we submit our tender documents to them. Therefore, we are not able to determine the credit terms to be offered to our customers. According to the sales arrangements/contracts between our Group and:

- the Shanghai Cigarette Manufacturer, the Shanghai Cigarette Manufacturer shall be entitled to credit terms of 90 days; and
- the Guangdong Cigarette Manufacturer, no specific credit terms have been agreed.

There are credit risks associated with our business. Should any of our customers fail to settle the purchase prices in a timely manner, our cashflow may be adversely affected. Further, bad debt provisions or write-offs may also be required which may have an adverse effect on our Group's results of operations. No provision for impairment of trade receivables was made during the Track Record Period.

We rely on external logistics services providers to transport our products to our customers

Our production base is located in Shantou, the north-eastern part of Guangdong Province, the PRC. According to the sales contracts entered into between our Group and our major customers, we are responsible, at our own costs and expenses, for delivering our products to locations designated by them. We do not have our own transportation vehicles and we engage external logistics services providers to provide transportation services to us. In the event that those external logistics services providers refuse to provide transportation services to us, or only agree to provide transportation services at a higher price, our business, profit margins and results of operations may be adversely affected.

Further, the Shanghai Cigarette Manufacturer, our second largest customer during the Track Record Period, is located in Shanghai, which is far away from our production base. This increases the inconvenience of the delivery arrangement of our products to it.

We may encounter electricity supply shortage

Our Group's production lines are all automated or semi-automated and require continuous electricity supply for their operations. Due to the heavy weight, almost all transportations of raw materials and products in our production premises require the assistance of machineries and equipments. As we consider the possibility of the occurrence of electricity shortage is remote, we do not have any backup electricity supply which can be used for our production. Nevertheless, there is no assurance that electricity supply shortage will not become prevalent in the future. In the event that our Group's productions are interrupted by electricity supply shortage and our Group cannot obtain electricity supply from other sources at a price similar to the current electricity rate, our Group's operations and profitability may be adversely affected.

We may not be able meet the ever-changing demands of our customers

We conducted research and development to enhance our production methods and improve the quality of our products so as to meet our customers' needs. There is no assurance that we will always be successful in our research and development. If we fail in our research and development or we fail to cope with latest technology developments, we may lose business from our existing customers, which will in turn adversely affect our results of operations and prospects.

Our Group's future acquisitions may prove to be difficult to integrate or manage and may not be successful

In the future, our Group may carry out strategic acquisition. Please refer to the sub-paragraph headed "Increasing our market share by acquiring companies with long-term and good business relationship with our target customers" under the paragraph headed "Business strategies" under the section headed "Business" of this prospectus for details of such strategic acquisition. Currently, we have allocated approximately HK$20.6 million, representing approximately 38.5% of the net proceeds from the Share Offer (assuming that the Offer Shares are to be issued at HK$1.33 per Offer Share, being the mid-point of the stated range of the Offer Price), will be used for strategic acquisitions. As at the Latest Practicable Date, we have not identified any specific acquisition targets. We may face certain risks in carrying out strategic acquisitions, including but not limited to unidentified or unanticipated liabilities or risks in the assets or businesses which we may acquire, inability to successfully integrate the products, services and personnel of the businesses which we may acquire into our existing operations or to realise any synergies from the acquisitions, the need to incur additional indebtedness, inability to retain employees and customer relationships, diversion of management attention and other resources, etc.

Further, we may not be able to identify suitable acquisition opportunities, or make acquisitions on favourable terms. It cannot be assured that any of the acquisitions will result in long-term benefits to our Group or that we will be successful in managing the integration and growth. Any failure to do so may adversely affect our business, financial conditions, results of operations and prospects.

Our plan on the acquisition of a new printing press may not proceed

We intend to upgrade our existing production base, further expand our production capability and increase our production capacity by, inter alia, acquisition of machineries of more advanced technology such as printing press for the production of cigarette paper boxes, details of which are set out in the paragraph headed "Business strategies" under the section headed "Business" of this prospectus. Currently, we have allocated approximately HK$11.3 million, representing approximately 21.2% of the net proceeds from the Share Offer (assuming that the Offer Shares are to be issued at HK$1.33 per Offer Share, being the mid-point of the stated range of the Offer Price), for acquiring a new printing press.

As at the Latest Practicable Date, our Group had no specific timetable for the acquisition of the new printing press and would only proceed to acquire the same as and when our management considers appropriate. There is no assurance that the plan for the acquisition of the new printing press will materialise. There may be possibility that our management may, after considering the market conditions and other factors, eventually decide not to proceed with such plan. In the event that our management decides not to proceed with the acquisition, we may not be able to secure potential customers for cigarette paper boxes, which will in turn adversely affect our business and prospects.

Failure to protect our intellectual property rights may adversely affect our business

The production methods and know-how of our Group's products are under constant development. We may have to develop new technical know-how in our production method upon the request of our customers. As at the Latest Practicable Date, we have obtained one patent in respect of our production methods, details of which are set out in the paragraph headed "Intellectual property rights" under the section headed "Business" of this prospectus.

There is no assurance that any other parties will not infringe the intellectual property rights of our production methods. In the event that any other parties infringe our intellectual property rights and we fail to protect our rights on the same, our business and prospects may be adversely affected.

We may be subject to claim in the event that any industrial accidents occur or any of our staff suffers from occupational illness

Our production involves operation of machineries and equipments. Industrial accidents may occur if any of our staff does not operate those machineries and equipment in a proper manner. In the event that any industrial accident occurs which causes injuries or death to our staff, we may be subject to claim from our staff and even involved in costly litigation with them, which will in turn adversely affect our financial conditions. If any of those industrial incidents and/or occupational illness is reported by the media, it will cause adverse publicity to our Group and our reputation will be adversely affected.

Our Group may be subject to product liability claims

Pursuant to the Product Quality Law of the PRC (中華人民共和國產品質量法) and the Law of the PRC on the Protection of the Rights and Interest of Consumers (中華人民共和國消費者權益保護法), our Group may be subject to product liability claims in the event that any of our products is alleged to have caused any harms to the end users. Our Group does not maintain any insurance for such product liability claims. We did not receive any claims regarding product liability during the Track Record Period. However, in the event that any consumer claims against our Group for any product liability and our Group is adjudged to be liable for the same, the results of operation and the reputation of our Group may be adversely affected.

Our Group may not always be able to detect corruptive conduct, if any, of our staff

Our Group may not always be able to detect corruptive conduct, if any, of our staff. In the event any of our staff has committed any corruptive conduct, whether in the procurement of raw materials from our suppliers, securing of orders from our customers or otherwise, the interest of our Group may be adversely affected. Further, our Group may also be subject to investigation or prosecution of the relevant PRC governmental authority, which will in turn cause adverse publicity to our Group and our reputation will be adversely affected. Such corruptive conduct may also affect our relationships with our suppliers and customers, which will in turn affect our business and results of operations.

We may have to put extra resources in the compliance of the increasingly stringent laws and regulations of the PRC on environmental protection

We are required to comply with the laws and regulations of the PRC on environmental protection. During our production, we produce certain amount of pollutants and noises. We are not required to comply with any special legal or regulatory requirements other than those applicable to all manufacturers in the PRC. In the event that any of the PRC laws and/or regulations and/or the policies of the government on environmental protection is amended and more stringent requirements are imposed on our Group, we may have to incur extra costs and expenses to comply with such requirements and our business and results of operations may be adversely affected.

If we fail to comply, or are alleged to fail to comply, with the relevant PRC laws, regulations or government policies on environmental protection, we may be involved in costly litigation or subject to penalties or other sanctions imposed by the relevant PRC judicial or governmental authorities.

We have not fully complied with certain PRC laws and regulations

We have not fully complied with certain PRC laws and regulations in the past years, a brief description of which is set out below:

- Xinda Packing was unable to make social insurance contribution in full prior to 1 May 2013 and housing provident fund contributions for all of its employees prior to 1 March 2013, as required under the relevant PRC laws, regulations or local policies. According to our legal advisors as to PRC law, Xinda Packing might be required to make retrospective payment of all outstanding social insurance contributions within a prescribed period failing which Xinda Packing might be subject to overdue penalty and/or fine. Xinda Packing might also be ordered by the relevant housing provident fund authorities to pay the outstanding housing provident fund contributions but it will not be subject to any overdue penalty or fine;

- the amount of capital contributed had not been paid in full within 90 days from the date of issue of business licence. As advised by our legal advisors as to PRC law, failure to contribute the relevant amount of capital within the said period will result in the Certificate of Approval being lapsed automatically. The foreign investment enterprise shall have to proceed with the de-registration of the company and return the business licence;

- Xinda Packing failed to submit an application for change of business scope to the relevant PRC governmental authority within 30 days after the resolution approving the same. As advised by our legal advisors as to PRC law, the maximum penalty for late registration of which Xinda Packing may be liable is RMB100,000;

- Xinda Packing has, on three occasions, failed to make the required filing the capital contributions from its shareholders at the relevant PRC governmental authority.

For more details, please refer to the sub-paragraph headed "Non-compliance incidents" under the paragraph headed "Regulatory compliance" under the section headed "Business" of this prospectus.

In the event that any penalties and/or other sanctions are imposed by the relevant PRC governmental authorities, our business and operations may be adversely affected.

We rely on profit distribution by our operating subsidiary in the PRC

Our Company is a holding company and relies on dividends paid by Xinda Packing, our operating subsidiary in the PRC. Under the relevant PRC laws, Xinda Packing may only declare and pay dividends out of its retained earnings, if any, calculated in accordance with accounting principles applicable to enterprises established in the PRC and the relevant financial regulations in the PRC, which may be different in certain material respects from that arrived at by adopting Hong Kong Financial Reporting Standards. In addition, under the PRC laws and regulations, Xinda Packing is required to set aside a certain portion of its net income after tax each year to the statutory reserve funds and the staff welfare funds until the cumulative amount of such reserves reaches 50% of its registered capital, which are not distributable as dividends. As such, our Company may not have sufficient distribution from Xinda Packing to support our payment of dividend to our Shareholders.

Any disruption in our production facilities from acts of God, wars, terrorist attacks outbreak of infectious diseases or natural disasters could cause losses to us and materially and adversely affect our business, financial condition and results of operations

Significant damage to any of our production facilities from acts of God, wars, terrorist attacks, outbreak of infectious diseases or natural disasters or other causes, such as extreme weather conditions, floods, fires, earthquakes, workforce actions, riots, epidemic and other disruptions such as system failures will disrupt our manufacturing activities. Any such disruption in our production capacity could have an adverse impact on our ability to produce sufficient inventory and/or to meet any purchase orders from customers. Any such disruption could also cause our Group to stop, limit or delay our production, or delay or suspend delivery of our products to our customers, for which we may incur additional expenses in order to produce sufficient inventory and could impair our ability to meet the demand of our customers and cause such customers to cancel orders, any of which could materially and adversely affect our reputation, business, financial condition and results of operations that we cannot currently predict. Such damage may not be adequately covered by our insurance coverage and could materially and adversely affect our business and operating results.

RISKS ASSOCIATED WITH THE INDUSTRY

Tightened tobacco control measures in the PRC may limit the growth of the cigarette industry and hence the cigarette package industry

Legislative control on tobacco in the PRC

The Tobacco Monopoly Law of the PRC (中華人民共和國煙草專賣法) came into effect on 1 January 1992. This law sets out various tobacco control measures in the PRC, which include the prohibition or restriction on smoking in public transportation vehicles and public areas and smoking by primary and secondary school students.

Moreover, for the protection of health and to alert the public of the social, environmental and economic consequences of tobacco consumption and exposure to tobacco smoke, the PRC entered into the World Health Organisation Framework Convention on Tobacco Control (世界衛生組織煙草控制框架公約) in 2003, which provides the framework for tobacco control measures. After the WHO Framework Convention on Tobacco Control came into effect in the PRC in 2006, various tobacco control measures have been implemented.

Regulatory control on packaging and labeling of cigarettes

The Provisions of Regulating the Packaging and Labeling of Domestic Sales of Tobacco (關於規範境內銷售捲煙包裝標識的規定), which came into effect in 2006, requires, amongst others, the warning statement of "Smoking is harmful" ("吸煙有害健康") to be shown on cigarette packages and the tobacco manufacturers are responsible for ensuring the compliance with such provisions. There is no assurance that more distinctive and striking health warning will not be required on the cigarette packaging, which may affect the incentive of cigarette consumption and reduce the size of the cigarette market. In such case, our business, financial position and results of operations may be adversely affected.

Regulatory control on tobacco in public areas

The Public Places Hygiene Management Regulation Enforcement Rules (公共場所衛生管理條例實施細則), which came into effect in 2011, amongst others, (i) prohibits smoking and placing cigarette vending machines in indoor public areas; and (ii) requires the setting up of distinct warning and label for the prohibition of smoking in public areas. In the event that smoking is further restricted or prohibited in other places, the smokers may have to reduce or even cease smoking, which will in turn affect the size of the cigarette market in the PRC our business, results of operations and prospects may be adversely affected.

Prohibition of the sale of high-tar cigarettes

The STMA issued the Notice about Further Strengthening the Research and Development of Low-Tar Cigarette (關於進一步加強低焦油捲煙研發工作有關要求的通知) in November 2011, which requires cigarette manufacturers to further increase their research and development in low-tar cigarettes, and the Notice about Adjustment to the Upper Limit of Cigarette Tar-level (關於調整捲煙盒焦油最高限量的通知) in April 2012, which disqualifies and prohibits the sale and import of cigarettes which exceeds tar-level of 11mg commencing from 1 January 2013. Our Directors confirm that, based on their records, as at the Latest Practicable Date, they are not aware of any of our cigarette-related packaging materials sold to cigarette manufacturers are used to manufacture cigarette with tar level of more than 11mg. In the event that our customers are required to cease to manufacture any of those cigarette products which our Group currently supplies cigarette-related packaging materials as a result of the new regulatory requirements, our business and results of operations may be adversely affected.

The results of operation and growth of our business will depend on the cigarettes industry in the PRC, which may in turn be adversely affected by the laws, regulations and governmental policies on tobacco control. In the event that the PRC government tightens its control measures on tobacco, our business, results of operation and prospects may be adversely affected.

We operate in a highly competitive industry

In general, there is no significant legal barrier for the business which our Group is engaged in. Such circumstances will favour small and medium-sized producers to enter the market, which will in turn intensify the market competition in our industry. According to Ipsos Report, in 2012, there were over 200 and 17 manufacturers of cigarette-related packaging materials in the PRC and Guangdong Province respectively. Market competition may affect our business.

There is no assurance that companies producing other paper or packaging products will not diversify their business into the manufacture of cigarette-related packaging materials. We cannot assure that our current and future competitors will not develop products of comparable or superior quality as compared to ours, or are not more capable of coping with the preferences of our customers. If our Group fails to compete successfully against existing or future competitors, our business, financial conditions and results of operation will be adversely affected.

Concerns and awareness on public health will affect the cigarette industry, which will in turn affect our business

Smoking cigarette causes many types of cancer, including but not limited to lung, esophagus, etc. It is considered that quitting smoking reduces the health risks caused by exposure to cigarette. The global trend of increasing awareness of health-related issues associated with smoking may adversely affect the demand and sales of cigarettes, which will in turn affect our business. Given that cigarettes are generally considered to be hazardous to health, there is no assurance that the public will not, in the future, change their habits and reduce consumption of cigarettes. In the event that the public reduces their consumption of cigarettes or any substitute in replacement of cigarettes appears in the future, the cigarettes industry will shrink significantly, which will in turn adversely affect our business.

Consolidation of manufacturers and brands in the cigarette industry

The cigarette industry in the PRC is highly regulated and has undergone restructuring and consolidation in the recent decade, details of which are set out in the section headed "Industry overview" of this prospectus. According to the Ipsos Report, as a result of the efforts on industry consolidation, the number of cigarette manufacturers in the PRC has decreased from approximately 200 in 2000 to 25 in 2012 and the number of cigarette brands has decreased from 1,181 in 2000 to 98 in 2012. If we fail to retain existing and/or secure new customers which can benefit from the market consolidation driven by the government policies, we may lose our current market share, which may adversely affect our business, financial conditions and results of operations.

In the event that the PRC government is determined to further restrict the sale of luxury cigarette products, the profitability of the PRC cigarette manufacturers may decrease, which may in turn adversely affect our business.

Recession in the global economy may affect the business of our customers, which will in turn cause adverse impact on our results of operation

Our customers mainly comprise cigarette manufacturers. To the best knowledge of our Directors, those cigarette manufacturers sell their cigarette products in the PRC as well as overseas markets. Therefore, demands for cigarette products from the local and/or overseas markets will affect their business. The continuing recession in the global economy in recent years may weaken the demands of cigarette products in the local and/or overseas markets and affect the business of our customers, which may in turn reduce their orders for packaging materials placed with our Group. Under such circumstances, our business and results of operation may be adversely affected.

RISKS ASSOCIATED WITH THE PRC

All of our assets are located in the PRC and Hong Kong and all of our revenue is derived from the PRC. Accordingly, our results of operations, financial position and prospects are subject to the economic, political and legal developments in the PRC.

Political and social conditions may affect our business

Since 1978, the PRC government has been undergoing a series of reforms, with emphasis on its political systems. Such reforms have resulted in significant economic growth and social progress and many of the reforms are expected to be refined and improved. Other political and social factors may also lead to further readjustment and refinement of the reform measures. There is no assurance that such reform measures introduced by the PRC government will have a favourable effect on the operations of our Group. Our Group's performance may be adversely affected by changes in the PRC political and social conditions resulting from changes in the policies adopted by the PRC government.

Economic conditions may affect our business

The economy of the PRC has been transformed from a planned economy to a market economy with socialist characteristics. There is no certainty that the PRC government's pursuit for economic reforms will not be slowed down. However, as the PRC legal system matures, there can be no assurance that changes in its legislation or the related interpretation will not have an adverse effect on the business and prospects of our Group. In particular, the financial position and results of operations may be adversely affected by the PRC government's control over capital investments or any changes in tax regulations or foreign exchange controls that are applicable to our Group.

The legal system of the PRC may affect our business

Since 1979, the PRC government has promulgated laws and regulations in relation to general economic matters, including but not limited to, foreign investment, corporate organisation and taxation, with a view to develop a comprehensive system of commercial laws. Despite the legal development during the past decades, the legal system of the PRC still has to be improved. In particular, enforcement of existing laws and contracts may sometimes be difficult. We cannot predict with certainty the effect of future legal development in the PRC, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the inconsistencies between local rules and regulations and the national laws. In addition, the PRC legal system is sometimes affected by the government policies.

Dividends payable by us to our foreign investors and gains on the sales of our Shares may become subject to withholding tax under PRC tax laws

Under the EIT Law and the Implementation Rules, PRC income tax at the rate of 10% is applicable to dividends payable to investors that are "non-resident enterprises" (and that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business) to the extent such dividends have their source within the PRC. Similarly, any gain realised on the transfer of shares by such investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. If we are considered a PRC "resident enterprise", it is unclear whether the dividends we pay with respect to our Shares, or the gain you may realise from the transfer of our Shares, would be treated as income derived from sources within the PRC and be subject to PRC tax. If we are required under the EIT Law to withhold PRC income tax on our dividends payable to our foreign Shareholders who are not within the PRC, or if you are required to pay PRC income tax on the transfer of your Shares, the value of your investment in your Shares may be materially and adversely affected.

It may be difficult to effect service of process or to enforce judgments in the PRC

Most of our assets and our operating subsidiary are located in the PRC. Most of our Directors and senior management reside in the PRC, and most of the assets of our Directors and senior management may also be located in the PRC. It may be difficult to effect service of process from outside the PRC upon us or most of our Directors and senior management. A judgment of a court of another jurisdiction may be recognised or enforced by the PRC courts either through treaties between the PRC and the relevant countries or regions, or through the application of the principle of reciprocity, subject to the relevant legal and regulatory requirements. However, the PRC does not have treaties with Japan, the United Kingdom, the United States and most other countries providing for the reciprocal enforcements of judgments. As a result, recognition and enforcement in the PRC of judgments in such jurisdictions is subject to uncertainties.

Government control of currency conversion between the RMB and other currencies could negatively affect our financial condition, operations and our ability to pay dividends

RMB currently is not a freely convertible currency. We receive substantially all of our turnover in RMB and might need to convert RMB to foreign currency for payment of dividends, if any, to our Shareholders. Under the current foreign exchange regulations in the PRC, our PRC subsidiaries will be permitted, upon completion of the Share Offer, to effect foreign exchange for current-account transactions (including the distribution of dividends) through accounts permitted by the PRC government. Under the existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditure from trade related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from SAFE or its local branch 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 loans denominated in foreign currencies. There can be no assurance that the PRC government will not in the future impose restrictions on certain foreign exchange transactions such as the payment of dividends.

RISKS ASSOCIATED WITH THE SHARE OFFER

The liquidity and price of the Shares may be volatile

Prior to the Share Offer, there has been no public market for the Shares. There is no assurance that an active trading market for the Shares, if it does develop, will be sustained following completion of the Share Offer. The Offer Price may not be indicative of the price at which the Shares will trade following completion of the Share Offer. There is no assurance that the market price of the Shares will not fall below the Offer Price. Prices for the Shares may also fluctuate significantly. The trading price of the Shares subsequent to the Share Offer may also be subject to significant volatility in response to, among other factors, the following:

- investor perceptions of our Group and our Group's future plans and prospects;
- variations in the operating results of our Group;
- technological advance;

- changes in pricing by our Group or our competitors;
- changes in our Group's key and senior management; and
- general economic and other factors.

Statistics and facts under the section headed "Industry overview" of this prospectus may be inaccurate

All of the statistics relating to the cigarette market and cigarette-related packaging materials market in the PRC and most of the related facts as set out in the section headed "Industry overview" of this prospectus have been extracted from various official resources of the PRC government, WHO, STMA, industry organisations and the analysis of Ipsos Hong Kong Limited. Our Group has not carried out any independent verification on the relevant statistics and facts. Accordingly, our Group makes no representation as to the completeness or accuracy of these statistics and facts, or their compatibilities with other sources or reports. Such statistics and facts may be inaccurate and should not be unduly relied upon.

Forward-looking statements may prove inaccurate

This prospectus contains certain forward-looking statements relating to our Group's plans, objectives, expectations and intentions. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of our Group to be materially different from the anticipated results, performance or achievements expressed or implied by the forward-looking statements in this prospectus. Such forward-looking statements are based on numerous assumptions as to our Group's present and future business strategies and the environment in which our Group will operate in the future. Our Group's actual results, performance or achievements may differ materially from those discussed in this prospectus.

Historical dividends are not indicative of future dividends

Xinda Packing, our subsidiary, has recognised dividend as declared to Mr. Zheng, the then sole shareholder, in the sum of RMB21.9 million (equivalent to approximately HK$27.7 million) on 24 April 2013. Our Company declared dividends of (i) RMB19.0 million (equivalent to approximately HK$24.0 million) on 10 October 2013; and (ii) RMB9.5 million (equivalent to approximately HK$12.0 million) on 11 November 2013 to SXD Limited, a company wholly-owned by Mr. Zheng, all of which were settled in the form of cash payment before the Latest Practicable Date. Save for the dividend declared as disclosed above, none of our Company or our Group's subsidiary declared any dividend up to the Latest Practicable Date. Such dividends should not be used by potential investors as a guide to the future dividend policy of our Group. There is no assurance that dividends will be declared or paid in the future, at a similar level or at all. The past dividend rates should not be used as a reference or basis to determine the amount of dividends in the future. The amount of any dividends to be declared in the future will be subject to, among other factors, the discretion of our Directors, having considered the working capital requirements of our Group in the future, the availability of distributable profits, our Group's results of operation, working capital, capital and funding requirements, tax requirements, the applicable laws and other relevant factors.

Future disposals of a substantial number of our Shares by our major Shareholders in the public market may cause downward pressure to the market prices of our Shares

The disposals of a substantial number of the Shares in the public market after the Share Offer, or the possibility for such disposals by our majority Shareholders, could adversely affect the market price of the Shares. Some of the Shares are subject to certain lock-up periods, details of which are set out in the section headed "Underwriting" of this prospectus. The relevant Shareholders will be able to dispose of the Shares upon expiration of the lock-up periods. Disposals of any substantial number of our Shares may cause downward pressures on the market price of our Shares.

As the Offer Price is higher than the net tangible assets book value per Share, investors will experience immediate dilution

The Offer Price is higher than the net tangible assets book value per Share immediately prior to the Share Offer. Therefore, our Shareholders will experience an immediate dilution in the pro forma combined net tangible asset book value per Share. Further, we may consider issuing additional new Shares in the future. Moreover, our Shareholders may experience further dilution of their interest if the Underwriter exercises the Over-allotment Option or if we issue additional new Shares in the future at a price which is lower than the net tangible asset book value per Share.

Investors should not rely on any information contained in the press articles or other media regarding our Group and the Share Offer

There might be certain press coverage in certain news publications regarding our Group and the Share Offer which included certain financial information, financial projections and other information about our Group that do not appear in this prospectus (the "**Information**"). Our Group wishes to emphasise to potential investors that our Group does not accept any responsibility for the accuracy or completeness of the Information and that the Information was not sourced from or authorised by our Group. Our Group makes no representation as to the appropriateness, accuracy, completeness or reliability of any of the information and underlying assumptions. To the extent that any of the Information is inconsistent with, or conflicts with, the information contained in this prospectus, our Group disclaims it. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

Rule 8.12 of the Listing Rules requires that an issuer must have sufficient management presence in Hong Kong and, in normal circumstances, at least two of the issuer's executive directors must be ordinarily resident in Hong Kong. Currently, all of our executive Directors are not ordinarily resident in Hong Kong. As most of our operations will be in the PRC, we will not, after the Listing or in the foreseeable future, have sufficient management presence in Hong Kong. We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 8.12 of the Listing Rules.

The arrangements proposed by us for maintaining regular communication with the Stock Exchange for the purpose of Rule 8.12 of the Listing Rules are as follows:

(a) we have appointed two authorised representatives, namely Mr. Zheng and Mr. Yu Wing Cheung, pursuant to Rule 3.05 of the Listing Rules, who will act as our principal communication channels with the Stock Exchange and will be readily contactable by the Stock Exchange;

(b) Mr. Yu Wing Cheung is ordinarily resident in Hong Kong. Mr. Zheng, who is not ordinarily resident in Hong Kong, possesses valid travel documents to visit Hong Kong and can meet the Stock Exchange within a reasonable period;

(c) all our Directors will provide our authorised representatives and the Stock Exchange their mobile numbers, office telephone numbers, facsimile numbers and email addresses (if any) and can be reached promptly at all times. When the Stock Exchange wishes to contact them on any matter, and in the event that a Director expects to travel and be out of office, he will have to provide the phone number of the place of his accommodation or means of communication to our authorised representatives;

(d) each of our Directors who is not ordinarily resident in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and can meet with the Stock Exchange within a reasonable period upon requests of the Stock Exchange; and

(e) we will appoint Haitong International Capital Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules for the period commencing from the Listing Date and ending on the day on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date. Our compliance advisor will act as an additional channel of communication with the Stock Exchange.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules, Chapter 571V of the Laws of Hong Kong and the Listing Rules for the purpose of giving information with regard to our Company. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

FULLY UNDERWRITTEN

The Share Offer comprises the Placing and the Public Offer. Details of the structure of the Share Offer are set out in the section headed "Structure of the Share Offer" of this prospectus. This prospectus and the Application Forms relating thereto set out the terms and conditions of the Share Offer.

The Share Offer is sponsored by the Sponsor, managed by the Sole Bookrunner and is (subject to the agreement between our Company (for ourselves and on behalf of the Selling Shareholder) and the Sole Bookrunner (for itself and on behalf of the Underwriter) on the final Offer Price) fully underwritten by the Underwriter as referred to in the paragraph headed "Placing and Public Offer Underwriter" under the section headed "Underwriting" of this prospectus.

The Offer Price is expected to be fixed by an agreement between our Company (for ourselves and on behalf of the Selling Shareholder) and the Sole Bookrunner (for itself and on behalf of the Underwriter) on Friday, 29 November 2013 or such other date as may be agreed between our Company (for ourselves and on behalf of the Selling Shareholder) and the Sole Bookrunner (for itself and on behalf of the Underwriter), but in any event no later than Wednesday, 4 December 2013. In the event that our Company (for ourselves and on behalf of the Selling Shareholder) and the Sole Bookrunner (for itself and on behalf of the Underwriter) are unable to reach an agreement on the Offer Price by Wednesday, 4 December 2013, the Share Offer will not become unconditional and will lapse immediately.

OFFER SHARES TO BE OFFERED IN HONG KONG ONLY

No action has been taken in any jurisdiction other than Hong Kong to permit the offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any circumstances in which such offer or invitation is not authorised or to any person to whom it is unlawful to make an unauthorised offer or invitation. The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus. No person is authorised in connection with the Share Offer to give any information, or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by our Company, the Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriter, any of their respective directors or any other persons or parties involved in the Share Offer.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Our Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue, the Shares to be issued as mentioned in this prospectus, and any Shares which may be allotted and issued upon the exercise of options which may be granted under the Share Option Scheme.

No part of our Company's share or loan capital is listed or dealt in on any other stock exchange. At present, our Company is not seeking or proposing to seek the listing of or permission to deal in its Shares and loan capital on any other stock exchange.

STAMP DUTY

All Offer Shares will be registered on our Company's register of members maintained in Hong Kong. Only Shares registered in our Company's register of members maintained in Hong Kong may be traded on the Stock Exchange. Dealings in Shares registered in our Company's register of members maintained in Hong Kong will be subject to Hong Kong stamp duty.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of subscribing for or purchasing, holding or disposing of or dealing in the Offer Shares, you should consult an expert. None of our Company, our Directors, the Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriter, their respective directors or any other person involved in the Share Offer accepts responsibility for any tax effects on, or liability of, any person or holders of Shares resulting from subscribing for, purchasing, holding or disposing of or dealing in the Offer Shares.

OVER-ALLOTMENT OPTION AND STABILISATION

Details of the arrangements relating to the Over-allotment Option and the related stabilisation exercise are set out in the section headed "Structure of the Share Offer" of this prospectus.

PROCEDURE FOR APPLICATION FOR THE PUBLIC OFFER SHARES

The procedure for application for the Public Offer Shares is set out in the section headed "How to apply for the Public Offer Shares" of this prospectus and on the relevant Application Forms.

STRUCTURE OF THE SHARE OFFER

Details of the structure of the Share Offer, including conditions of the Share Offer, are set out in the section headed "Structure of the Share Offer" of this prospectus.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares on the Stock Exchange and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or such other date HKSCC chooses. Investors should seek the advice of their stockbroker or other professional advisor for details of those settlement arrangements as such arrangements will affect their rights, interest and liabilities.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All necessary arrangements have been made for the Shares to be admitted to CCASS.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence at 9:00 a.m. on Friday, 6 December 2013.

The Shares will be traded in board lots of 2,000 Shares each.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. The English translation of the Chinese name of (i) a corporate entity established in the PRC; (ii) a PRC law, regulation or rule; (iii) a PRC governmental or regulatory authority; or (iv) an award, certificate or permit granted/issued by a PRC governmental or regulatory authority has been provided for identification and reference purposes only. If there is any inconsistency between the Chinese names of any of the aforesaid company names, laws, regulations, rules, authorities, awards, certificates or permits and their English translation, the Chinese names shall prevail.

ROUNDING

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

DIRECTORS

Name	Residential address	Nationality
Executive Directors:		
Zheng Andy Yi Sheng (鄭毅生)	Flat B, 28th Floor, Tower 3 Grand Promenade 38 Tai Hong Street Sai Wan Ho Hong Kong	Australian
Zheng Minsheng (鄭敏生)	Block 4, Jin Tai Garden Villa Zone Zhongshan Lu Longhu Qu Shantou the PRC	Chinese
Independent non-executive Directors:		
Ma Wenming (馬文明)	1-2202, Hengchang Garden Xicheng Qu Beijing the PRC	Chinese
Lau Kwok Hung (劉國雄)	Flat H, 39th Floor, Block 1 La Cite Noble 1 Ngan O Road New Territories Hong Kong	Chinese
Fok Po Tin (霍寶田)	Flat A, 4th Floor Rowen Court 25 Babington Path Central Hong Kong	Chinese

PARTIES INVOLVED

Sponsor	Haitong International Capital Limited 22/F Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
Sole Bookrunner and Sole Lead Manager	Haitong International Securities Company Limited 22/F Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
Public Offer Underwriter	Haitong International Securities Company Limited 22/F Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
Placing Underwriter	Haitong International Securities Company Limited 22/F Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
Legal advisors to our Company	*As to Hong Kong law* Pang & Co. in association with Loeb & Loeb LLP 21st Floor, CCB Tower 3 Connaught Road Central Hong Kong *As to PRC law* King & Wood Mallesons 40th Floor, Tower A, Beijing Fortune Plaza 7 Dongsanhuan Zhonglu Chaoyang, Beijing PRC *As to Cayman Islands law* Appleby 2206-19, Jardine House 1 Connaught Place Central, Hong Kong

Legal advisors to the Sponsor, the Sole Bookrunner, the Sole Lead Manager and the Underwriter	*As to Hong Kong law* F. Zimmern & Co. Rooms 1002-1003, 10th Floor York House The Landmark 15 Queen's Road Central Central Hong Kong *As to PRC law* Commerce & Finance Law Offices 6th Floor, NCI Tower A12 Jianguomenwai Avenue Chaoyang District Beijing 100022, PRC
Auditor and reporting accountant	PricewaterhouseCoopers *Certified Public Accountants* 22nd Floor, Prince's Building Central Hong Kong
Property valuer	DTZ Debenham Tie Leung Limited 16th Floor Jardine House 1 Connaught Place Hong Kong
Receiving bank	Standard Chartered Bank (Hong Kong) Limited 15th Floor, Standard Chartered Tower 388 Kwun Tong Road, Kowloon Hong Kong

CORPORATE INFORMATION

Registered office	Clifton House P. O. Box 1350 75 Fort Street Grand Cayman KY1-1108 Cayman Islands
Headquarters and principal place of business in the PRC	No. 4, Wanji North Street, Wanji Industrial District Shantou City Guangdong Province PRC
Principal place of business in Hong Kong	Units 6-7, 19th Floor, High Block, Cosco Tower Grand Millennium Plaza 183 Queen's Road Central and 33 Wing Lok Street Hong Kong
Company secretary and group financial controller	Yu Wing Cheung *CPA*
Compliance advisor	Haitong International Capital Limited 22/F Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
Authorised representatives	Zheng Andy Yi Sheng Flat B, 28th Floor, Tower 3 Grand Promenade 38 Tai Hong Street Sai Wan Ho Hong Kong Yu Wing Cheung Flat C, 16th Floor Lee Cheong Building 218-220 Wanchai Road Hong Kong
Members of the audit committee	Lau Kwok Hung *(Chairman)* Ma Wenming Fok Po Tin
Members of the remuneration committee	Lau Kwok Hung *(Chairman)* Ma Wenming Fok Po Tin
Members of the nomination committee	Zheng Andy Yi Sheng *(Chairman)* Lau Kwok Hung Fok Po Tin
Members of the corporate governance committee	Zheng Andy Yi Sheng *(Chairman)* Zheng Minsheng Lau Kwok Hung

Principal share registrar and transfer office	Appleby Trust (Cayman) Ltd. Clifton House P. O. Box 1350 75 Fort Street Grand Cayman KY1-1108 Cayman Islands
Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Principal banks	Industrial and Commercial Bank of China Shantou Longhu Sub-branch 101, 201, 301, 401 122 Jinsha Lu Shantou, the PRC Bank of China Shantou Guihuayuan Sub-branch Shops 7, 8, 9 Blocks 2, 3 and 4 Guihua Yuan, Guangsha Xincheng Shantou, the PRC China Minsheng Banking Corp. Ltd. Shantou Branch 1st–3rd Floors, Huajing Plaza 17 Hanjiang Lu Shantou, the PRC Bank of Communications Shantou Chenghai Sub-branch No. 1, Block 1, Fengze Yuan Wenci Lu Chenghai Qu Shantou, the PRC Bank of Communications Shantou Branch 83 Jinsha Lu Shantou, the PRC
Website	www.huaxihds.com.hk (information of this website does not form part of this prospectus)

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SOURCES OF INFORMATION

We commissioned a report from Ipsos Hong Kong Limited ("**Ipsos**"), an Independent Third Party, to conduct an analysis of, and to report on, cigarettes and cigarettes-related packaging materials markets in the PRC for the period from 2008 to 2017. The report of Ipsos was dated 18 November 2013. A total fee of HK$300,000 was paid to Ipsos for the preparation of the report. The report commissioned has been prepared by Ipsos independent of our influence. The payment of such amount was not conditional on our successful listing or on the results of the Ipsos Report.

Ipsos has been engaged in a number of market assessment projects in connection with initial public offerings in Hong Kong, covering the PRC's manufacturing industries in particular. Founded in Paris France, in 1975 and publicly-listed on the NYSE Euronext Paris in 1999, Ipsos SA acquired Synovate Ltd. in October 2011. After the combination, Ipsos became one of the largest market research and consulting companies in the world, which employs approximately 16,000 personnel worldwide across 85 countries. Ipsos conducts research on market profiles, market sizes and market share and performs segmentation analysis, distribution and value analysis, competitor tracking and corporate intelligence.

The Ipsos Report includes information on cigarette industry and cigarette-related packaging materials industry in the PRC and competitive analysis of cigarette-related packaging materials industry in the PRC.

Ipsos has combined the following data and intelligence gathering methodology:

- Desk research
- Client consultation
- Primary research, including interviews with key stakeholders and industry experts in the PRC, such as cigarette-related packaging materials manufacturers, cigarette brands and manufacturers, authorities and organisations (e.g. STMA), industry analysts and experts, etc.

Information gathered by Ipsos has been analyzed, assessed and validated using Ipsos in-house analysis models and techniques. According to Ipsos, this methodology guarantees a full circle and multi-level information sourcing process, where information gathered can be cross-referenced to ensure accuracy. The intelligence gathered by Ipsos was analysed, assessed and validated using their in-house analysis models and techniques.

The following assumptions have been used by Ipsos in the compilation of the industry research report:

- the economy in the PRC is assumed to maintain a steady growth across the forecast period;
- social attitudes towards smoking will not experience radical changes over the forecast period; and
- the acceptance level of cigarette substitutes will remain low over the forecast period.

The following parameters are considered by Ipsos in their market sizing and forecast model:

- GDP and inflation growth rate in the PRC
- average annual disposable income per capita (urban vs. rural) in the PRC from 2008 to 2012
- average annual consumption expenditure per capita (urban vs. rural) in the PRC from 2008 to 2012
- number of smokers in the PRC from 2008 to 2012
- average annual consumption expenditure per capita on cigarettes for smoking population in the PRC from 2008 to 2012

- total production volume and breakdown by manufacturers in the PRC in 2012
- total sale volume/value and breakdown by manufacturers/brands in the PRC in 2012
- total production volume of cigarettes and the proportion of hard pack vs. soft pack in the PRC, Guangdong Province and Shanghai area from 2008 to 2012
- price trend for selected types of cigarette-related packaging materials in the PRC from 2008 to 2012
- government policies on public health, cigarette and cigarette-related packaging materials industry
- number of cigarette manufacturers and number of manufacturers of cigarette-related packaging materials in the PRC

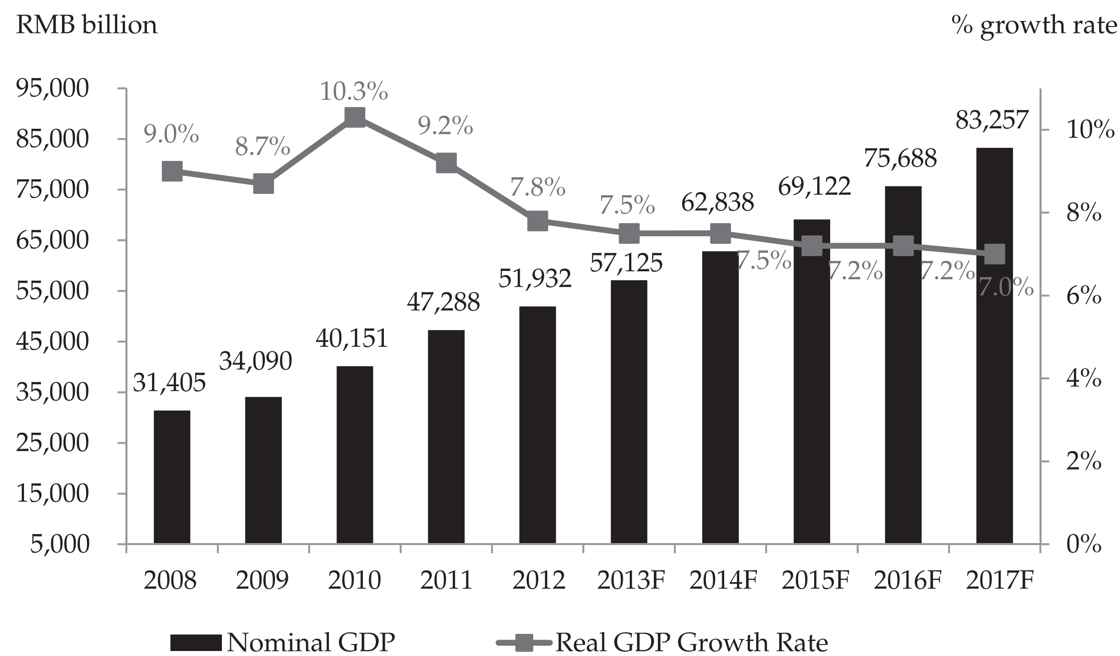
ECONOMIC OVERVIEW OF THE PRC

Economic growth in the PRC

The PRC has been considered as one of the world's most dynamic economies with its consistent high GDP growth rate of around 8% over the past five years. Unlike other global economies significantly affected by the financial crisis, the PRC still managed to maintain the steady growth by adopting nationwide stimulus plans. The PRC eventually surpassed Japan and became the world's second largest economy in terms of nominal GDP by the end of 2010. The PRC is evolving towards a consumption-driven economy. The contribution of investment to GDP has decreased from more than 87% in 2009 to about 50% in 2012. Consumption has gained much more importance in GDP growth and is expected to sustain the further development of PRC's GDP in the long term. The PRC government has set the GDP target for 2013 at 7.5% and aimed at realizing GDP growth of more than 7% over the next few years.

The chart below illustrates the nominal GDP and real GDP growth rates of the PRC during the period between 2008 and 2012 and their respective forecasted value during the period between 2013 and 2017:

Nominal GDP and real GDP growth rates for the PRC



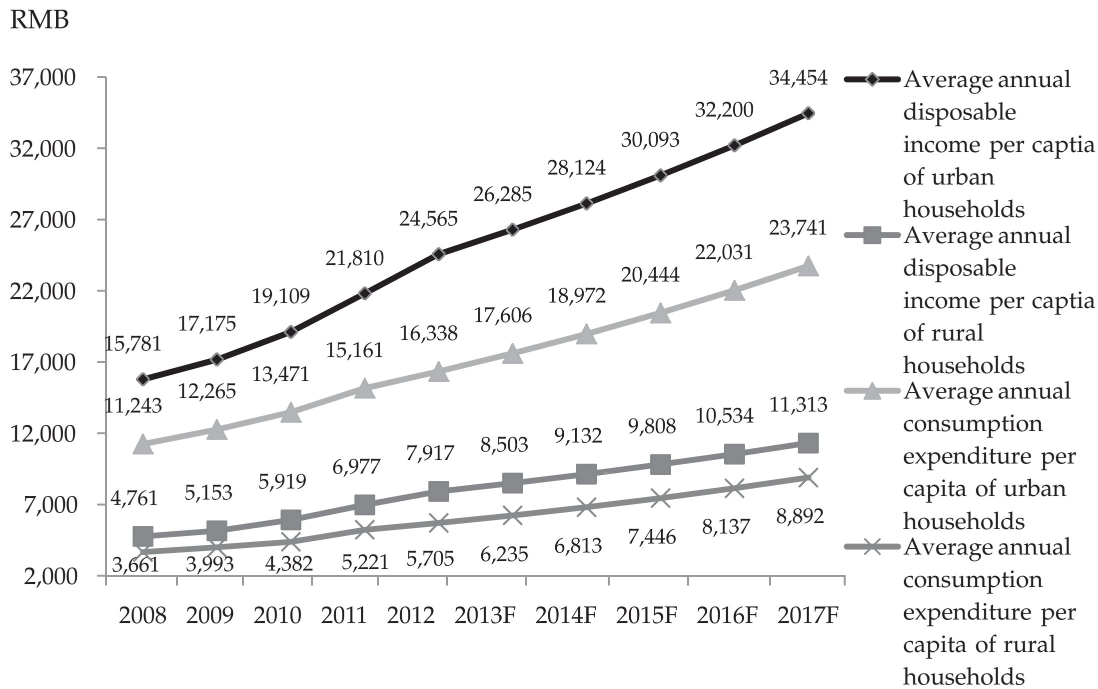
Sources: National Bureau of Statistics of the PRC; Ipsos Business Consulting Analysis

Increase in disposable income and consumption capacity

The PRC's fast growing economy has increased the disposable income of Chinese people significantly, which cultivated a solid base of consumers with rising consumption capacity. The per-capita annual disposable income of urban and rural households have sustained continuous growth (CAGR above 11.0% between 2008 and 2012) to reach RMB24,565 and RMB7,917 respectively in 2012. Due to the rising income levels, the purchasing power of consumers has strengthened, resulting in a steady growth (CAGR above 9.0% between 2008 and 2012) of per-capita annual consumption expenditure for both urban and rural households. Both urban and rural householder's incomes are expected to continue its growing trend due to the steady economic growth as well as the PRC government's policy in improving its citizens' income for realizing approximately 7.0% annual growth rate target set by itself for the next few years. The PRC's per-capita annual consumption expenditure will continue to rise along with the rising income, inflation, and most importantly, the PRC residents' increasing willingness of spending more for a better living standard.

The chart below illustrates the annual disposable income per capita and the average annual consumption expenditure per capita of the PRC during the period between 2008 and 2012 and their respective forecasted value during the period between 2013 and 2017:

Average annual disposable income per capita and average annual consumption expenditure per capita in the PRC



Sources: National Bureau of Statistics of the PRC; Ipsos Business Consulting Analysis

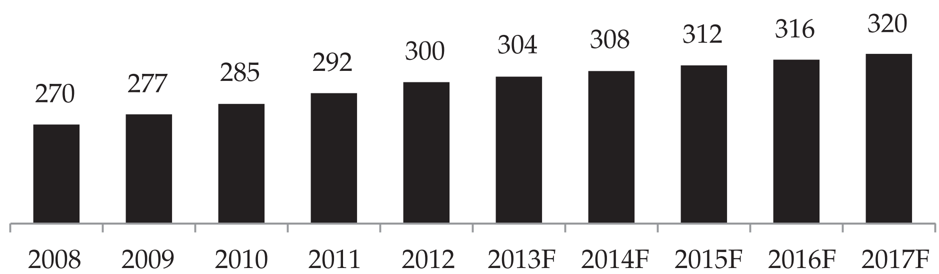
OVERVIEW OF CIGARETTE MARKET IN THE PRC

Smoking population in the PRC

The PRC is the world's largest country in terms of the smoking population, which reached approximately 300 million in 2012. In terms of the demography of smoking population, male adults possess much higher smoking prevalence (around 52.9%) than that of female (less than 3%) in 2012. Smoking prevalence refers to the proportion of smokers in the overall population. Unlike the steady smoking prevalence among male, smoking has been increasingly adopted by young female especially in first-tier and second-tier cities as a sign of modernity and independence. According to WHO statistics, approximately 8.0% of teenage females in PRC smoke, a figure almost three times of the overall female smoking prevalence. Those young female smokers prefer high-end products with appealing package. The smoking population is expected to maintain steady growth over the forecasted period but at a slower pace (CAGR of approximately 1.3% between 2013 and 2017) compared to previous years (CAGR of approximately 2.7% between 2008 and 2012) due to the smoking control policies adopted by the PRC government as well as the rising concerns of health. In light of the huge base of smokers and the continuous demand for cigarettes, the cigarette market in the PRC is expected to have a promising growth.

The chart below illustrates the total smoking population in the PRC during the period between 2008 and 2012 and the forecasted value during the period between 2013 and 2017:

Total number of smokers in the PRC (in millions)



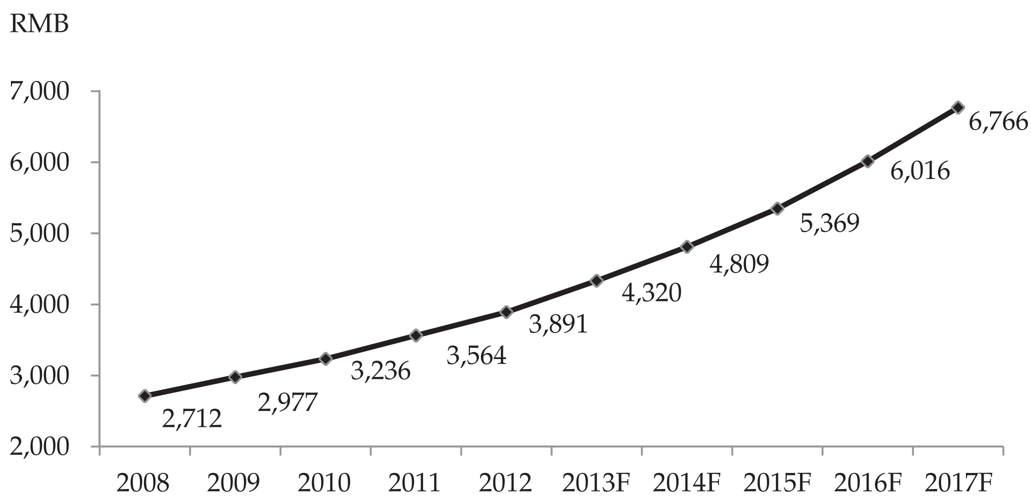
Sources: Ministry of Public Health of the PRC; National Bureau of Statistics of the PRC; WHO; Ipsos Business Consulting Analysis

Increasing average consumption expenditure on cigarettes per capita for smoking population in the PRC

Per capita annual consumer expenditures on cigarette for smoking population have been growing rapidly over the last five years and reached about RMB3,564 by the end of 2012. The rising expenditure on cigarettes was practically due to the increase in smokers' daily cigarette consumption. For example, the proportion of smokers who smoke 20 sticks per day has increased from 51% in 2003 to around 60% in 2012 in the total smoking population. The rising average unit price of cigarettes is another major driver for the steady increase in the smokers' average consumption expenditure. The average unit price continued increasing mainly due to the rising raw material costs, taxes as well as the increasing investment in research and development. Moreover, increasing number of smokers are expected to switch from consuming high-tar cigarettes to low-tar cigarettes, which are generally sold at a higher unit price, as a result of the health concern as well as the PRC government's policy of prohibiting the sale of high-tar cigarettes. Such switch in the pattern of cigarette consumption will in turn help boost the further development of the medium to high-end cigarette market in the coming years.

The chart below illustrates the average annual expenditure on cigarettes per capita in the PRC during the period between 2008 and 2012 and the forecasted value during the period between 2013 and 2017:

Average annual consumption expenditure on cigarettes per capita for smoking population in the PRC



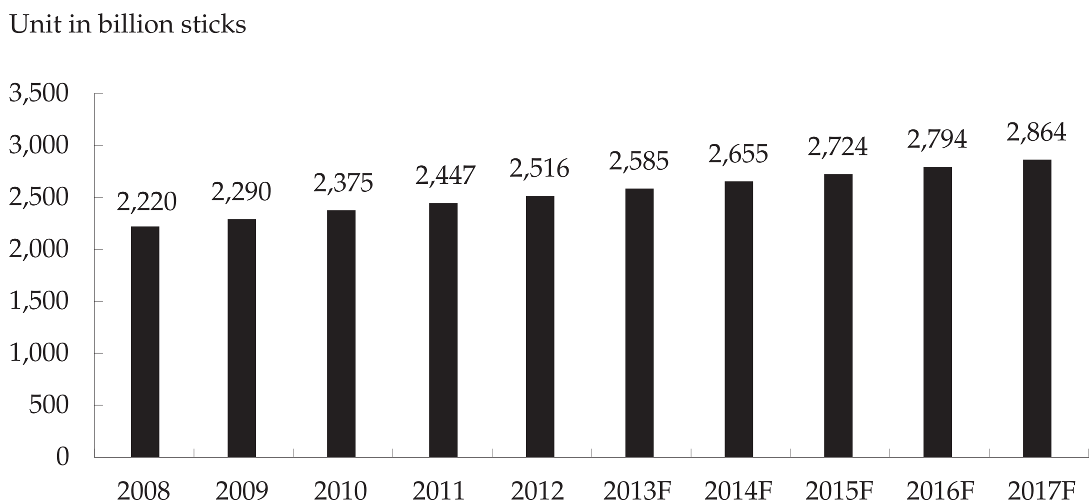
Sources: Ministry of Public Health of the PRC; National Bureau of Statistics of the PRC; Ipsos Business Consulting Analysis

Growth in the PRC's cigarette market

The PRC's cigarette production is expected to reach approximately 2,864 billion sticks in 2017, with a CAGR of approximately 2.9% between 2008 and 2017. The PRC government took steps to restrict the expansion of the cigarette market in the PRC by (i) signing the World Health Organisation Framework Convention on Tobacco Control (世界衛生組織煙草控制框架公約) in 2003 to advocate international society's call for anti-smoking; (ii) raising taxes on cigarettes in 2009 by at least 6%; and (iii) promulgating and implementing the Detailed Rules for Regulations on the Hygienic Management in Public Places (公共場所衛生管理條例實施細則), which became effective 1 May 2011, prohibiting smoking in all the indoor public places. However, due to the large base of cigarette production and smoking population, as well as minimal anti-smoking education and spotty enforcement, the Chinese cigarette market is still promising and can provide good opportunity for cigarette packaging.

The chart below illustrates the respective total production volume of cigarettes in the PRC during the period between 2008 and 2012 and the forecasted value during the period between 2013 and 2017:

Total production volume of cigarettes in the PRC



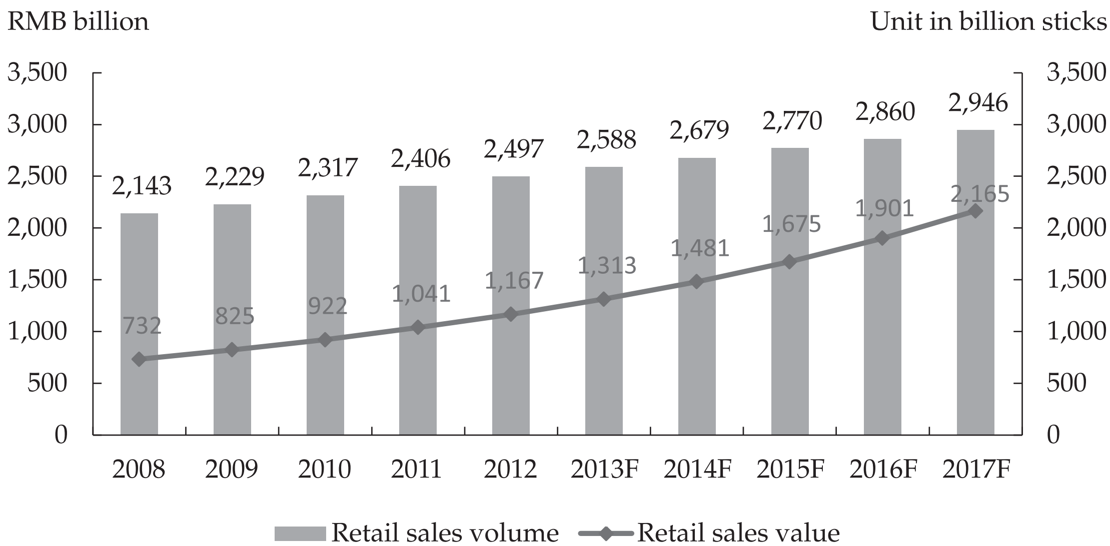
Sources: National Bureau of Statistics of the PRC; STMA; Ipsos Business Consulting Analysis

Increase in total retail sales value and volume of cigarettes in the PRC

Total retail sales volume and value are expected to reach approximately 2,946 billion sticks and approximately RMB2,165 billion respectively in 2017. Total retail value is expected to grow much more rapidly than the retail volume, and the distinct gap between the two indicates the rising unit retail selling price of cigarette.

The chart below illustrates the respective total annual retail sales values and volume of cigarettes in the PRC during the period between 2008 and 2012 and the forecasted value during the period between 2013 and 2017:

Total retail sales value and volume of cigarettes in the PRC



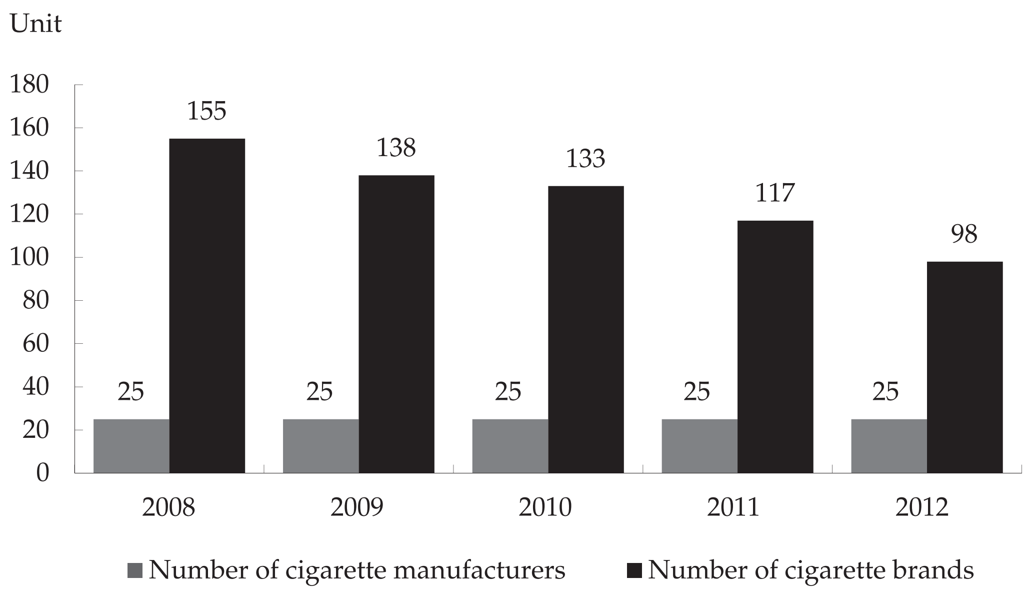
Sources: STMA; Ipsos Business Consulting Analysis

Industry consolidation results in limited cigarette manufacturers and brands

The PRC has 25 cigarette manufacturers and 98 brands in 2012. The number remained the same from 2008 to 2012. In general, there is one cigarette manufacturer for each one or two provinces, and each cigarette manufacturer on average owns 2 to 8 cigarette factories. From 2013 to 2017, the number of cigarette manufacturers is expected to remain unchanged, but the consolidation of cigarette factories within or between those manufacturers will continue. Cigarette brands in the PRC have been experiencing the evolution of consolidation. The number of brands has decreased from 1,181 in 2000 to 98 in 2012.

The chart below illustrates the number of cigarette manufacturers and cigarette brands in the PRC during the period between 2008 and 2012.

Number of cigarette manufacturers and cigarette brands in the PRC



Sources: *STMA; Ipsos Business Consulting Analysis*

Market trend of cigarette industry in the PRC

In 2008, STMA proposed a "20+10" plan to identify and cultivate 20 national backbone cigarette brands and the other 10 key cigarette brands across the national market. In 2009, STMA issued "Proposal on Accelerating Cultivation of National Key Brands (關於加快培育全國性重點骨幹品牌的指導意見)" to focus on developing tier one to three cigarette brands from the "20+10" Key Brands. The strategy was to improve the key brands proportion of sales in the overall tier one to three cigarette market, whilst controlling the sales of tier four to five cigarettes within a limited range in order to facilitate the growth of tiers one to three cigarette brands. Tiers of cigarettes are classified according to their selling prices. The respective selling price range of tier one to tier five cigarettes is above RMB100, from RMB70 to RMB100, from RMB30 to RMB70, from RMB16.5 to RMB30 and below RMB16.5 for one standard carton of cigarettes (200 sticks).

The table below sets out the "20+10" Key Brands:

Identity	Brand name (in English)	Brand name (in Chinese)	Company Name (in English)	Company Name (in Chinese)
20 national backbone cigarette brands	Chunghwa	中華	Shanghai Tobacco Group Co., Ltd	上海煙草集團有限責任公司
	Double Happiness	紅雙喜	Shanghai Tobacco Group Co., Ltd	上海煙草集團有限責任公司
	Su Yan	蘇煙	China Tobacco Jiangsu Industrial Co., Ltd	江蘇中煙工業有限責任公司
	Nanjing	南京	China Tobacco Jiangsu Industrial Co., Ltd	江蘇中煙工業有限責任公司
	Liqun	利群	China Tobacco Zhejiang Industrial Co., Ltd	浙江中煙工業有限責任公司
	Huangshan	黃山	China Tobacco Anhui Industrial Co., Ltd	安徽中煙工業有限責任公司
	Septwolves	七匹狼	China Tobacco Fujian Industrial Co., Ltd	福建中煙工業有限責任公司
	Dihao	帝豪	China Tobacco Henan Industrial Co., Ltd	河南中煙工業有限責任公司
	Huanghelou	黃鶴樓	China Tobacco Hubei Industrial Co., Ltd	湖北中煙工業有限責任公司
	Shuangxi	雙喜	China Tobacco Guangdong Industrial Co., Ltd	廣東中煙工業有限責任公司
	Zhenlong	真龍	China Tobacco Guangxi Industrial Co., Ltd	廣西中煙工業有限責任公司
	Pride	嬌子	China Tobacco Chuanyu Industrial Co., Ltd	川渝中煙工業有限責任公司
	Huangguoshu	黃果樹	China Tobacco Guizhou Industrial Co., Ltd	貴州中煙工業有限責任公司
	Furongwang	芙蓉王	China Tobacco Hunan Industrial Co., Ltd	湖南中煙工業有限責任公司
	Baisha	白沙	China Tobacco Hunan Industrial Co., Ltd	湖南中煙工業有限責任公司
	Yuxi	玉溪	China Tobacco Yunnan Industrial Co., Ltd	雲南中煙工業有限責任公司
	Hongtashan	紅塔山	China Tobacco Yunnan Industrial Co., Ltd	雲南中煙工業有限責任公司
	Hongmei	紅梅	China Tobacco Yunnan Industrial Co., Ltd	雲南中煙工業有限責任公司
	Yunyan	雲煙	China Tobacco Yunnan Industrial Co., Ltd	雲南中煙工業有限責任公司
	Honghe	紅河	China Tobacco Yunnan Industrial Co., Ltd	雲南中煙工業有限責任公司
Other 10 key cigarette brands	Changbaishan	長白山	Jinlin Tobacco Industry Co., Ltd	吉林煙草工業有限責任公司
	Lanzhou	蘭州	Gansu Tobacco Industry Co., Ltd	甘肅煙草工業有限責任公司
	Golden Bridge	金橋	China Tobacco Fujian Industrial Co., Ltd	福建中煙工業有限責任公司
	Jinshen	金聖	China Tobacco Jiangxi Industrial Co., Ltd	江西中煙工業有限責任公司
	Taishan	泰山	China Tobacco Shandong Industrial Co., Ltd	山東中煙工業有限責任公司
	Zhongnanhai	中南海	Shanghai Tobacco Group Co., Ltd	上海煙草集團有限責任公司
	Diamond	鑽石	China Tobacco Hebei Industrial Co., Ltd	河北中煙工業有限責任公司
	Derby	都寶	China Tobacco Anhui Industrial Co., Ltd	安徽中煙工業有限責任公司
	Guiyan	貴煙	China Tobacco Guizhou Industrial Co., Ltd	貴州中煙工業有限責任公司
	Haomao	好貓	China Tobacco Shanxi Industrial Co., Ltd	陝西中煙工業有限責任公司

Source: *STMA*

In 2010, STMA announced the "532" and "461" plans aiming to accelerate the consolidation process and to solidify the competitive force for forming world-class players in the cigarette industry. The "532" plan aims to cultivate two brands (with annual production of more than 5 million master cartons), three brands (with annual production between 3 million and 5 million master cartons) and five brands (with annual production between 2 million and 3 million master cartons) by 2015. One master carton represents 50,000 sticks. The "461" plan aims to cultivate one brand (with annual sales turnover of more than RMB100 billion), six brands (with annual sales turnover between RMB60 billion and RMB100 billion) and 12 brands (with annual sales turnover between RMB40 billion and RMB60 billion) by 2015. The implementation of the cigarette brand development strategies "532" and "461" by the PRC government since the relevant announcement in 2010 aimed at enhancing the quality of cigarette products in China. They required the cigarette manufacturers and cigarette-related packaging material manufacturers to maintain their product quality up to certain standards in terms of capital capability, technology level, enhancement progress, quality control, service capability, innovative capability etc. Therefore, a lot of smaller-scale cigarette manufacturers or brands and cigarette-related packaging material manufacturers may have to close down their business or become the targets of acquisition by the larger-scale cigarette manufacturers or brands and cigarette-related packaging material manufacturers. In the long run, the number of cigarette manufacturers or brands and cigarette-related packaging material manufacturers will decrease. Given that the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer, were the second largest cigarette manufacturer and the fourth largest cigarette manufacturer in the PRC in term of cigarette retail sales volume in 2012, our Directors expect that the two cigarette manufacturers can enjoy the benefit of consolidation of the cigarette industry. Given that (i) the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer are our largest and second largest customer, (ii) we have established business relationships with the Guangdong Cigarette Manufacturer for more than five years and the Shanghai Cigarette Manufacturer for more than ten years, and (iii) during the Track Record Period, we have submitted ten tenders to the Guangdong Cigarette Manufacturer and four tenders to the Shanghai Cigarette Manufacturer and was awarded supply contracts from all of them, our Directors do not expect that there would be any material adverse impact on our Group resulting from the consolidation of the cigarette industry in the PRC.

Due to more stringent restriction on the maximum tar level imposed by STMA, the production and sales of low-tar cigarettes are expected to increase steadily and exceed 400 billion sticks by 2015. In order to secure market share within the new industry context, most manufacturers have been investing heavily in cultivating new cigarette products with lower tar content, and this may lead to new requirements for the cigarette-related packaging materials, e.g. more emphasis on the function of tipping paper for reducing tar content.

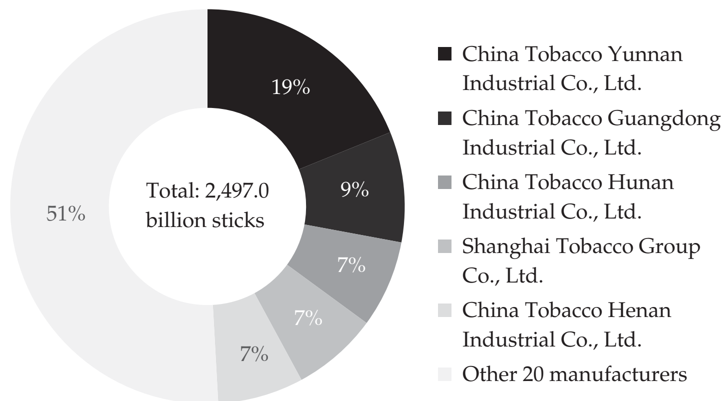
Cigarette manufacturers in the PRC

The PRC's cigarette market is monopolised by China National Tobacco Corporation ("**CNTC**"). Cigarette in the PRC will remain a monopoly market as CNTC controls all tobacco growth and cigarette manufactures in the country while STMA also conducts strict controls on the imported volumes of cigarettes to protect domestic cigarette manufacturers. As a result of industry consolidation, the number of cigarette manufacturers in the PRC has declined from approximately 200 in 2000 to 25 in 2012. All belong to CNTC, the 25 cigarette manufacturers include 1 Cigarette Group (Shanghai Tobacco Group Co., Ltd or the Shanghai Cigarette Manufacturer), 16 Provincial Tobacco Industrial Companies and 8 non-provincial companies under the "China Tobacco Industry Development Center". Among these three groups, the first two have stronger production capacity than the third one. The top 11 cigarette manufacturers by production volume are all from the first two groups. The following table sets forth the names and the respective market share of the cigarette manufacturers in the PRC.

Identity	Company Name (in English)	Company Name (in Chinese)	Market Share (Production Volume)
Cigarette Group/ 煙草集團	Shanghai Tobacco Group Co., Ltd	上海煙草集團有限責任公司	5.4%
Provincial Tobacco Industrial Company/ 省級中煙工業公司	China Tobacco Hebei Industrial Co., Ltd	河北中煙工業有限責任公司	85.8%
	China Tobacco Jiangsu Industrial Co., Ltd	江蘇中煙工業有限責任公司	
	China Tobacco Zhejiang Industrial Co., Ltd	浙江中煙工業有限責任公司	
	China Tobacco Anhui Industrial Co., Ltd	安徽中煙工業有限責任公司	
	China Tobacco Fujian Industrial Co., Ltd	福建中煙工業有限責任公司	
	China Tobacco Jiangxi Industrial Co., Ltd	江西中煙工業有限責任公司	
	China Tobacco Shandong Industrial Co., Ltd	山東中煙工業有限責任公司	
	China Tobacco Henan Industrial Co., Ltd	河南中煙工業有限責任公司	
	China Tobacco Hubei Industrial Co., Ltd	湖北中煙工業有限責任公司	
	China Tobacco Guangdong Industrial Co., Ltd	廣東中煙工業有限責任公司	
	China Tobacco Guangxi Industrial Co., Ltd	廣西中煙工業有限責任公司	
	China Tobacco Chuanyu Industrial Co., Ltd	川渝中煙工業有限責任公司	
	China Tobacco Guizhou Industrial Co., Ltd	貴州中煙工業有限責任公司	
	China Tobacco Shaanxi Industrial Co., Ltd	陝西中煙工業有限責任公司	
	China Tobacco Hunan Industrial Co., Ltd	湖南中煙工業有限責任公司	
	China Tobacco Yunnan Industrial Co., Ltd	雲南中煙工業有限責任公司	
China Tobacco Industry Development Center/中國煙草事業發展中心	Heilongjiang Tobacco Industry Co., Ltd	黑龍江煙草工業有限責任公司	8.8%
	Hongta Liaoning Tobacco Co., Ltd	紅塔遼寧煙草有限責任公司	
	Jinlin Tobacco Industry Co., Ltd	吉林煙草工業有限責任公司	
	Gansu Tobacco Industry Co., Ltd	甘肅煙草工業有限責任公司	
	Inner Mongolia Kunming Cigarette Co., Ltd	內蒙古昆明卷煙有限責任公司	
	Hainan Hongta Cigarette Co., Ltd	海南紅塔卷煙有限責任公司	
	Shenzhen Tobacco Industry Co., Ltd	深圳煙草工業有限責任公司	
	Shanxi Kunming Tobacco Co., Ltd	山西昆明煙草有限責任公司	

Source: STMA

Market share percentages of the top five cigarette manufacturers by cigarette retail sales volume in the PRC in 2012



Sources: *STMA*

The Guangdong Cigarette Manufacturer has been one of the Provincial Tobacco Industrial Companies since its establishment in 2003. The Guangdong Cigarette Manufacturer operated four cigarette factories.

The Shanghai Cigarette Manufacturer was established through the re-structuring of certain former cigarette-related companies in Shanghai in 1993. The Shanghai Cigarette Manufacturer has enhanced its leading position through acquisition of Beijing Tobacco Factory in 2003 and Tianjin Tobacco Factory in 2004. The Shanghai Cigarette Manufacturer manufactures ten cigarette brands, three of which are among the list of the "20+10" Key Brands, i.e. Chunghwa, Double Happiness and Zhongnanhai.

CIGARETTE-RELATED PACKAGING MATERIALS MARKET IN THE PRC

Overview

Cigarette-related packaging materials industry is an up-stream industry to accommodate cigarette products. Cigarette-related packaging materials comprise inner frame paper, cigarette box frame paper, tipping paper, cigarette trademark labels, cigarette paper boxes and others (e.g. glass paper, plug wrap paper, etc.). In 2012, the respective share of the aforesaid major categories of cigarette-related packaging materials in terms of production value was approximately 7.6%, 2.0%, 8.4%, 1.2%, 64.1% and 16.8% respectively.

Currently, the outsourcing of packaging manufacturing is a common trend within the cigarette industry as the self-developed packaging subsidiaries of cigarette manufacturers are incapable of meeting the large demand for cigarette-related packing materials from cigarette manufacturers. In order to fulfill the requests for multiple packaging products and advanced packaging/printing technologies requested from cigarette manufacturers, cigarette-related packaging materials companies have been constantly upgrading in order to offer a variety of products and services, while specialising on the three categories, i.e. inner frame paper, tipping paper and cigarette paper boxes.

Some manufacturers of cigarette-related packaging materials only concentrate on the production of cigarette-related packaging materials while some others are general printing companies producing products for a variety of packaging materials, such as food packaging, and cigarette-related packaging materials are only one of their products. Large-sized manufacturers usually produce a set of cigarette-related packaging materials while most of the small-sized manufacturers just focus on one to two cigarette packaging material products. Mid-to-large sized manufacturers usually sell their packaging materials across the PRC, while the small-sized manufacturers are mainly focusing on those neighbouring cigarette manufacturers.

During the period between 2008 and 2017, the production volume of cigarette products in the PRC, Guangdong Province and Shanghai area increased with a CAGR of approximately 2.9%, 2.7% and 2.3% respectively, which constitute the key driving force for the growth of the cigarette-related packaging materials industry in the PRC.

Competitive landscape

The cigarette-related packaging materials industry in the PRC is concentrated with around 200 players competing in the market, among which the industry's top five players in the PRC, Guangdong Province and Shanghai accounted for approximately 24.5%, 60.1% and 87.6% of the respective total market shares in 2012. The tables below set out the background, rankings and market shares of the industry top five players in the PRC, the Guangdong Province and Shanghai in 2012:

The top five cigarette-related packaging materials manufacturers in the PRC in 2012

Rank	Name of company	Headquarter location	Market share in terms of total revenue *(Note)*			Number of factories and locations	Key service range
			PRC (Approx.)	*Guangdong Province (Approx.)*	*Shanghai (Approx.)*		
1	Competitor A	Hong Kong	7.9%	25.9%	0.6%	Six factories located in each of Beijing, Dongguan, Hangzhou, Kunming, Nanjing and Qingdao	Cigarette paper boxes
2	Competitor B	Shenzhen	5.4%	4.8%	1.7%	Six factories located in each of Hefei, Guiyang, Kunming, Huai'an, Nanchang and Shenzhen	Cigarette paper boxes
3	Competitor C	Shantou	4.3%	9.9%	0.0%	Five factories located in Shantou, three factories located in each of Yanbian, Guiyang and Anning	Cigarette box frame paper, Cigarette paper boxes
4	Competitor D	Hong Kong	3.7%	2.6%	1.8%	Four factories located in Shenzhen, Bengbu, Xiangfan and Shaotong	Cigarette paper boxes
5	Competitor E	Shanghai	3.2%	3.9%	2.3%	Two factories located in Jingzhou, three factories located in each of Shenzhen, Jiangyin and Quanzhou	Inner frame paper, Cigarette box frame paper, Cigarette paper boxes

Sources: *STMA, China Tobacco Yearbook, Ipsos Business Consulting Analysis*

Note: Total revenue of cigarette-related packaging materials includes (1) inner frame paper, (2) cigarette box frame paper, (3) tipping paper, (4) cigarette trademark labels, (5) cigarette paper boxes.

The top five cigarette-related packaging materials manufacturers in the Guangdong Province in 2012

Rank	Name of company	Headquarter location	Market share in terms of total revenue *(Note) (Approx.)*	Number of factories and locations	Key service range
1	Competitor A	Hong Kong	25.9%	Six factories located in Beijing, Dongguan, Hangzhou, Kunming, Nanjing and Qingdao	Cigarette paper boxes
2	Competitor F	Guangdong	10.9%	One factory located in Shantou	Cigarette paper boxes
3	Competitor C	Shantou	9.9%	Five factories located in Shantou and three factories located in each of Yanbian, Guiyang and Anning	Cigarette box frame paper and cigarette paper boxes
4	**Our Company**	**Shantou**	**7.4%**	**One factory located in Shantou**	**Tipping paper, Inner frame paper, cigarette trademark labels, cigarette box frame paper and cigarette paper boxes**
5	Competitor G	Guangdong	6.0%	Two factories located in Foshan	Cigarette paper boxes

Sources: STMA, China Tobacco Yearbook, Ipsos Business Consulting Analysis

Note: Total revenue of cigarette-related packaging materials includes (1) inner frame paper, (2) cigarette box frame paper, (3) tipping paper, (4) cigarette trademark labels, (5) cigarette paper boxes.

The top five cigarette-related packaging materials manufacturers in Shanghai in 2012

Rank	Name of company	Headquarter location	Market share in terms of total revenue *(Note) (Approx.)*	Number of factories and locations	Key service range
1	Competitor H	Shanghai	46.5%	Two factories located in Shanghai	Cigarette paper boxes
2	Competitor I	Shanghai	16.9%	One factory located in Shanghai	Cigarette paper boxes, Inner aluminum paper, Inner frame paper
3	Competitor J	Shanghai	11.1%	One factory located in Shanghai	Cigarette paper boxes
4	Competitor K	Shanghai	6.8%	Two factories located in Shanghai, and Quzhou (Zhejiang)	Tipping paper
5	Competitor L	Jiangsu	6.3%	Two factories located in Jiangyin	Cigarette paper boxes

Sources: STMA, China Tobacco Yearbook, Ipsos Business Consulting Analysis

Note: Total revenue of cigarette-related packaging materials includes (1) inner frame paper, (2) cigarette box frame paper, (3) tipping paper, (4) cigarette trademark labels, (5) cigarette paper boxes.

The largest market player and the third largest market player in the PRC are also the largest market player and the third largest market player in the Guangdong Province respectively. Save for the aforesaid, other top five market players in the PRC are not the same as those in the Guangdong Province and Shanghai.

On average, each cigarette manufacturer selects 12 to 20 cigarette packaging suppliers in total and 2-4 suppliers for cigarette box frame paper and cigarette trademark labels respectively, while 5-8 suppliers for inner frame paper, tipping paper and cigarette paper box respectively, in order to mitigate the risk of overdependence on few suppliers. The cigarette manufacturers usually tend to keep stable supplier pools to ensure quality consistency. It is common that manufacturers of cigarette-related packaging materials rely on a few cigarette manufacturers, as the cigarette industry in the PRC is monopolistic and currently has only 25 manufacturers after industry consolidation. The Guangdong Cigarette Manufacturer, with a market share of 86.8% (in terms of production volume) in Guangdong Province, dominates the downstream cigarette manufacturing market in Guangdong Province. The Shanghai Cigarette Manufacturer is the Cigarette Group and took up the whole cigarette manufacturing market in Shanghai in 2012 and monopolises the downstream cigarette manufacturing market in Shanghai. Open tendering tends to be taken as the main purchasing mode for the cigarette-related packaging materials products. It is held every one to three years.

As for the upstream environment, despite rising labour costs, the cigarette-related packaging materials industry may benefit from cost reduction which may be attributable to, among others, the decreasing price of key raw materials, such as papers, as a result of productivity enhancement and capacity increase of the suppliers of raw materials.

Set out below are the key areas of competition in the cigarette-related packaging industry in the PRC.

Ability to consistently provide high quality products

Product quality has always been the most upfront competition factor in the cigarette-related packaging materials industry as cigarette manufacturers set stringent standards for cigarette-related packaging materials. Well-established quality control systems of the manufacturers of cigarette-related packaging materials, which appears to be the guarantee of long-term quality, are also highly valued by cigarette manufacturers. Companies accredited with quality certifications, such as the ISO 9001 certification, are preferred due to their proven ability for implementing strong quality control checks throughout the entire production process.

Advanced technology

Key players are keen to adopt new materials and new technology for cigarette-related packaging materials products in order to fulfil cigarette manufacturers' requirements in differentiating their brand images, as well as for the purpose of anti-counterfeiting. In the Guangdong Province and Shanghai, the cigarette-related packaging materials manufacturers need to compete on advanced production techniques which help to ensure consistent product quality.

Customer relationship management

A stable customer base is the crucial intangible asset for manufacturers of cigarette-related packaging materials to compete in the market, especially given the limited number of cigarette manufacturers in the market. On-time delivery and prompt response to cigarette manufacturers' changing demands are the most important factors for maintaining long-term relationship with key customers.

Product Pricing

In the PRC, in view of the gradually increasing penetration of open tendering for the purchase of cigarette-related packaging materials among cigarette manufacturers, it is possible for cigarette packaging manufacturers to compete on price to increase their competitiveness in securing the award of the contracts.

In the Guangdong Province, price is one of the factors of competition in the cigarette-related packaging materials industry, and the market has become increasingly competitive as the product differentiation among various cigarette-related packaging materials manufacturers has blurred.

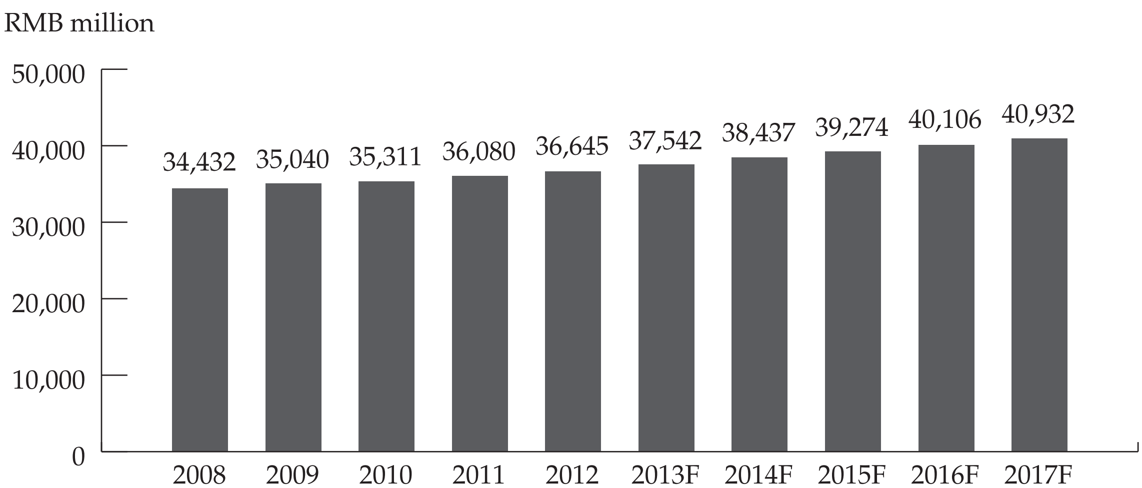
In Shanghai, the cigarette-related packaging materials manufacturers also need to compete on the prices of their products in order to maintain their market positions.

Cigarette-related packaging materials market in the PRC

Total revenue of cigarette-related packaging materials industry in the PRC grew from approximately RMB34.4 billion in 2008 to approximately RMB36.6 billion in 2012, and is expected to continue to grow from approximately RMB36.6 billion in 2012 to approximately RMB40.9 billion in 2017, representing a CAGR of approximately 1.9% from 2008 to 2017. According to the Ipsos Report, the cigarette production volume in the PRC increased from approximately 2,220 billion sticks in 2008 to approximately 2,516 billion sticks in 2012 and is expected to reach approximately 2,864 billion sticks in 2017, representing a CAGR of approximately 2.9% from 2008 to 2017, which sets the key engine for the growth of cigarette-related packaging materials industry in the PRC. Influenced by open bid, the overall price of cigarette-related packaging materials products reduced with a CAGR of -0.94% from 2008 to 2017. However, the falling price could not counteract the increased production volume and thus, the total markets size of cigarette-related packaging materials will keep increasing. As the Shanghai Cigarette Manufacturer and the Guangdong Cigarette Manufacturer focus on manufacturing mid-to-high end cigarettes, the cigarette-related packaging materials products used are of comparatively better quality. According to the Ipsos Report, the overall price of these cigarette-related packaging materials products is about 10.0-15.0% higher than average.

The chart below sets out the estimated total revenue of cigarette-related packaging materials industry in the PRC:

Estimated total revenue of cigarette-related packaging materials industry in the PRC from 2008 to 2017



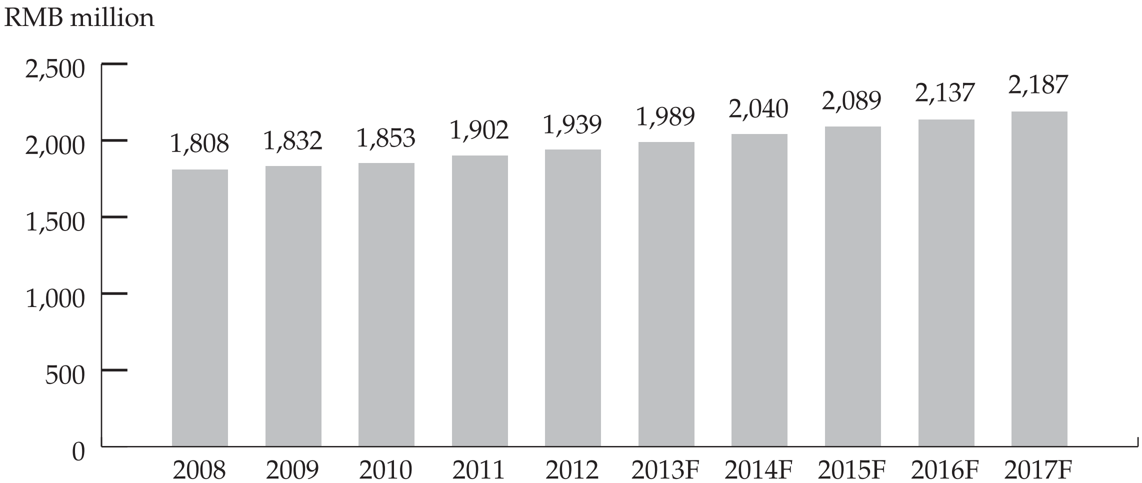
Cigarette-related packaging materials market in Guangdong Province

According to the Ipsos Report, the cigarette production volume in Guangdong Province increased from approximately 106 billion sticks in 2008 to approximately 118 billion sticks in 2012 and is expected to reach 135 billion sticks in 2017, representing a CAGR of 2.7% from 2008 to 2017.

Total revenue of cigarette-related packaging materials industry in Guangdong Province grew from approximately RMB1,808 million in 2008 to approximately RMB1,939 million in 2012 and is expected to reach RMB2,187 million in 2017, representing a CAGR of approximately 2.1% from 2008 to 2017.

The chart below sets out the estimated total revenue of cigarette-related packaging materials industry in the Guangdong Province.

Estimated total revenue of cigarette-related packaging materials industry in Guangdong Province from 2008 to 2017



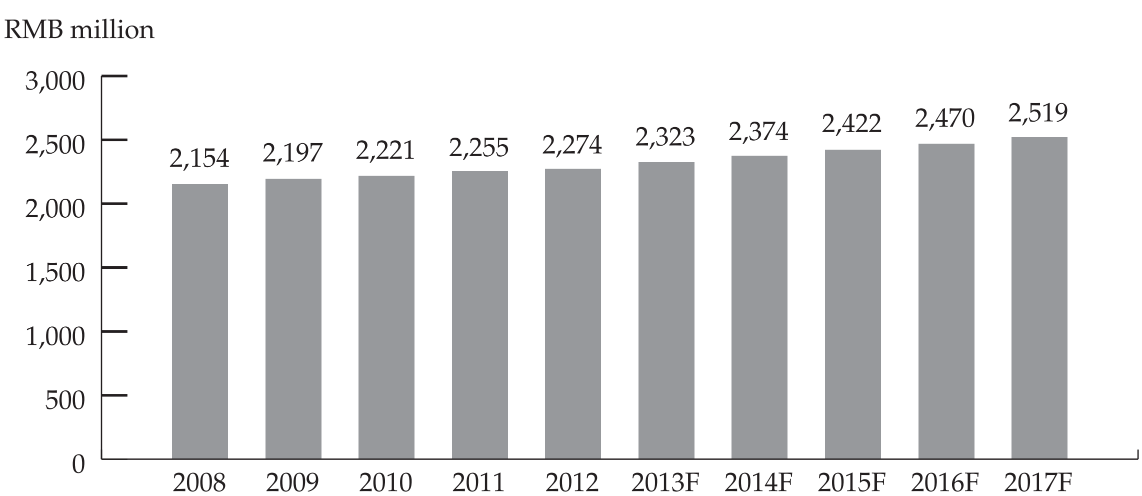
Cigarette-related packaging materials market in Shanghai area

According to the Ipsos Report, the cigarette production volume in Shanghai area increased from approximately 123 billion sticks in 2008 to approximately 135 billion sticks in 2012 and is expected to reach 152 billion sticks in 2017, representing a CAGR of approximately 2.3% from 2008 to 2017.

Total revenue of cigarette-related packaging materials industry in Shanghai area grew from approximately RMB2,154 million in 2008 to approximately RMB2,274 million in 2012 and is expected to reach RMB2,519 million in 2017, representing a CAGR of approximately 1.8% from 2008 to 2017.

The chart below sets out the estimated total revenue of cigarette-related packaging materials industry in the Shanghai area.

Estimated total revenue of cigarette-related packaging materials industry in Shanghai area from 2008 to 2017



Market share of our Group

The market shares of our Group (in terms of total sales value of cigarette-related packaging materials) in the PRC, Guangdong Province and Shanghai area in 2012 were approximately 0.6%, 7.4% and 2.3% respectively.

Price trend of major raw materials

The major raw materials used by our Group include base paper and aluminium foils. The key raw material of aluminium foils and base paper are aluminium and paper pulp respectively. The table below illustrates the historical price trends of aluminium, aluminium foils and paper pulp in the PRC:

Historical price trend of aluminium, aluminium foils and paper pulp in the PRC

	For the year ended 31 March									
	2009		2010		2011		2012		2013	
	Price *(RMB/ton)*	Annual increase/ (decrease)	Price *(RMB/ton)*	Annual increase/ (decrease)	Price *(RMB/ton)*	Annual increase/ (decrease)	Price *(RMB/ton)*	Annual increase/ (decrease)	Price *(RMB/ton)*	Annual increase/ (decrease)
Aluminium	15,357.8	(20.5%)	14,609.0	(4.9%)	15,775.8	8.0%	16,574.3	5.1%	15,506.5	(6.4%)
Aluminium foils	24,813.4	(10.8%)	24,290.6	(2.1%)	26,327.5	8.4%	27,799.5	5.6%	27,006.5	(2.9%)
Paper pulp	4,400.5	(1.7%)	4,040.6	(8.2%)	5,521.7	36.7%	5,158.5	(6.6%)	4,551.2	(11.8%)

Source: China Paper Newsletter, China Paper Association; Ipsos Business Consulting Analysis, Shanghai Aluminum Trade Association, China Aluminum Network

Aluminium

The price of aluminium had experienced a steep fall due to the sharp decrease in demand from downstream industries caused by the global economic crisis started in 2008. Since mid-2010, the price of aluminium began to rise along with the upward movement of staple commodity price, driven by global economic recovery and the volatile situation in the Middle East. In the end of 2011, the growing European debt crisis decreased the overall anticipated demand, and thus fetched down the price of aluminium. In addition, the Chinese economic slowdown since 2012 has further led to the downward trend of demand for aluminium. The supply surplus of aluminium became increasingly obvious, and thus drove the price of aluminium lower.

Aluminium foils

Save for, among others, the demand and supply of aluminium foils, the production costs and margins of the aluminium foils manufacturers and the production and inventory lead time of the aluminium foils manufacturer which may postpone, exaggerate and/or flatten the fluctuation of price of aluminium foils, the fluctuation of price of aluminium foils observed from the market is generally in line with the fluctuation of aluminium.

We experienced an increase of average purchase prices of aluminium foils by approximately 12.3% in 2012 as compared with 2011 and a decrease by approximately 7.5% in 2013 as compared with 2012. Save for, among others, the production and market factors aforementioned, the price movement of aluminium foils faced by us is generally in line with the fluctuation of aluminium foils observed from market.

Paper pulp

The fluctuation of the price of paper pulp would usually be reflected in the purchase price of paper products, including base paper, certain months later as paper manufacturing is the downstream industry of paper pulp industry. In addition, given that there are some other factors such as, without limitation to, the production costs and margins of the paper manufacturers, the demand and supply of paper products, and the production and inventory lead time of the paper manufacturer, the effect of the price fluctuation of paper pulp on that base paper may be postponed, exaggerated and/or flattened.

As disclosed in the paragraph headed "Factors affecting our financial condition and results of operations" under the section headed "Financial information" of this prospectus, we experienced an increase of average purchase prices of base paper by approximately 2.5% in 2012 as compared with 2011, a decrease by approximately 2.0% in 2013 as compared with 2012 and a decrease by approximately 2.1% for the three months ended 30 June 2013 as compared with that of the year ended 31 March 2013. Save for those factors mentioned above, the price movement of base paper faced by us is generally in line with the fluctuation of paper pulp observed from market.

According to the Ipsos Report, no data trend was available for the historical price of base paper used by our Company through reliable sources, such as government or associations, or other highly recognised agencies in the market. It was mainly due to the fact that there are a lot of base paper suppliers in the market, and a wide range of standards of base paper (i.e. weight, color, texture, etc.) for different usage and purposes.

DIRECTORS' CONFIRMATION

Our Directors confirm that after taking reasonable care, there is no material adverse change in the market information since the date of the Ipsos Report which may qualify, contradict or have an impact on the information in this section.

Our Company was incorporated in the Cayman Islands on 29 April 2013. Through the Reorganisation, our Company became the holding company of our subsidiaries. As at the Latest Practicable Date, we were wholly owned by Mr. Zheng, who held his interest in us through SXD Limited. As at the Latest Practicable Date, we, through Xinda Capital Limited, owned 100% of all our subsidiaries.

HISTORY AND DEVELOPMENT

Our Group commenced operations when Xinda Packing was established as a wholly foreign-owned enterprise in May 1992 with a view to capturing the benefits from the preferential treatments arising from the then PRC policies which encouraged foreign investment and strengthening customers' confidence by having a wholly foreign-owned enterprise status. According to Mr. Zheng, prior to establishing our Group, Mr. Zheng carried on general trading business in the PRC such as trading of packaging materials, food and electrical appliances etc. As Mr. Zheng was confident about the continuous growth in demand for cigarettes in the PRC, he decided to invest and operate his own production facilities for cigarette-related packaging materials in around 1992, leveraging on his business network developed over the years through carrying on general trading business.

According to Mr. Zheng, prior to the establishment of Xinda Packing in May 1992, Mr. Zheng, who was then a citizen of the PRC, was not certain as to whether he was entitled to establish an unlimited company in Hong Kong for the purpose of holding a wholly foreign-owned enterprise in the PRC. Therefore, he financed all the capital required for the establishment of Xinda Packing from his financial resources accumulated from his general trading business before establishing our Group and established a trust with such fund. He requested an Independent Third Party (who was a Hong Kong citizen) to (a) act as his trustee to invest such fund in Xinda Packing through an unlimited company of that Independent Third Party; and (b) hold the legal ownership of the equity interest in Xinda Packing. Pursuant to such trust, Mr. Zheng was the beneficial owner of the equity interest in Xinda Packing, all risks associated with the business of Xinda Packing were solely borne by him and he was also entitled to all the benefits derived therefrom. Mr. Zheng was also the director and the general manager of Xinda Packing responsible for its overall management and day-to-day operations. Mr. Zheng subsequently established an unlimited company, i.e. XDHK, in 1993 for the purpose of carrying on general trading business. The trust arrangement ceased in June 1997 and the legal ownership of the entire equity interest in Xinda Packing was transferred back to XDHK, an unlimited company of Mr. Zheng, without any consideration.

Leveraging on the success of Xinda Packing, we commenced our business with the Shanghai Cigarette Manufacturer, our second largest customer during the Track Record Period, since 2000, and obtained the first sales contract from the Guangdong Cigarette Manufacturer, our largest customer during the Track Record Period, in 2008. Given the relatively stringent selection process, our Directors believe that we, as a supplier of the Shanghai Cigarette Manufacturer and the Guangdong Cigarette Manufacturer (both being leading state-owned cigarette manufacturers in the PRC), have demonstrated our strong expertise and competitiveness in the cigarette-related packaging materials industry over the years.

Business milestones

The following table summarises the major milestones for the evolution of our Group into the present scale of operations:

Time	Event
1992	Xinda Packing, our first subsidiary, was established.
1993	We obtained the first sales and processing contract with a cigarette manufacturer in Hubei Province, the PRC, which laid down the foundation of our principal business later on.
2000	We obtained the first sales contract with the Shanghai Cigarette Manufacturer, which became our second largest customer during the Track Record Period.
2003	We commenced applying intaglio printing (凹印) to our products, which is crucial to the production of our products like tipping paper, cigarette trademark labels and cigarette paper boxes.
2004	Our commitment to quality was recognised by the accreditation of ISO9001:2008 awarded by the Beijing Zhongan Zhihuan Certification Centre (北京中安質環認證中心).
2005	We commenced production at our present self-owned production base.
2008	We obtained the first sales contract with the Guangdong Cigarette Manufacturer, which became our largest customer during the Track Record Period.
2011	We were recognised as a High and New Technology Enterprise (高新技術企業), by which we are entitled to pay enterprise income tax at the reduced rate of 15%.
2012	We obtained patent in respect of the production method of laser inner frame paper for cigarette packaging (香煙包裝使用的激光全息鐳射內襯紙的生產方法), which involves improvement in the efficiency of raw material consumption for the production of laser inner frame paper.
2013	Our annual sales revenue reached approximately HK$279 million for the year ended 31 March 2013.

SUBSIDIARIES OF OUR COMPANY AND THEIR PRINCIPAL BUSINESS ACTIVITIES

Xinda Capital Limited

Xinda Capital Limited was incorporated in the BVI on 21 May 2013. Such company is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US$1.

Xinda Capital Limited is an investment holding company of our Group and does not carry on any business.

XDHK

XDHK is an unlimited company which commenced business in Hong Kong on 1 May 1993 and ceased business on 5 September 2013. Due to its nature as an unlimited company, XDHK is not included in our Group and on 5 September 2013, the business carried on under XDHK and all the rights, debts, obligations and liabilities attaching thereto were transferred to Xin Da (HK) Limited for a nominal consideration of HK$1. Prior to such transfer, the general trading business carried on under XDHK included procuring and importing the machineries into the PRC for our Group's production and trading of printing materials. Upon completion of such transfer, Mr. Zheng has ceased to carry on any business under XDHK. Further, Mr. Zheng, in his capacity as a Controlling Shareholder, has undertaken not to carry on any Restricted Business (as defined in the paragraph headed "Deed of Non-competition" under the section headed "Relationship with Controlling Shareholders" of this prospectus) during the Restricted Period (also as defined in the aforesaid paragraph), which covers carrying on any competing business under XDHK. Therefore, our Directors believe that there is no competition between our Group of the one part and Mr. Zheng and XDHK of the other part.

Xin Da (HK) Limited

Xin Da (HK) Limited was incorporated in Hong Kong on 13 June 2013. The authorised share capital of such company is HK$100,000 divided into 10,000,000 shares of HK$0.01 each.

Xin Da (HK) Limited currently engages in the procurement and import of the machineries into the PRC for our Group's production and trading of printing materials.

Xinda Packing

Xinda Packing was established in the PRC on 14 May 1992. Each of its initial registered capital and total investment is HK$5 million. The entire registered capital of Xinda Packing was financed by Mr. Zheng. The operative term of Xinda Packing is 30 years from 14 May 1992 to 13 May 2022. In June 1997, following the cessation of the trust arrangement between Mr. Zheng and the Independent Third Party, the legal ownership of the entire equity interest in Xinda Packing was transferred back to XDHK, an unlimited company of Mr. Zheng, without any consideration. After such transfer, the equity interest in Xinda Packing became wholly owned by XDHK. Due to expansion needs, each of the registered capital and the total investment amount of Xinda Packing increased to HK$35 million in 2008. On 18 July 2013, XDHK completed its transfer of the entire equity interest in Xinda Packing to Xin Da (HK) Limited for a consideration of HK$35 million, which is based on the registered capital of Xinda Packing, as part of the Reorganisation. The aforesaid consideration was deemed to be settled on 5 September 2013 when the business carried on under XDHK and all the rights, debts, obligations and liabilities attaching thereto were transferred to Xin Da (HK) Limited. Our legal advisors as to PRC law are of the view that the aforesaid transfers of equity interest in Xinda Packing were properly and legally completed and did not violate any laws, rules and regulations of the PRC.

Xinda Packing is currently our main operating arm.

REORGANISATION

In preparation for the Listing, we underwent the Reorganisation which included the following major steps:

Step 1: Incorporation of our Company

Our Company was incorporated under the laws of the Cayman Islands on 29 April 2013 and acts as the ultimate holding company of our Group. On the same day, our Company allotted and issued one Share, credited as fully paid at par, to an Independent Third Party as the initial subscriber, which then transferred the said one Share to SXD Limited at par value on the same day.

Step 2: Incorporation of Xinda Capital Limited

Xinda Capital Limited was incorporated under the laws of the BVI on 21 May 2013. On the same day, Xinda Capital Limited allotted and issued 50,000 ordinary shares at par value to our Company as the initial subscriber.

Step 3: Incorporation of Xin Da (HK) Limited

Xin Da (HK) Limited was incorporated under the laws of Hong Kong on 13 June 2013. On the same day, Xin Da (HK) Limited allotted and issued 100 ordinary shares, credited as fully paid at par, to Xinda Capital Limited as the founder member.

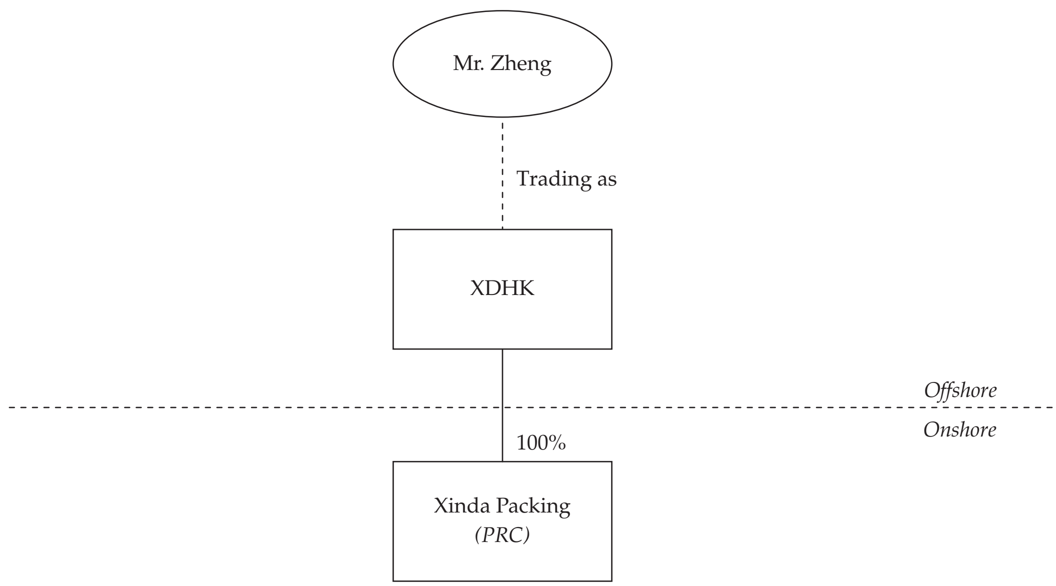
Step 4: Transfer of Xinda Packing to Xin Da (HK) Limited

On 18 July 2013, XDHK completed its transfer of the entire equity interest in Xinda Packing to Xin Da (HK) Limited for a consideration of HK$35 million, which is based on the registered capital of Xinda Packing.

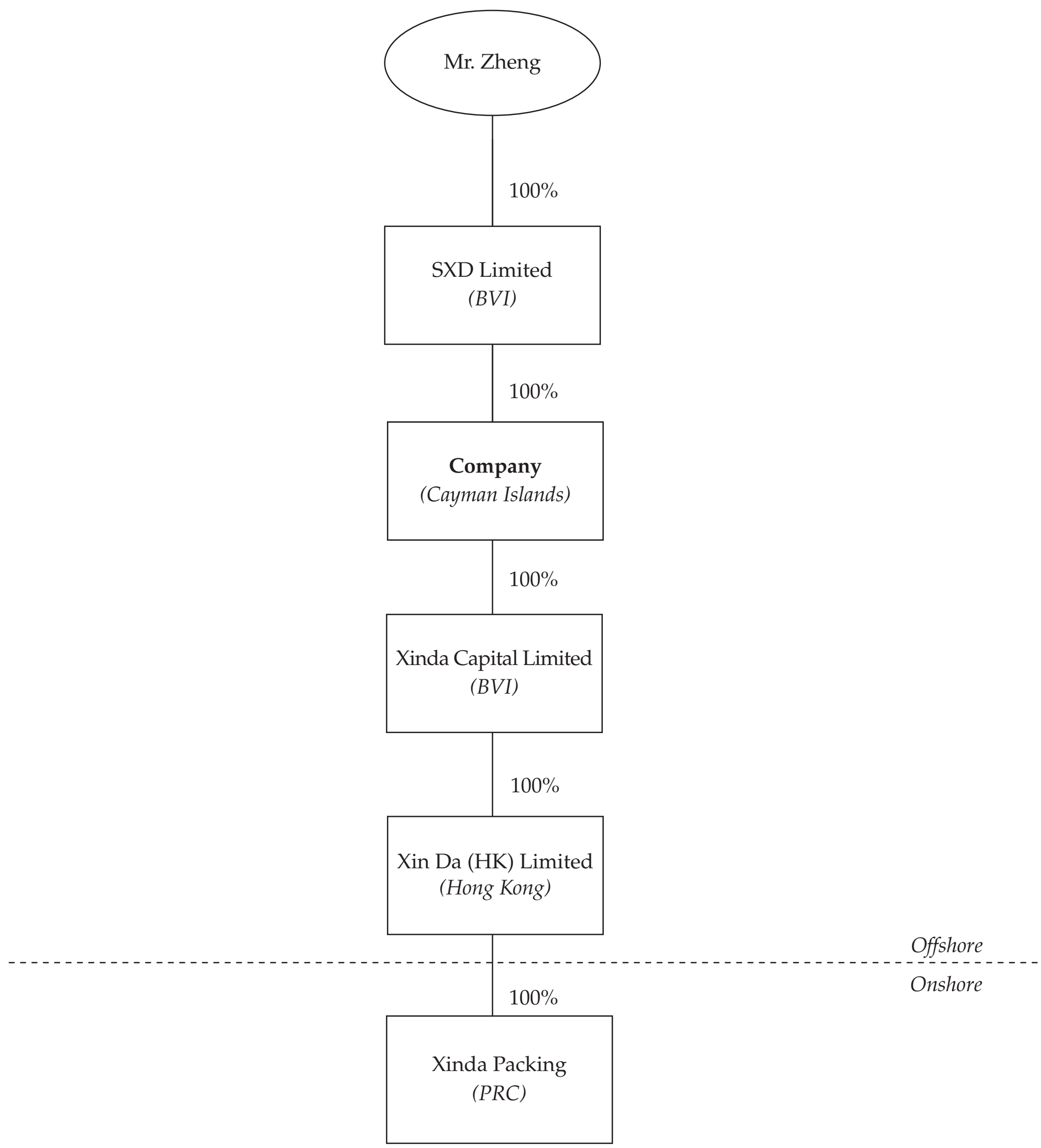
Step 5: Transfer of the business carried on by Mr. Zheng under XDHK to Xin Da (HK) Limited

Due to its nature as an unlimited company, XDHK is not included in our Group and on 5 September 2013, the business carried on under XDHK and all the rights, debts, obligations and liabilities attaching thereto were transferred to Xin Da (HK) Limited for a nominal consideration of HK$1.

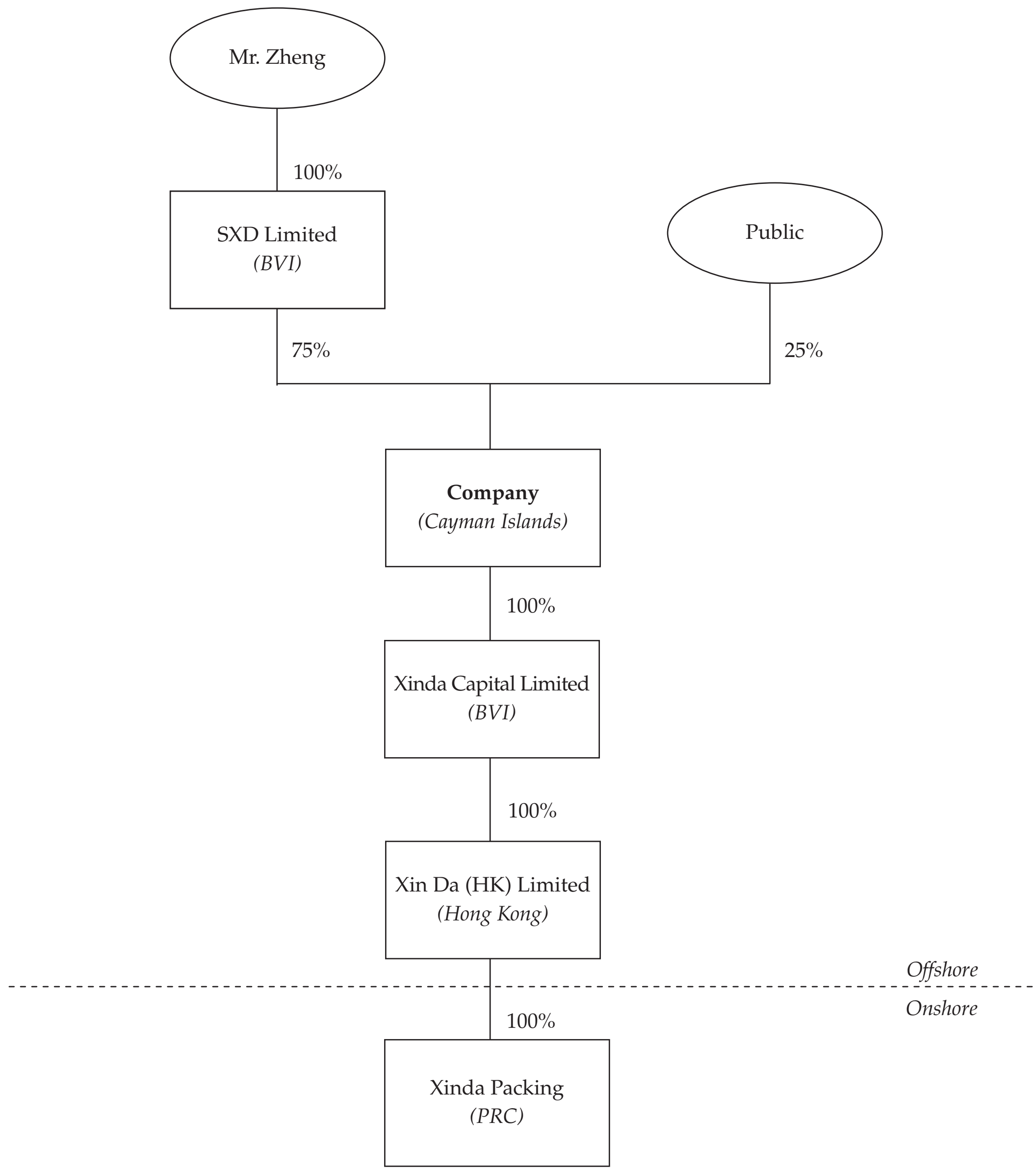
Set out below is the structure of our Group immediately prior to the Reorganisation:



Set out below is the structure of our Group immediately following completion of the Reorganisation but prior to the Share Offer and the Capitalisation Issue:



Set out below is the structure of our Group immediately following completion of the Reorganisation, the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme):



OVERVIEW

We are principally engaged in the manufacture and sale of cigarette-related packaging materials in the PRC. In particular, we manufacture the packaging materials for the Chunghwa (中華) brand of cigarette of the Shanghai Cigarette Manufacturer and Jingdian Shuangxi (經典雙喜) (a sub-brand of Shuangxi (雙喜) brand) brand of cigarette of the Guangdong Cigarette Manufacturer. Chunghwa and Shuangxi are two of the "20+10" Key Brands as designated by STMA, details of which are set out in the section headed "Industry overview" of this prospectus. We were the fourth largest manufacturer in the cigarette-related packaging materials market (comprising inner frame paper, cigarette box frame paper, tipping paper, cigarette trademark labels, cigarette paper boxes and others) with market share of approximately 7.4% in terms of total revenue in the Guangdong Province in 2012 according to the Ipsos Report. The market share of the Guangdong Province in the overall cigarette-related packaging materials market in the PRC was approximately 5.3% in terms of total revenue in 2012 according to the Ipsos Report.

During the Track Record Period, our customers mainly comprised seven cigarette manufacturers, including the Guangdong Cigarette Manufacturer, the Shanghai Cigarette Manufacturer and other five Provincial Tobacco Industrial Companies with operation in, among others, Guangdong Province, Shanghai, Guangxi Zhuang Autonomous Region, Shaanxi Province, Fujian Province and Jiangxi Province which in aggregate contributed approximately 76.1%, 85.3%, 91.8% and 92.4% of our total revenue for each of the three years ended 31 March 2011, 2012 and 2013 and the three months ended 30 June 2013 respectively. During the Track Record Period, we also supplied cigarette-related packaging materials to other customers with operations in Hong Kong, Henan Province and Guangdong Province. For each of the three years ended 31 March 2013 and the three months ended 30 June 2013, our revenue was approximately HK$212.1 million, HK$265.8 million, HK$279.0 million and HK$51.1 million respectively. The CAGR from the year ended 31 March 2011 to the year ended 31 March 2013 was approximately 14.7%. During the same period, our net profit attributable to the owners of our Company was approximately HK$9.6 million, HK$29.7 million and HK$44.7 million and HK$8.2 million respectively. The CAGR from the year ended 31 March 2011 to the year ended 31 March 2013 was approximated 115.6%.

For each of the three years ended 31 March 2013 and the three months ended 30 June 2013, our sales to the largest customer, the Guangdong Cigarette Manufacturer, amounted to approximately HK$100.4 million, HK$151.0 million, HK$159.1 million and HK$30.6 million respectively, representing approximately 47.3%, 56.8%, 57.0% and 59.8% of our Group's total revenue respectively. During the same period, our sales to the second largest customer, the Shanghai Cigarette Manufacturer, amounted to approximately HK$48.3 million, HK$52.3 million, HK$59.4 million and HK$8.5 million respectively, representing approximately 22.8%, 19.7%, 21.3% and 16.5% of our Group's total revenue respectively. We have established business relationship with the Guangdong Cigarette Manufacturer for more than five years and the Shanghai Cigarette Manufacturer for more than ten years. As mentioned in the section headed "Industry overview" of this prospectus, the Guangdong Cigarette Manufacturer is one of the 16 Provincial Tobacco Industrial Companies and took up over 80% of the cigarette manufacturing market in Guangdong Province in 2012 in terms of production volume. The Shanghai Cigarette Manufacturer is the Cigarette Group and took up the whole cigarette manufacturing market in Shanghai in 2012 and monopolises the downstream cigarette manufacturing market in Shanghai.

Our Group has approximately 20 years of experience in the cigarette-related packaging materials industry in the PRC and has established long business relationship with our customers. Our major products include tipping paper (接裝紙), inner frame paper (內襯紙), cigarette box frame paper (框架紙) and cigarette trademark labels (封簽紙). Our inner frame paper products can be further categorised into Inner Aluminium Paper, Inner Laser Paper and Inner Vacuum Metalised Paper according to their production process. During the Track Record Period, we also manufactured certain amount of cigarette paper boxes (香煙外盒) for our customers, but the production volume of such products had diminished significantly because of their relatively low profit margin, which in turn was due to the fact that (i) the cigarette brands in respect of those cigarette paper boxes manufactured by our Group were not amongst the "20+10" Key Brands and were generally lower-priced than those of the "20+10" Key Brands; (ii) our Group did not make any significant investments in our production facilities for the production of cigarette paper boxes as we focused our limited resources on the manufacturing of inner frame paper and cigarette box frame paper which were our major products and the production facilities currently used by our Group can only manufacture cigarette paper box products with low added value and (iii) our Group was not able to achieve economies of scale in our production of cigarette paper boxes given the low production volume of such products manufactured by our Group and the production volume was decreasing during the Track Record Period. The aforementioned change of product mix was a result of a strategic move of our Group to improve our profitability by, among others, assessing the profitability of the products from time to time and reducing the sales and manufacture of under-performing products with lower profit margin to better utilise its capacity on sales and manufacture of products with higher profit margin. In the determination of the strategy of product sales, our Group takes into account, among others, the future prospect of the customers and the brands of cigarette products. Given the high profit margin and the future prospect of tipping paper and cigarette trademark labels, our Group launched these products in 2012. On the other hand, given that the profit margin earned from the sales of cigarette paper boxes for some cigarette brands of existing customers was low or even negative, we reduced the sales of such product significantly during the Track Record Period.

It was our Group's business strategy to develop our business in the manufacture and sale of tipping paper and cigarette trademark labels due to their high gross profit margins. We discussed with the Guangdong Cigarette Manufacturer for any business opportunities from time to times and subsequently, after the Guangdong Cigarette Manufacturer had invited tenders for tipping paper and cigarette trademark labels in 2011, we participated in the tenders and were awarded sales contracts for these products in 2011.

The cigarette industry in the PRC is highly regulated and has undergone restructuring and consolidation in the recent decade, details of which are set out in the section headed "Industry overview" of this prospectus. According to the Ipsos Report, as a result of the efforts on industry consolidation, the number of cigarette manufacturers in the PRC has decreased from 200 in 2000 to 25 in 2012 and the number of cigarette brands has decreased from 155 in 2008 to 98 in 2012. As a result, there are only 25 potential customers in the PRC for our Group.

As required by the STMA and the China National Tobacco Corporation, in general, cigarette manufacturers in the PRC have adopted the tendering system for the selection of suppliers of cigarette-related packaging materials. All our sales to the Guangdong Cigarette Manufacturer, our largest customer during the Track Record Period, were made in accordance with the sales arrangement between Xinda Packing and the Guangdong Cigarette Manufacturer secured through stringent tendering process, which has demonstrated the competitiveness of our products in terms of quality, services and pricing.

Our self-owned production base is located at No. 4 Wanji North Street, Wanji Industrial District, Shantou City, Guangdong Province, the PRC with a gross floor area of approximately 17,667 sq.m.. During the Track Record Period, our Group carried out our production activities at that production base.

As at the Latest Practicable Date, we had the following production lines for each of our major products:

Product	**Number of production line(s)**
Tipping paper	2
Inner frame paper	
• Inner Aluminium Paper and Inner Laser Paper	7
• Inner Vacuum Metalised Paper	1
Cigarette box frame paper	1
Cigarette trademark labels	2
Cigarette paper boxes	2

During the Track Record Period, our Group, through XDHK:

- provided procurement services to Xinda Packing which involved procurement of parts and machineries from overseas suppliers. Those machineries included but not limited to laser perforation system; and

- carried out trading of printing materials, such as printing base paper, with Shantou Lejing.

The main reason for our Group carried out the above transactions through XDHK was that, as compared with Xinda Packing, it was more convenient for XDHK, being an unlimited company established in Hong Kong, to deal with, and arrange payment for, overseas suppliers. As part of the Reorganisation, the business of XDHK and all the rights, debts, obligations and liabilities attaching thereto were transferred to Xin Da (HK) Limited on 5 September 2013.

COMPETITIVE STRENGTHS

Our Directors believe that our Group has the following competitive strengths:

We are one of the approved suppliers of cigarette-related packaging materials of key cigarette manufacturers in the PRC

Our Group is a supplier of cigarette-related packaging materials in the PRC. As mentioned in the section headed "Industry overview" of this prospectus, due to the consolidation of the cigarette manufacturing industry in the PRC, the number of cigarette manufacturers in the PRC has declined from approximately 200 in 2000 to 25 in 2012, namely the Shanghai Cigarette Manufacturer, 16 Provincial Tobacco Industrial Companies and 8 non-provincial tobacco companies under the "China Tobacco Industry Development Center". During the Track Record Period, the Guangdong Cigarette Manufacturer, the Shanghai Cigarette Manufacturer and other five Provincial Tobacco Industrial Companies were customers of our Group. Leveraging on the efforts of our management team, our Group has been an approved supplier of, and has developed long-term relationships with, its major customers, including the key players of cigarette manufacturing industry in the PRC. Our Directors believe that being an approved supplier of these key players of the cigarette manufacturing industry, our Group is well-positioned to maintain and expand our business as a result of the consolidation of the cigarette manufacturing industry, through the existing and potential customers in the PRC.

We have an experienced management team with profound industry knowledge

We have an experienced management team with expertise in the manufacture of cigarette-related packaging materials. Mr. Zheng, our founder, Chairman and an executive Director of our Company, has more than 20 years of experience in this industry in the PRC. Our management team, led by our executive Directors, also has extensive experience in the manufacture of cigarette-related packaging materials in the PRC. Mr. Zheng Minsheng (鄭敏生), an executive Director, the deputy general manager of our Group and the younger brother of Mr. Zheng, also has more than 20 years of experience in this industry and is responsible for overseeing the day-to-day operations of the production facilities of our Group. Mr. Li Zhiyong (李志勇), the deputy general manager and a member of the senior management of our Group, has joined our Group for 18 years since September 1995. For the biographical details of our management team, please refer to the section headed "Directors and Senior Management" of this prospectus. With the experience of our executive Directors and senior management team, we believe that we are able to strengthen our presence in the market we operate.

Our Directors believe that the experience and networks of our executive Directors and management team with the cigarette manufacturers have enabled them to understand the needs of the cigarette manufacturers, such that they can satisfy our customers in a timely and responsive manner and can adopt better strategies in the tendering process so as to secure regular and recurring business and explore more new business opportunities which are crucial to the continuous development of our Group. Our Directors also believe that extensive experience and profound industry knowledge of our management team are critical to the efficiency of production and the overall development of our business.

We have stable customer base

We have established business relationship with a number of our major customers. In particular, we have established business relationship with the Shanghai Cigarette Manufacturer for more than ten years and the Guangdong Cigarette Manufacturer for more than five years. For each of the three years ended 31 March 2013 and the three months ended 30 June 2013, the aggregate amount of our sales to these two major customers was approximately HK$148.6 million, HK$203.2 million, HK$218.5 million and HK$39.0 million respectively, representing approximately 70.1%, 76.5%, 78.3% and 76.3% of our total revenue respectively. Both of the aforesaid cigarette manufacturers produce cigarettes of famous brands in the PRC. According to the Ipsos Report, the Shanghai Cigarette Manufacturer is the Cigarette Group and the Guangdong Cigarette Manufacturer is one of the 16 Provincial Tobacco Industrial Companies. We have been recognised by the Shanghai Cigarette Manufacturer as an "Outstanding Supplier" in 2003 and 2004 and a "3-Star Supplier (三星級供應商)", which is the highest level for supplier awarded by that cigarette manufacturer, in 2011. We have entered into long-term sales arrangement/contracts with the aforesaid customers, details of which are set out in the sub-paragraph headed "Major sales arrangements/contracts with two largest customers" under the paragraph headed "Sales and marketing" of this section.

Only those suppliers of cigarette-related packaging materials which have passed the qualification certification process of those cigarette manufacturers are qualified to participate in those cigarette manufacturers' tenders. The thresholds for passing their qualification certification process are high and they will also delegate their staff to inspect our production premises. In light of the certification process, it is not easy for new suppliers to obtain sales arrangements/contracts from these major customers before they become the approved suppliers of those customers. Further, those cigarette manufacturers also require consistency in the packaging materials supplied and their adaptability to the production facilities of the cigarette manufacturers. Therefore, our Directors are of the view that it is not likely for those cigarette manufacturers to switch to another supplier so long as our products comply with their standards and requirements.

We possess quality management system and capability to produce high quality products

We have an established customer base for our cigarette-related packaging materials products. During the Track Record Period, state-owned cigarette manufacturers were among our key customers. In order to meet our customers' strict requirements on product quality, we have implemented stringent quality control procedures for each stage of our production process, such as procurement of raw materials, production stage and delivery stage. Our Directors confirm that, during the Track Record Period, (i) there was no material claim against our Group for defective products; (ii) we did not experience any products return by our customers; and (iii) there was no legal claim for product liability against our Group.

In addition to the quality of our packaging materials, the consistency in the quality of our packaging materials, the adaptability of our packaging facilities to their production facilities and on-time delivery are the key concerns of our customers. We have devised and implemented stringent quality control measures during each stage of our production process, such as procurement of raw materials, production stage and delivery stage. Our Directors believe that with the above quality control measures and our profound understanding of the industry and our customers' requirements, we are well-positioned to meet our customers' requirements.

BUSINESS STRATEGIES

With our proven track record, our Directors believe that our Group is well-positioned to further develop our business to capture new business opportunities. We aim to continue to establish our market presence in the cigarette-related packaging materials industry.

Enhancing our position in the cigarette-related packaging materials industry of the PRC

During the Track Record Period, our customers mainly comprised the Guangdong Cigarette Manufacturer, the Shanghai Cigarette Manufacturer and other five Provincial Tobacco Industrial Companies in the PRC. Leveraging on the existing business relationship with these key players of the cigarette manufacturing industry in the PRC and the knowledge and experience of our management team, we plan to further broaden our customer base, enhance our position and increase our market share through our existing and potential customers in the cigarette-related packaging materials industry in the PRC by carrying out sales and marketing activities.

Implementing stringent quality control to maintain product quality

We have an established customer base for our cigarette-related packaging materials products. During the Track Record Period, state-owned cigarette manufacturers were among our key customers. In order to meet our customers' strict requirements on product quality, we have implemented stringent quality control procedures for each stage of our production process, such as procurement of raw materials, production stage and delivery stage. Our Directors confirm that, during the Track Record Period; (i) there was no material claim against our Group for defective products; (ii) we did not experience any products return by our customers; and (iii) there was no legal claim for product liability against our Group. We believe that our stringent quality control measures are the key contributing factors to maintain our product quality and our long-term business relationships with our customers. We intend to continue to optimise our quality control system (including, inter alia, purchases of additional quality monitoring equipments) and perform stringent quality control measures in our procurement and production process in order to ensure that our products will continue meeting our customers' demands. We also believe that maintaining our product quality will help our Group to sustain our market position.

Increasing our market share by acquiring companies with long-term and good business relationship with our target customers

During the Track Record Period, our customers mainly comprised the Guangdong Cigarette Manufacturer, the Shanghai Cigarette Manufacturer and other five Provincial Tobacco Industrial Companies in the PRC. Given the benefit of market consolidation, we believe that the strategic acquisition of our competitors can further enhance our market share. We intend to expand our market share by way of acquisitions of other market players in the same industry as our Company which currently have long-term and good business relationship with the key players of the cigarette manufacturing industry in the PRC.

In assessing the acquisition targets, we would consider various factors such as: (i) whether the relevant acquisition target has long-term and good business relationship with our target customers; (ii) the location of its production facilities; (iii) the type of cigarette-related packaging materials it manufactures; (iv) its reputation in the cigarette manufacturing industry in the PRC; (v) its scale of operation; and (vi) its historical financial performance.

As set out in the section headed "Industry overview" of this prospectus, the cigarette industry in the PRC has been undergoing market consolidation. Our Directors consider that such consolidation should not have any material implication on our Group's acquisition strategy as described above, as it is our Group's intention to acquire only those other market players with long-term and good business relationship with those key cigarette manufacturers in the PRC which are more likely to survive and take advantage of the market consolidation of the cigarette industry in the PRC.

As at the Latest Practicable Date, we have not identified any specific acquisition targets.

Diversifying our product portfolio and enhancing our productivity

In order to improve our profitability, we intend to further develop and expand the scope of our products by diversifying our product lines into other packaging materials and printing paper used in other industries or products. Moreover, we will continue to endeavour to secure more orders for cigarette-related packaging materials with higher profit margins and brands with better prospects by leveraging on our proven track record and extensive industry experience. We plan to enhance our productivity to cope with our expansion by increasing our production capacity.

We intend to upgrade our existing production base, further expand our production capability and increase our production capacity by, without limitation, (a) acquisition of machineries of more advanced technology such as printing press for the production of high-end cigarette paper boxes with higher gross profit margin; and (b) acquisition of laser punching machines for the increase of production capacity for the production of tipping paper. Details of our plan are as follows:

Details		Commencement date/ Expected commencement date	Expected completion date	Total expected capital expenditure *HK$ million*
(a)	Acquisition of a new printing press	As and when appropriate	As and when appropriate *(Note)*	11.3
(b)	Acquisition of two more laser punching machines	Second half of 2014	By the end of 2015	9.3

Note: We will proceed to acquire the printing press as and when the market opportunities arise and when our management considers appropriate. If we are not able to secure sufficient market demand to support the acquisition by 31 December 2015, we will consider changing the use of the amount of proceeds assigned for the acquisition of the printing press to other uses which are in line with our Company's development strategy and in the interest of our Company and its shareholders as a whole. Relevant announcement in this regard will be made as and when appropriate.

We intend to fund the total expected expenditure from the net proceeds of the Share Offer and will consider financing the shortfall, if any, from our internal resources generated from operations and/or bank borrowings.

Through the aforementioned plans of upgrade of our production base, our capability and capacity our production facilities would be further enhanced.

The gross profit of cigarette paper boxes for the three years ended 31 March 2013 and the three months ended 30 June 2013 was approximately -15.9%, -9.2%, 9.2% and -0.3% respectively. The negative gross profit of cigarette paper boxes for the two years ended 31 March 2011 and 2012 and the three months ended 30 June 2013 was primarily attributable to (i) the cigarette brands in respect of those cigarette paper boxes manufactured by our Group were not amongst the "20+10" Key Brands and were generally lower-priced than those of the "20+10" Key Brands; (ii) our Group did not make any significant investments in our production facilities for the production of cigarette paper boxes as we focused our limited resources on the manufacture of inner frame paper and cigarette box frame paper which were our major products and the production facilities currently used by our Group can only manufacture cigarette paper box products with low added value and (iii) our Group was not able to achieve economies of scale in our production of cigarette paper boxes given the low production volume of such products manufactured by our Group and the production volume was decreasing during the Track Record Period. For details of analysis of gross profit, please refer to the sub-paragraph headed "Gross profit and gross profit margin" of the paragraph headed "Management discussion and analysis" under the section headed "Financial information" of this prospectus.

As at the Latest Practicable Date, our Group did not have any specific timetable for the acquisition of a new printing press. We will proceed to acquire the same as and when the market opportunities arise and when our management considers appropriate. The new printing press adopts more advanced printing technology as compared to the printing press machines currently used and our Directors believe that such technology will result in higher efficiency and less colour discrepancies which are the basic production requirements of high-end cigarette paper boxes with higher gross profit margin. Our Group is now in the course of identifying potential customers for such high-end cigarette paper boxes products. We have commenced to communicate with certain target potential customers to understand their needs for this product and the relevant product specifications. We plan to invite our target potential customers to carry out their qualification certification process on our Group as and when appropriate. We would also monitor the tender invitations issued by those cigarette manufacturers on the internet and submit our tender documents to them from time to time. Our Directors believe that there is sufficient demand in the market given that the cigarette market and the cigarette-related packaging materials market were expanding in recent years and the market share of cigarette paper boxes represented approximately 64.1% of the cigarette-related packaging materials market in 2012. Our Directors expect that the gross profit margin of cigarette paper boxes products manufactured by such new printing press will be around 20%-30%. If we are not able to secure sufficient market demand to support the acquisition by 31 December 2015, we will consider changing the use of the amount of proceeds assigned for the acquisition of the printing press to other uses which are in line with our Company's development strategy and in the interest of our Company and our shareholders as a whole. Relevant announcement will be made in this regard as and when appropriate.

The aforementioned two laser punching machines can process approximately 927 tonnes of tipping paper in total. Our Directors believe that our competitiveness would be further improved and we would be of a more favourable position than before such that we would be able to pass the qualification certification tests (if any) of other cigarette manufacturers and/or would be awarded with supply contracts by other cigarette manufacturers. We will monitor the market from time to time and endeavour to secure more orders from our existing customers and potential customers by, among others, proactively participating in the tenders organised by the existing and potential customers. In addition to the above and leveraging on our established business relationships with the state-owned cigarette manufacturers, we are confident that we can obtain more sales orders in the future. Before implementing the above-mentioned strategy of acquiring more advanced machineries, our Group would take into account, among others, sales orders expected to receive, the investment costs and risks involved. With respect to the acquisition of laser punching machines, we would acquire the two machines in two phases after we have assessed the incremental benefits, costs and risks involved in each acquisition.

Along with our capacity expansion, we will closely communicate with our customers to understand their production schedules in order to better formulate our procurement and production plan. We may procure raw materials from the existing suppliers and other alternative suppliers should there be any unexpected sales order from our customers. As our production is relatively capital-intensive, we do not heavily rely on skilled labour. We may consider employing more skilled labour and/or management staff should the need arise. During the Track Record Period, we did not experience any significant conflicts with our staff nor disruption to our operations due to labour disputes or industrial actions, nor have there been any difficulties in the recruitment and retention of experienced staff. In respect of the quality control, we will apply our existing stringent quality measures to ensure that all our products will meet the prescribed quality standards. We may consider employing more staff for quality control as and when appropriate.

Cigarette manufacturers require various types of cigarette-related packaging materials for their products and our Group has never excluded the possibility to manufacture and sell any type of such packaging materials. We will endeavour to capture any market opportunities whenever they arise. Nevertheless, due to limited resources, our Group has to focus on certain types of packaging materials from time to time after taking into account, among others, the investment costs and risks involved in the acquisition of new machinery. During the Track Record Period, our Group expended more resources on the manufacture and sale of inner frame paper, cigarette box frame paper, tipping paper and cigarette trademark labels since they involved relatively less investment costs as compared with cigarette paper boxes. Our Directors believe that, in addition to internal resources generated during the Track Record Period, the Listing would enhance our financial resources and strengthen our market position. In light of the aforesaid, our Group will endeavour to obtain orders from customers for cigarette paper boxes after the Listing.

Strengthening our business relationship with manufacturers producing more competitive cigarette products

We will continue to maintain a close relationship with our major customers and develop business opportunities with new customers with a view to boosting our growth and consolidating our position in the market. In light of the policies of the PRC government to restructure and consolidate the industry, it is anticipated that cigarettes products of more competitive brands will survive while other less competitive cigarette products will be substituted. As such, the production and sales volume of more competitive cigarette products are likely to increase in the future. We will, leveraging on our edge as an approved supplier of the key players of the cigarette manufacturing industry in the PRC and our established business relationships with the state-owned cigarette manufacturers, put extra efforts to secure more orders for packaging materials for more competitive cigarette products such that our sales volume will increase in the future.

Commitment to research and development of our products and our technical know-how in our production process

Our Directors believe that our commitment to research and development of our products and our technical know-how in our production process are important for our Group to maintain our competitiveness. Our Group keeps abreast of the latest market development through our customers and our own research.

The table below sets out the plan of our major research and development projects as at the Latest Practicable Date:

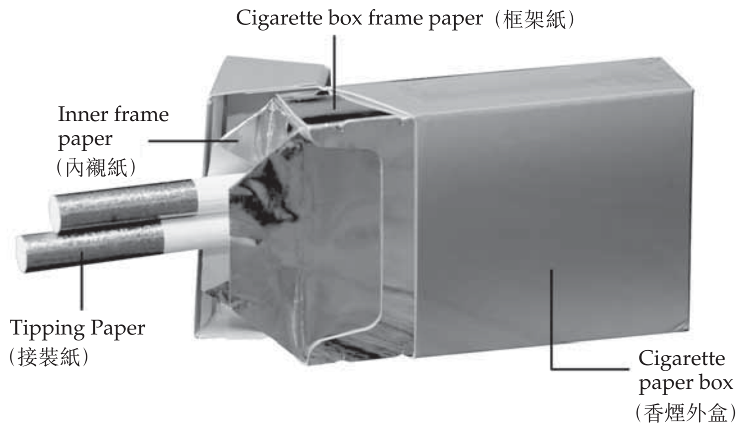
Major research and development projects	Tentative schedule	Total estimated cost
Development of reusable laser film	January 2014 – December 2016	HK$2.3 million
Improvement in the technical know-how on the perforation of inner frame paper	March 2014 – February 2015	HK$0.5 million
Improvement in the pump of deposition facility	June 2014 – October 2015	HK$0.5 million
Enhancement in the waste paper treatment system	May 2014 – December 2015	HK$0.8 million
Development of in-circuit production monitoring system	March 2014 – March 2016	HK$1.5 million

We intend to apply the proceeds from the Share Offer towards settlement of all the costs for the above research and development plans. As at the Latest Practicable Date, none of the above projects has incurred any costs.

PRODUCTS

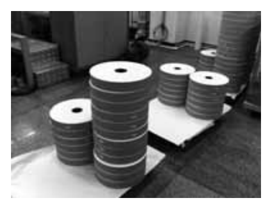
We are principally engaged in the manufacture and sale of cigarette-related packaging materials in the PRC. During the Track Record Period, our customers mainly comprised seven cigarette manufacturers, including the Guangdong Cigarette Manufacturer, the Shanghai Cigarette Manufacturer and other five Provincial Tobacco Industrial Companies with operation in, among others, Guangdong Province, Shanghai, Guangxi Zhuang Autonomous Region, Shaanxi Province, Fujian Province and Jiangxi Province.

Our major products include various cigarette-related packaging materials, namely, tipping paper, inner frame paper, cigarette box frame paper, cigarette trademark labels and cigarette paper box. Below is a figure showing the tipping paper, inner frame paper, cigarette box frame paper and cigarette paper box of a single pack of 20 cigarettes:



The principal applications of our major products are as follows:

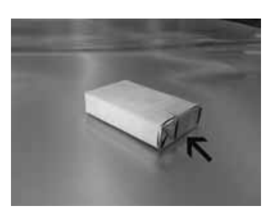
I. Tipping paper (接裝紙)
principal application:
- Forming the mouth piece and surrounding the filter to stabilise the mouthpiece from saliva, moderating the burning of the cigarette and reducing the level of tar inhaled by the end-users



II. Inner frame paper (內襯紙)
principal application:
- Packing and carrying of cigarettes and preventing the moisture from going into the cigarette box

III. Cigarette box frame paper (框架紙)
principal application:
- Forming part of the hard box for packing and carrying of cigarettes and preventing the cigarette box from collapsing

IV. Cigarette trademark labels (封簽紙)
principal application:
- Printed with the logo of the cigarette brands for the purposes of identification and increase of brand awareness
- Preventing the cigarette box from opening before use



V. Cigarette paper boxes (香煙外盒)
Cigarette paper boxes include small boxes for a single pack of 20 cigarettes and large boxes for 10 single packs of cigarettes.
principal application:

- Printed with the logo and design of the cigarette brands for the purpose of identification and increase of brand awareness
- Packing and carrying of cigarettes

Our inner frame paper products can be further categorised into Inner Aluminium Paper, Inner Laser Paper and Inner Vacuum Metalised Paper according to their production process.

REVENUE

Our revenue derived from the sale of major categories of our products during the Track Record Period is as follows:

	For the year ended 31 March						For the three months ended 30 June			
	2011		2012		2013		2012		2013	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%	*HK$'000*	%	*HK$'000*	%
							(Unaudited)			
Sales of cigarette-related packaging materials products:										
– inner frame paper (內襯紙)	142,339	67.1%	174,432	65.6%	162,476	58.2%	47,931	67.8%	27,587	54.0%
– cigarette box frame paper (框架紙)	41,975	19.8%	35,748	13.4%	26,256	9.4%	6,282	8.9%	7,320	14.3%
– tipping paper (接裝紙)	–	–	26,994	10.2%	69,044	24.7%	9,946	14.1%	11,952	23.4%
– cigarette trademark labels (封簽紙)	–	–	12,099	4.6%	17,244	6.2%	4,361	6.2%	3,688	7.2%
– cigarette paper boxes (香煙外盒)	26,627	12.6%	15,285	5.8%	3,457	1.3%	2,189	3.0%	574	1.1%
	210,941	99.5%	264,558	99.6%	278,477	99.8%	70,709	100.0%	51,121	100.0%
Sales from processing services	639	0.3%	651	0.2%	255	0.1%	–	–	–	–
Others *(Note)*	563	0.2%	612	0.2%	251	0.1%	–	–	–	–
	212,143	100.0%	265,821	100.0%	278,983	100.0%	70,709	100.0%	51,121	100.0%

Note: "Others" include but not limited to revenue generated from trading of printing materials for Shantou Lejing and sales of scrapped materials.

As illustrated in the above table:

(a) most of our revenue during the Track Record Period was attributable to the manufacture and sale of cigarette-related packaging materials and approximately 99.5%, 99.6%, 99.8% and 100.0% of our revenue for each of the three years ended 31 March 2013 and the three months ended 30 June 2013 respectively was derived from the same;

(b) during the Track Record Period, we also manufactured certain amount of cigarette paper boxes (香煙外盒) for our customers and the production volume of such products had diminished significantly which was due to, among others, the strategic move of our management to reduce the sales of those products with lower profit margins, e.g. cigarette paper boxes, and increase in the sales of those products with higher profit margins, e.g. tipping paper and cigarette trademark labels; and

(c) approximately 0.5%, 0.4%, 0.2% and nil of our revenue for each of the three years ended 31 March 2013 and the three months ended 30 June 2013 was attributable to the trading of printing materials to Shantou Lejing (a company which is 90% owned by Mr. Zheng Minsheng, an executive Director), our sales of scrapped materials and our provision of processing services. Under the processing arrangement entered into with our customers, our Group is mainly responsible for providing the printing and/or adherence and colouring services on the base papers according to the product specifications provided by our customers and our customers are mainly responsible for providing the base papers and other supplies, e.g. aluminium foil and/or ink, to be used in the processing. Our Group charged the processing fee for such provision of services.

    During the Track Record Period, we generated revenue from the trading of printing materials with and provision of processing services to Shantou Lejing. Please refer to the paragraph headed "Independence from our Controlling Shareholders and our Directors" under the section headed "Relationship with Controlling Shareholders" of this prospectus for further details on the trading business of Mr. Zheng Minsheng.

The table below is the geographical analysis of our revenue during the Track Record Period:

	For year ended 31 March						For the three months ended 30 June			
	2011		2012		2013		2012		2013	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (Unaudited)	*%*	*HK$'000*	*%*
Guangdong Province	102,277	48.2%	156,104	58.7%	169,786	60.9%	40,719	57.6%	32,370	63.3%
Shanghai	49,452	23.3%	52,252	19.7%	59,437	21.3%	15,003	21.2%	8,453	16.5%
Henan Province	22,608	10.7%	12,161	4.6%	–	–	–	–	–	–
Hong Kong	10,840	5.1%	12,412	4.7%	12,097	4.3%	2,909	4.1%	2,072	4.1%
Guangxi Zhuang Autonomous Region	8,823	4.2%	17,100	6.4%	21,705	7.8%	5,238	7.4%	3,911	7.7%
Hubei Province	13,236	6.2%	9,492	3.6%	–	–	–	–	–	–
Shaanxi Province	–	–	3,168	1.2%	9,138	3.3%	4,651	6.6%	–	–
Others *(Note)*	4,907	2.3%	3,132	1.1%	6,820	2.4%	2,189	3.1%	4,315	8.4%
	212,143	100.0%	265,821	100.0%	278,983	100.0%	70,709	100.0%	51,121	100.0%

Note: "Others" include but not limited to revenue generated from customers who were located at Fujian Province and Jiangxi Province.

As set out above, our sales to the Guangdong Province and Shanghai, at which our largest customer and second largest customer during the Track Record Period was located respectively, in aggregate contributed approximately 71.5%, 78.4%, 82.2% and 79.8% of our total revenue during the Track Record Period respectively.

PRODUCTION FACILITIES AND CAPACITY

Our self-owned production base, which includes our office building and production facilities, is located at No. 4 Wanji North Street, Wanji Industrial District, Shantou City, Guangdong Province, the PRC with a gross floor area of approximately 17,667 sq.m.. During the Track Record Period, our Group carried out our production activities at this production base.

We have completed the renovation of part of our office building and production facilities, while the renovation of the other parts of our office building and production facilities was still under way as at the Latest Practicable Date. Our Directors expect that it will be completed in the first half of 2014. The total expected capital expenditure for the renovation is approximately HK$7.9 million and an amount of HK$5.9 million has been incurred as at 30 June 2013. We intend to fund the remaining capital expenditure of approximately HK$2.0 million from the net proceeds of the Share Offer.

As at the Latest Practicable Date, we had the following production lines for each of our major products:

Product	Number of production line(s)
Tipping paper	2
Inner frame paper	
• Inner Aluminium Paper and Inner Laser Paper	7
• Inner Vacuum Metalised Paper	1
Cigarette box frame paper	1
Cigarette trademark labels	2
Cigarette paper boxes	2

Machineries

As at the Latest Practicable Date, the principal machineries that were owned and used by our Group at our production base are set out below:

	Machineries	Principal functions	Number of unit(s)
1.	Printing press (印刷機)	Printing the required colour or logo onto the packaging materials	9
2.	Combining machine (複合機)	Adhering aluminium foil or film to the white base paper	7
3.	Slitting machine (分切機)	Cutting the large rolls of packaging materials into small rolls suitable for our customers	9
4.	Hot stamp printing machine (燙金機)	Carrying out hot gold stamping process	6
5.	Deposition facilities (鍍膜設備)	Depositing a layer of aluminium to the film	1
6.	Rewinding inspecting machine (複卷機)	Enabling our quality control staff to inspect the products	11

	Machineries	Principal functions	Number of unit(s)
7.	Release agent coating machine (塗布機)	Coating of a layer of release agent (離型劑) onto a film	2
8.	Laser punching machine (激光打孔機)	Punching holes onto the tipping paper	1
9.	Cutting machine (裁切機)	Cutting large pieces of cigarette trademark labels into separate pieces	2
10.	Mould folding machine (模切機)	Folding the packaging materials into cigarette paper boxes in accordance with the mould	2
11.	Stripping machine (剝離機)	Separating the transparent film from the white base paper	1

As we only have one deposition facility and one laser punching machine, in the event that any of the aforesaid facility or machine is not working, we will repair the same as soon as possible which will usually take less than a week. As we usually maintain certain level of inventories for buffer purpose, we believe that any temporary suspension of the operation of the aforesaid facility or machine should not cause any material adverse impact on our Group's operation and financial positions. During the Track Record Period, the deposition facility and the laser punching machine did not experience any material breakdown which caused material adverse impact on our Group's operation and financial positions.

The deposition facility is used in the production of our inner frame paper products. Given the current average utilisation rate of the production line for inner frame paper and the relatively short time required for its repair and the availability of buffer inventories, we did not have any plan to acquire an additional deposition facility as at the Latest Practicable Date.

Although we also have only one stripping machine, the seven combining machines can also perform the function of the stripping machine.

From the experience of our Directors, the estimated useful life of the above machineries ranged from five to ten years and the estimated remaining useful life in general ranged from three to six years. As at the Latest Practicable Date, none of the machineries as set out above was subject to any financing lease arrangements. All those machineries which are being used by our Group are functioning properly and there is no immediate need to replace or upgrade the same. Nevertheless, our Group will replace or upgrade some of our existing machineries and purchase more new machineries, including acquisition of two more laser punching machines after the Listing in order to enhance our production capacity and efficiency, details of which are set out in the section headed "Future plans and use of proceeds" of this prospectus.

The maximum production capacity, the actual production volume and the utilisation rate of our production facilities of each of our major products for each of the three years ended 31 March 2013 and the three months ended 30 June 2013 are set out below:

	Year ended 31 March 2011		Year ended 31 March 2012		Year ended 31 March 2013		Three months ended 30 June 2013	
	Maximum annual production capacity *(approx.)*	Actual production volume & utilisation rate *(approx.)*	Maximum annual production capacity *(approx.)*	Actual production volume & utilisation rate *(approx.)*	Maximum annual production capacity *(approx.)*	Actual production volume & utilisation rate *(approx.)*	Maximum annual production capacity *(approx.)*	Actual production volume & utilisation rate *(approx.)*
Production line for:								
Tipping paper	Nil	Nil	890 tonnes	362 tonnes (40.7%)	1,112 tonnes	1,077 tonnes (96.9%)	214 tonnes	190 tonnes (88.8%)
Inner frame paper	6,180 tonnes	3,950 tonnes (63.9%)	6,180 tonnes	5,383 tonnes (87.1%)	7,057 tonnes	5,385 tonnes (76.3%)	1,358 tonnes	926 tonnes (68.2%)
Cigarette box frame paper	3,434 tonnes	2,242 tonnes (65.3%)	3,434 tonnes	1,767 tonnes (51.5%)	3,434 tonnes	1,289 tonnes (37.5%)	661 tonnes	410 tonnes (62.0%)
Cigarette trademark labels	Nil	Nil	453 million pieces	267 million pieces (58.9%)	906 million pieces	391 million pieces (43.2%)	174 million pieces	68 million pieces (39.1%)
Cigarette paper boxes	186 million pieces	141 million pieces (75.8%)	186 million pieces	34 million pieces (18.3%)	186 million pieces	46 million pieces (24.7%)	36 million pieces	9 million pieces (25.0%)

Notes:

1. The maximum annual production capacity figures during the Track Record Period are determined with reference to the capacity of core production process of the relevant products, which cannot be replaced by alternative machineries or equipments and are calculated by multiplying the daily capacity of core production process with the applicable number of days of operation per year and the number of production lines for the relevant products. With respect to the daily capacity of the core production process, it is calculated with reference to the dimensions and weight of our products manufactured each day.

2. We assume that our production facilities operated (i) 12 hours (2 shifts of 6 hours each) a day for a total of 153 days during the period between March and August each year (which is low season for our Group); and (ii) 20 hours (2 shifts of 10 hours each) a day for a total of 142 days during the period between September and February in the forthcoming year (which is peak season for our Group), taking into account the holidays and the time required for repairs and maintenance and meal arrangement of the staff.

3. Utilisation rates are calculated by dividing the actual production volume over the estimated approximately annual production capacity.

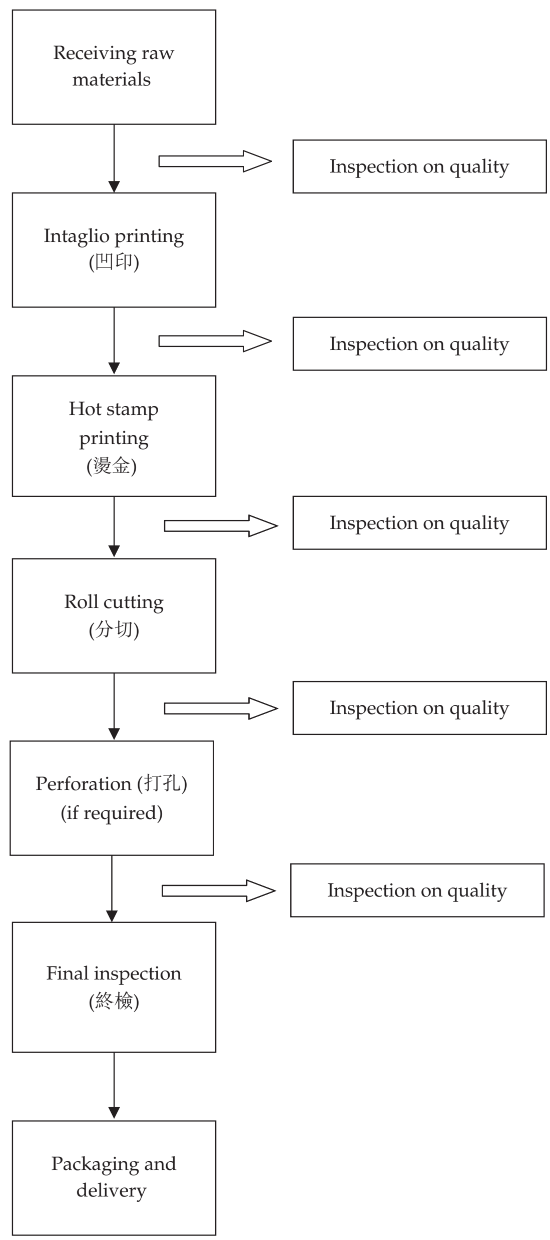
4. During the year ended 31 March 2011, we did not manufacture any tipping paper and cigarette trademark labels. The tipping paper and cigarette trademark labels were launched in 2012.

5. The fluctuation in the utilisation rate of our production facilities during the Track Record Period was due to, among others, acquisition of additional machineries and equipments, increase in the number of customers, production of new products and increase of orders from our customers.

PRODUCTION PROCESS

The following chart illustrates the principal production process involved in the manufacture of our major products. Inspection by our staff and specific monitoring equipments are carried out throughout the production process to ensure that our products are up to standard and meet with the requirements of our customers.

Tipping paper



- Intaglio printing (凹印): The white base paper is printed with such colour and pattern as specified by our customers.

- Hot stamp printing (燙金): The paper undergoes the hot gold stamping process.

- Roll cutting (分切): The roll of semi-products is cut into six smaller rolls.

- Perforation (打孔) (If required by our customer): Rows of tiny holes are made on the tipping paper in order to reduce the level of tar to be inhaled by the end-users. Perforation is usually only required for premium cigarette products.

- Final inspection (終檢): Our staff will inspect the external appearance and perform various quality benchmark tests on our products.

- Packaging and delivery.

For each tonne of tipping paper, the approximate time required for each of the following production processes is as follows:

(a) intaglio printing: 4.9 hours

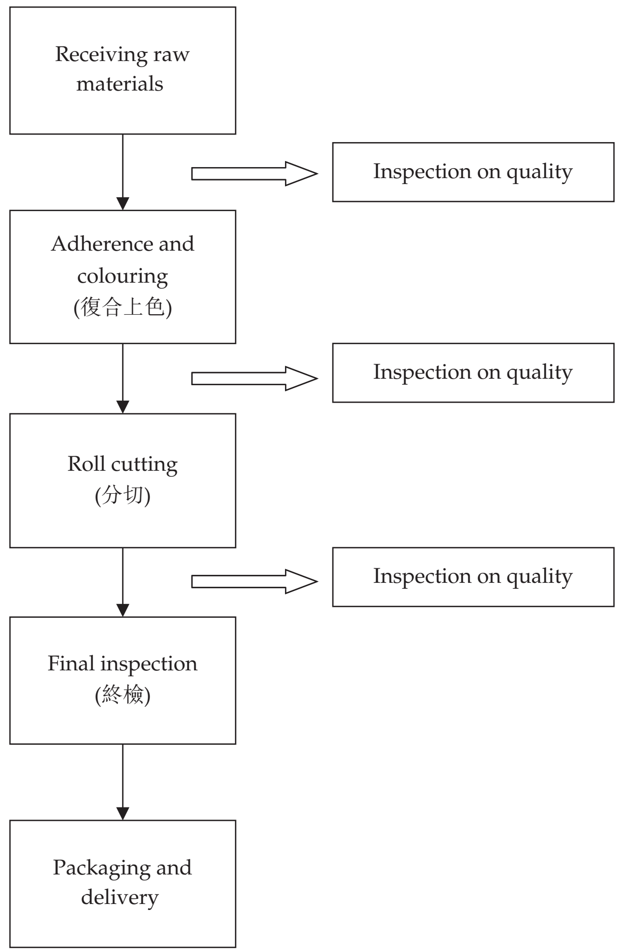
(b) hot stamp printing: 5.4 hours

(c) roll cutting: 3.5 hours

(d) perforation: 14.2 hours

(e) final inspection: 2.0 hours

Inner Aluminium Paper



- Adherence and colouring (復合上色): The white base paper is adhered to an aluminium foil with special glues and coated with colourings as specified by our customers.

- Roll cutting (分切): The roll of semi-products coated with aluminium foil is cut into dimensions as specified by our customers.

- Final inspection (終檢): Our staff will inspect the external appearance and perform various quality benchmark tests on our products.

- Packaging and delivery.

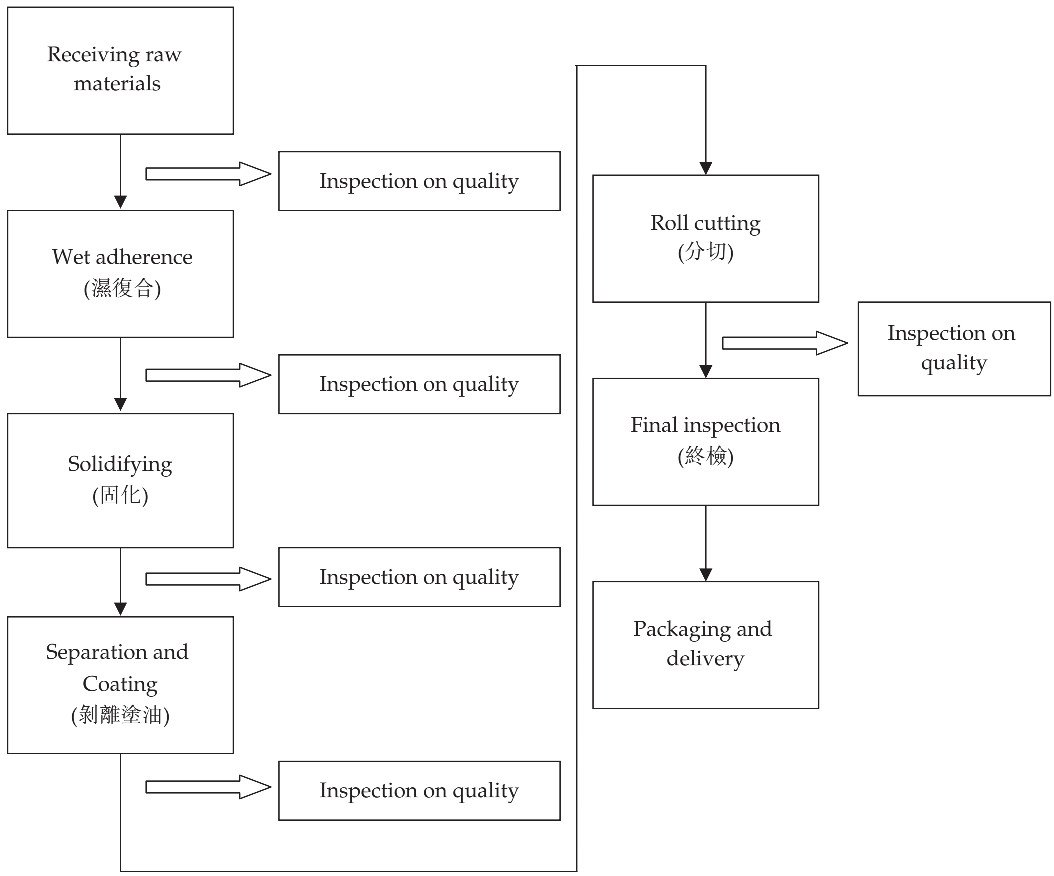
For each tonne of Inner Aluminium Paper, the approximate time required for each of the following production processes is as follows:

(a) adherence and colouring: 5.8 hours

(b) roll cutting: 3.5 hours

(c) final inspection: 2.8 hours

Inner Laser Paper



- Wet adherence (濕復合): The white base paper is adhered to the film coated with laser layer by special glues and is then put into a heater for heating.

- Solidifying (固化): The paper together with the laser film is stored for at least 24 hours in order to let the glues solidify.

- Separation and coating (剝離塗油): The film is separated from the laser layer and the laser layer is adhered on the white base paper. The laser layer is then coated with another layer of transparent solution in order to increase its brightness and durability.

- Roll cutting (分切): The roll of white base paper coated with laser layer is cut into eight smaller rolls.

- Final inspection (終檢): Our staff will inspect the external appearance and perform various quality benchmark tests on our products.

- Packaging and delivery.

For each tonne of Inner Laser Paper, the approximate time required for each of the following production processes is as follows:

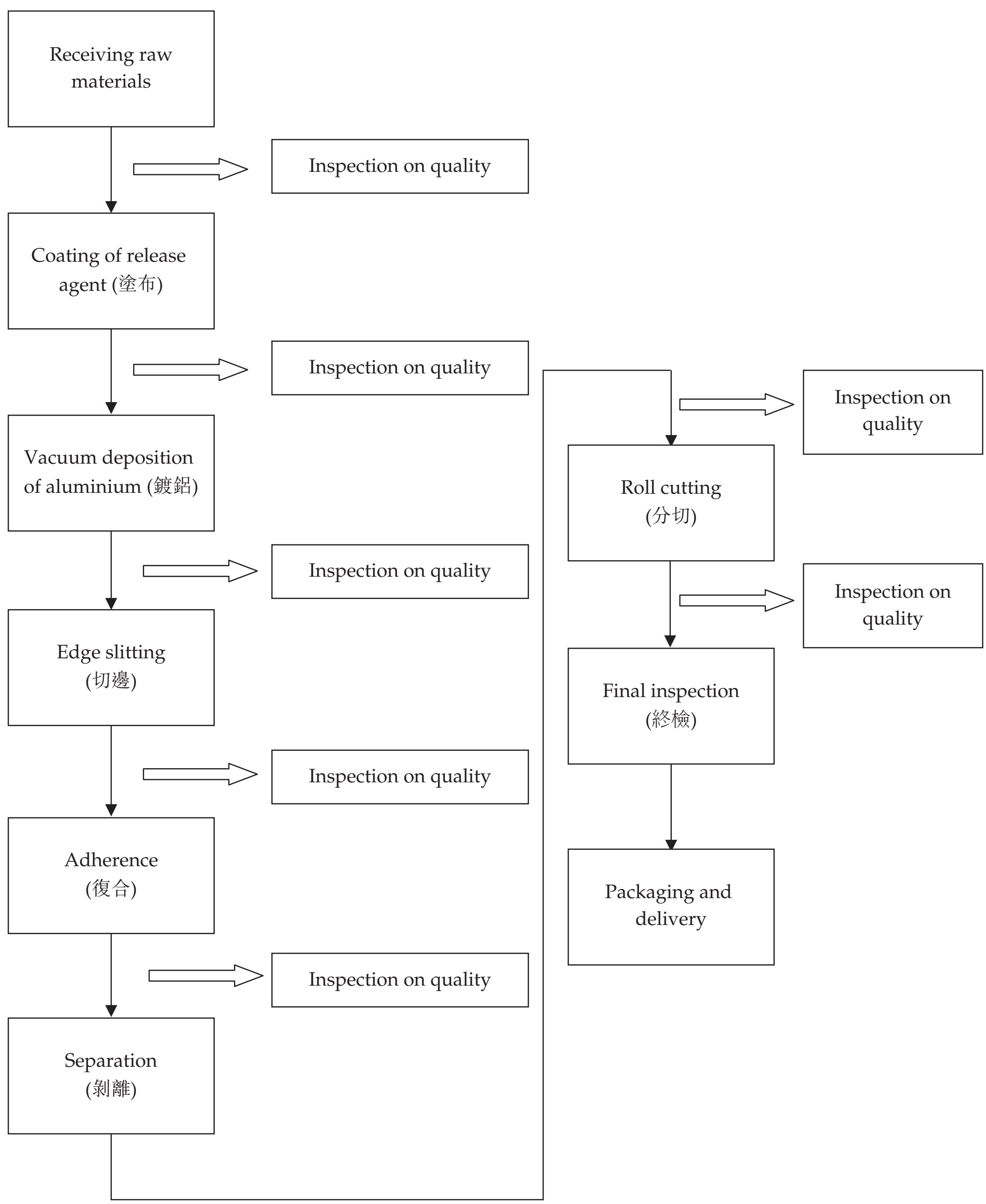
(a) wet adherence and solidifying: 4.6 hours

(b) separation and coating: 4.6 hours

(c) roll cutting: 4.2 hours

(d) final inspection: 4.0 hours

Inner Vacuum Metalised Paper



- Coating of release agent (塗布): A transparent film is coated with a layer of release agent (離型劑). Such release agent will help the separation of the aluminium layer from the transparent film during the subsequent stages of the production process. The film is then put into a heater for heating.

- Vacuum deposition of aluminium (真空鍍鋁): A layer of aluminium is deposited to the transparent film under vacuum environment.

- Edge slitting (切邊): The edges of the film is cut in order to tidy up the entire roll of film. Such process also allows the film to cool down.

- Adherence (復合): The original white paper is adhered to the film coated with a layer of aluminium by special glues and is then put into a heater for heating.

- Separation (剝離): The transparent film is separated from the aluminium layer after the aluminium layer is adhered to the white base paper. The separated transparent film can be reused five times.

- Roll cutting (分切): The roll of white base paper coated with layer of aluminium is cut into eight smaller rolls.

- Final inspection (終檢): Our staff will inspect the external appearance and perform various quality benchmark tests on our products.

- Packaging and delivery.

For each tonne of Inner Vacuum Metalised Paper, the approximate time required for each of the following production processes is as follows:

(a) coating of release agent: 3.6 hours

(b) vacuum deposition of aluminium: 3.1 hours

(c) edge slitting: 2.8 hours

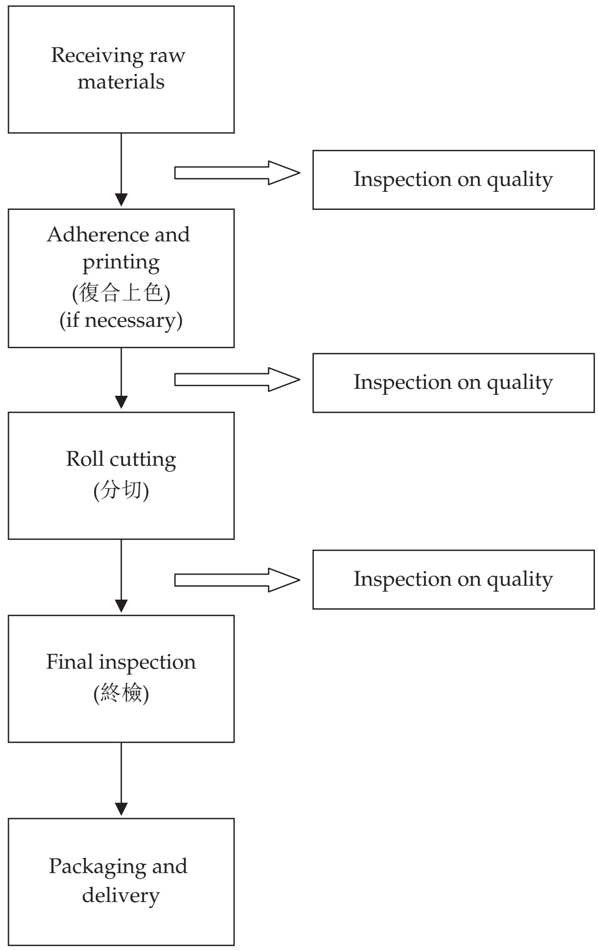
(d) adherence: 3.8 hours

(e) separation: 3.5 hours

(f) roll cutting: 4.4 hours

(g) final inspection: 4.4 hours

Cigarette box frame paper



- Adherence and printing (復合上色) (if necessary): The white base paper is adhered to an aluminium foil with special glues and painted with such colours as specified by our customers.

- Roll cutting (分切): The roll of paper coated with aluminium foil is cut into dimensions as specified by our customers.

- Final inspection (終檢): Our staff will inspect the external appearance and perform various quality benchmark tests on our products.

- Packaging and delivery.

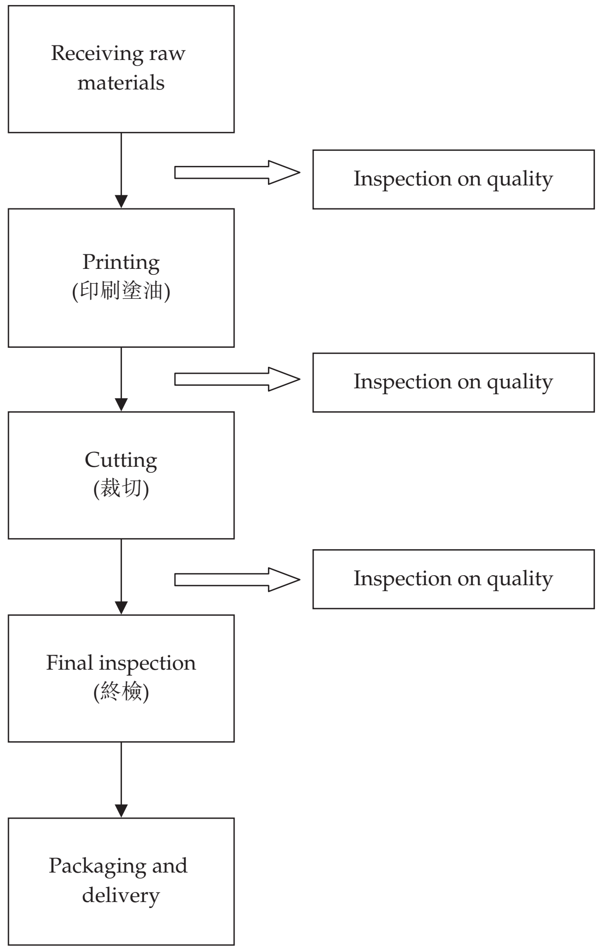
For each tonne of cigarette box frame paper, the approximate time required for each of the following production processes is as follows:

(a) adherence and printing: 1.0 hour

(b) roll cutting: 8.2 hours

(c) final inspection: 2.0 hours

Cigarette trademark labels



- Printing (印刷塗油): The white base paper is printed by way of intaglio printing and/or hot stamping with such trademarks and/or patterns as specified by our customers. The paper is then coated with a layer of solution to increase the brightness.

- Cutting (裁切): The paper is then put into a mould such that it is cut into dimensions as specified by our customers.

- Final inspection (終檢): Our staff will inspect the external appearance and perform various quality benchmark tests on our products.

- Packaging and delivery.

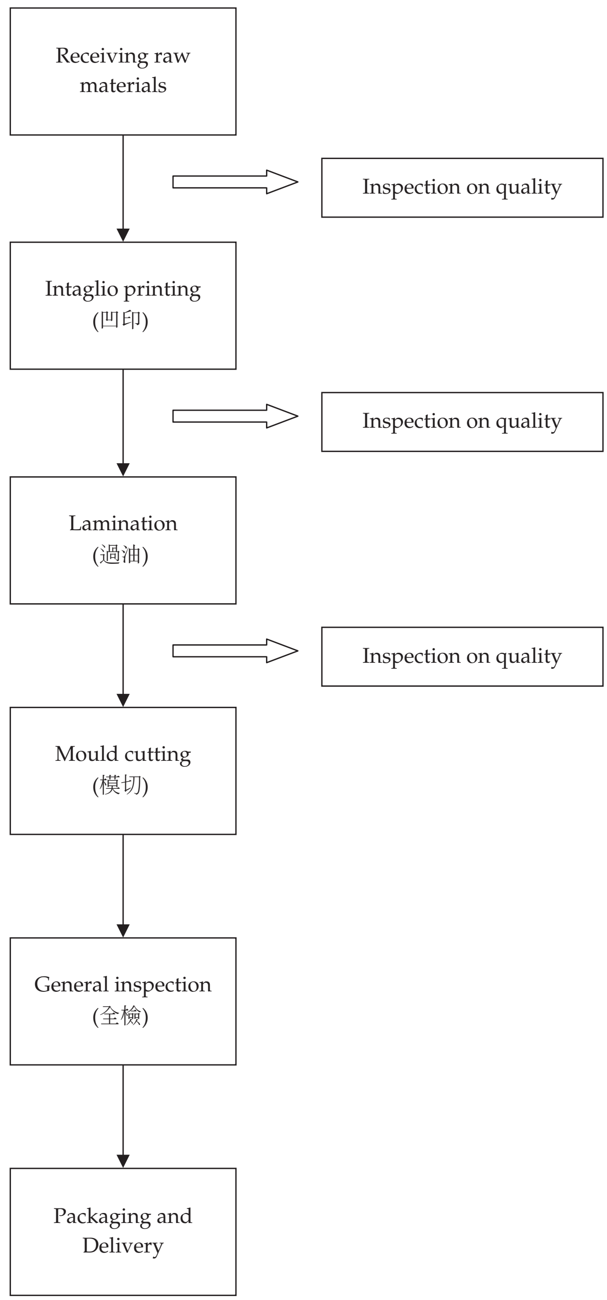
For 100,000 pieces of cigarette trademark labels, the approximate time required for each of the following production processes is as follows:

(a) printing: 6 minutes

(b) cutting: 30 minutes

(c) final inspection: 30 minutes

Cigarette paper boxes



- Intaglio printing (凹印): The white base paper is printed with such colours and patterns as specified by our customers. The printing machine currently used by our Group is a single-colour machine.

- Lamination (過油): The paper with colours and patterns printed thereon is laminated with a layer of oil.

- Mould cutting (模切): The paper is then put into a mould such that it is moulded into cigarette paper boxes as specified by our customers.

- General inspection (全檢): Our staff will inspect the external appearance and perform various quality benchmark tests on our products.

- Packaging and delivery.

For 10,000 pieces of cigarette paper boxes, the respective approximate time required for each of the following production processes is as follows:

(a) intaglio printing: 2.4 hours

(b) lamination: 2.4 hours

(c) mould cutting: 2.4 hours

(d) general inspection: 2.9-3.6 hours

We also produce certain waste materials during our production process, including, among others, waste papers and used film, which will be reused by our Group if possible.

QUALITY CONTROL

In order to enhance the competitiveness of our products, our Group has stringent quality control in place throughout our production process.

We entered into quality agreement with some of our major customers. Such quality agreement sets out, among others, (i) the technical benchmarks of our products, such as thickness, level of whiteness, water contents, width and length of each roll; (ii) the safety requirements of our products, such as the levels of various volatile organic compounds present in our products; and (iii) the appearance of our products, such as the pattern, the colour, etc. The quality agreement also stipulates the methods for testing our products. Our Group has compiled the product technical regulations (產品技術規範) incorporating the requirements of our customers. Further, in order to ensure that our products comply with the requirements of our customers, we have also compiled the monitoring and inspection procedures (檢測規程) stipulating various monitoring and inspection methods on the raw materials used by our Group, our production process and our products before delivery to our customers. Our staff are required to perform various quality benchmark tests on our raw materials, semi-products and products during the production process.

As at the Latest Practicable Date, our Group had 38 staff who were responsible for quality control. They carry out quality inspection and test throughout all stages of production to ensure that our products meet the prescribed quality standards.

Selection of suppliers

We carefully select our suppliers and assess them with reference to the quality of materials supplied, pricing, production capacity, reputation, track records and their customers' profiles. We have compiled our own list of approved suppliers, most of which are listed companies in the PRC.

In relation to our supply of inner frame paper and tipping paper to the Guangdong Cigarette Manufacturer and inner frame paper to the Shanghai Cigarette Manufacturer, we are required to procure raw materials of base paper and/or aluminium foils from designated suppliers for our production. Please refer to the paragraph headed "Purchases" under this section for details of our designated suppliers.

Raw materials

We have compiled the internal manual on procurement standards of raw materials (原材料採購標準) and the internal manual on standards for testing of raw material safety (原材料安全性檢測內控標準). When the raw materials are delivered to our warehouse, we conduct inspection on the raw materials on a sampling basis to ensure that the physical dimensions, shape and texture of the raw materials comply with our requirements. We will then check the various quality benchmarks, such as chemical contents, colour, malleability etc., of the raw materials and peruse the quality testing reports provided by our suppliers. After checking, we will use the sample raw materials for trial production in order to test whether such raw materials are suitable. When the trial products made from those sample raw materials are ready, we will check the products to determine whether the raw materials satisfy our requirements.

When the raw materials are delivered to our production lines and ready to be used in our production process, our production staff will examine the raw materials again in order to ensure that they meet our requirements.

Maintenance of machineries and equipments

Our staff conduct weekly, monthly and quarterly inspection and examination on our machineries and equipments in order to ensure their proper functioning and safe operations.

Since the sales contracts/arrangements with our major customers are for a term of three years and their orders are generally stable during the respective terms of the contracts/arrangements, it is not difficult for us to plan our production schedules in advance. We generally arrange our production schedule after having taken into account the required routine maintenance so as to minimise any material impact on our Group's operations. In general, since there are more than one machinery for the production of each of our products, our routine maintenance will not affect our production. The time slots of suspension are not fixed and can be adjusted according to the production orders and production planning of our Group. Further, we maintain certain level of inventories of our products such that we will be able to deliver the relevant products to our customers when they order the same even if our production is suspended temporarily due to repair and maintenance of our production facilities.

Products

We have compiled the product technical regulations (產品技術規範) and the internal manual on standards for testing of product safety (產成品安全性檢測內控標準). In each stage of the production process, we have assigned specific staff to inspect the semi-products with a view to identifying any possible defects at an early stage. We have also assigned patrol inspection staff to go around our production premises to monitor the quality of the semi-products and products manufactured by us from time to time. Our staff are required to record the conditions of the semi-products in each stage of the production process in the production process quality monitoring table (產品工序質量跟縱卡).

We are also equipped with monitoring equipment to monitor the quality of our semi-products and products. In particular, we are equipped with strobe lights (頻閃燈) and other computerised equipments to assist us to inspect any defects in our products. All defects found during the production process will be marked and the relevant portion of our products will be disposed of by our staff team specifically assigned with such tasks.

Before we deliver our products to our customers, in addition to conducting visual inspection on the external appearance of our products, we also conduct test on our products on a sampling basis with specific equipment to check the levels of VOC and heavy metals.

Our major customers also carry out their qualification certification process on our Group at regular intervals. Our Group is required to provide a testing report issued by a third party monitoring and testing institution on the quality, safety and hygiene of our products at such intervals as may be required by our customers. Our Group has engaged an Independent Third Party to conduct the aforesaid tests accordingly. During the Track Record Period, our Group passed all such tests.

Our Group's commitment to quality was recognised by the accreditation of ISO9001:2008 awarded by the Beijing Zhongan Zhihuan Certification Center (北京中安質環認證中心) in 2004.

PURCHASES

The major raw materials used by our Group include base paper and aluminum foils.

The purchases of base paper accounted for approximately 43.9%, 38.5%, 33.7% and 37.9%; and the purchases of aluminium foils accounted for approximately 31.5%, 32.4%, 27.0% and 24.9% of our Group's total purchases of raw materials for each of the three years ended 31 March 2013 and the three months ended 30 June 2013 respectively.

The major terms of the supply contracts entered into between our Group and our suppliers of base paper and aluminium foils are as follows:

- the raw materials supplied by each of our suppliers shall comply with the quality, technical and packaging requirements as set out in the relevant supply contract;

- each of our suppliers shall, at its own costs and expenses, deliver the required raw materials to the warehouse as designated by our Group on or before the date as stipulated under the relevant supply contract;

- the price of the raw materials to be supplied or the method for the calculation thereof (which usually include the costs of the raw materials and the processing fee) are specified in the relevant supply contract;

- the suppliers shall be responsible for all loss and damage of the raw materials before delivery of the same to our Group;

- our Group shall inspect and check the quality and technical standards of the raw materials. In the event that there are quality or technical problems in the raw materials, our suppliers shall accept return of the raw materials or replace the same; and

- the credit terms granted to our Group vary among different suppliers. Some of our suppliers require advance payment while some other suppliers grant us credit terms from one month to 90 days or require our Group to settle the outstanding purchase prices on a designated date in the forthcoming month.

There is no minimum purchase requirement in the contractual arrangements between our Group and our suppliers.

Other raw materials include films, ink, glues and solutions. We procure our raw materials with reference to the sales orders we receive and expect to receive, the existing level of inventories and delivery time of our suppliers. We normally maintain inventory level of raw materials of about one month in order to ensure smooth operations.

In order to mitigate the impact of any price fluctuation of the major raw materials on the business of our Group, since 2010, we have established a price monitoring team, members of which comprise Mr. Zheng Minsheng, our executive Director and deputy general manager, our staff responsible for procurement, officer from our finance department and factory managers to monitor the price trend of major raw materials through, among others, market intelligence and communication with our suppliers from time to time. After taking into account, among others, the price trend, the existing level of raw materials, the sales orders received and the sales orders expected to receive, the team will formulate procurement plan and Mr. Zheng Minsheng will make the final decision on procurement of major raw materials.

We usually have several alternative suppliers with similar quality and price for base paper and aluminium foils so that we can procure base paper and aluminium foils from the alternative suppliers in the event that, among others, any of the suppliers sets the purchase prices above our acceptable ranges, fails to deliver raw materials according to our procurement plan or meet our quality requirement. Furthermore, during the Track Record Period, we implemented various measures to tighten our control on the production, including but not limited to (i) imposing more stringent requirements in the inspection of finished goods from production; (ii) holding the relevant production staff accountable for any abnormal wastage of raw materials during the production; and (iii) assessing the fulfillment of pre-determined levels of passing rate of finished goods and wastage of raw materials in the performance appraisal of production staff. In light of above and together with the assistance of our price monitoring team, our control on the production costs could be further improved. As our production process and operation are relatively standard, we are able to estimate and control our operation costs readily and any possible cost overrun could be identified at an early stage, which allows us to resolve the problem in a timely manner. For those major raw materials, we usually obtain quotations from at least two potential suppliers. Our suppliers of raw materials during the Track Record Period comprised 24 different companies. Bound by the tender documents, it is difficult for our Group to pass any increase in costs to our customers. During the Track Record Period, if, based on the purchase managers index and other market data, we anticipated that the prices of the raw materials required by us would increase, we may accumulate more raw materials than usual in order to reduce the overall costs of raw materials and stabilise our production costs. We do not currently engage in any transactions to hedge against risks relating to fluctuations in the price of the raw materials.

In relation to our supply of inner frame paper and tipping paper to the Guangdong Cigarette Manufacturer and inner frame paper to the Shanghai Cigarette Manufacturer, we are required to procure certain raw materials, i.e. base paper and aluminium foil, from designated suppliers for our production. During the Track Record Period, the Guangdong Cigarette Manufacturer designated three base paper suppliers and two aluminium foil suppliers, while the Shanghai Cigarette Manufacturer had designated one base paper supplier (which was also one of the base paper suppliers designated by the Guangdong Cigarette Manufacturer) in their respective tender invitation documents. During the Track Record Period, we had five designated suppliers in total:

- most of the purchase contracts entered into between the designated suppliers and our Group were individual short-term contracts which set out the specific amount of raw materials to be purchased by our Group and the details of the delivery arrangements; and

- we have entered into certain framework purchase contracts for a term of around one year which set out the raw materials to be purchased by our Group, with the exact amount of the raw materials required and the delivery arrangement being specified in the purchase orders issued by our Group from time to time.

The usual major terms of the contracts entered into between our Group and the designated suppliers are as follows:

Raw materials:	Base paper or aluminium foils of different specifications
Trading terms:	The supplier shall supply such amount of raw materials as stated in the purchase contracts or the purchase orders, whether in one batch or more than one batches, and deliver the same on such date and to the warehouses as designated by our Group. The supplier shall be responsible for the transportation costs.
Price:	The unit prices of the raw materials to be supplied or the method of calculation of such unit prices are stated in the purchase contracts/framework purchase contracts.

Quality requirements:	The raw materials to be supplied shall satisfy the standards as designated by the STMA and the relevant customers of our Group.
Credit terms:	Credit terms differ among various suppliers. In general, some of the suppliers require advance payment while some other suppliers grant us credit terms of up to 90 days or require our Group to settle the outstanding purchase prices on a designated date in the forthcoming month.
Delivery arrangement:	In general, the suppliers shall, at their own costs and expenses, deliver the raw materials to the warehouses designated by our Group.
Right of return:	Our Group shall have the right to return the raw materials to the suppliers if there are quality problems.
Minimum purchase requirement:	There is no minimum purchase amount stated in the purchase contracts.

There is no direct relationship between our contracts with the designated suppliers and our sales contracts with the Guangdong Cigarette Manufacturer or the Shanghai Cigarette Manufacturer. We are not obliged to purchase at any prices nor any quantity from the designated suppliers and we can negotiate the purchase prices with those designated suppliers and determine our purchase amount. We may also procure raw materials from other non-designated suppliers after seeking prior approval from the relevant customers. During the Track Record Period, we have obtained consents from our customers to purchase raw materials from suppliers other than the designated suppliers.

The type and amount of raw materials procured by our Group from the designated suppliers during the Track Record Period were as follows:

	Year ended 31 March						Three months ended	
	2011		2012		2013		30 June 2013	
	HK$'000	*Approximate % to total purchases of the relevant raw materials*	*HK$'000*	*Approximate % to total purchases of the relevant raw materials*	*HK$'000*	*Approximate % to total purchases of the relevant raw materials*	*HK$'000*	*Approximate % to total purchases of the relevant raw materials*
Base paper	27,280	32.2	41,981	56.4	49,578	75.4	6,863	57.4
Aluminium foils	21,040	34.6	15,092	24.1	8,022	15.3 *(Note 1)*	3 *(Note 2)*	0.04

Notes:

1. The drop in the purchase amount of aluminium foils was primarily due to (i) the decrease in our sales of inner frame paper, which is mainly made up of aluminium foils, to the Guangdong Cigarette Manufacturer; and (ii) our purchase of aluminium foils from other suppliers.

2. The significant drop in the purchase amount of aluminium foils was primarily due to (i) the decrease in our sales of inner frame paper, which is mainly made up of aluminium foils, to the Guangdong Cigarette Manufacturer; (ii) the fewer purchases of raw materials in low season; and (iii) our purchase of aluminium foils from other suppliers.

Our business relationships with our five largest suppliers during the Track Record Period ranged from two years to eight years. Our Directors believe that maintaining stable relationship with our major suppliers is crucial in our operation as this will enable us to have a stable source of quality raw materials. While we have not entered into any long term supply contracts with our suppliers, we believe that we will be able to continue to maintain stable relationship with our major suppliers. During the Track Record Period, we did not encounter any difficulty in procurement nor experienced any production disruption due to shortage of supply of raw materials.

During the Track Record Period, our Group purchased most of the raw materials in the PRC and all our Group's purchases were mainly settled in RMB. For major raw materials, including base paper and aluminium foils, we are usually required to settle the purchase price within three months after the delivery of the same to us. Some suppliers, however, require us to settle the purchase price in advance before delivery of the same to us.

During each of the three years ended 31 March 2013 and the three months ended 30 June 2013, our total purchases amounted to approximately HK$193.2 million, HK$193.4 million, HK$194.7 million and HK$31.5 million respectively. During the same period, our purchases from the largest supplier amounted to approximately HK$25.4 million, HK$31.2 million, HK$24.4 million and HK$3.7 million respectively, which accounted for approximately 13.2%, 16.1%, 12.5% and 11.8% of our Group's total purchases respectively. During the same period, purchases from our five largest suppliers amounted to approximately HK$97.6 million, HK$110.5 million, HK$97.8 million and HK$14.6 million respectively, which accounted for approximately 50.5%, 57.2%, 50.2% and 46.4% of our Group's total purchases respectively. Our five largest suppliers during the Track Record Period comprised nine different companies, all of which are based in the PRC.

The sensitivity analysis of the changes in our net profit in the event that there is a 2.5% increase or decrease in the prices of base paper and 12.3% increase or decrease in the prices of aluminium foils (while keeping other factors constant, including but not limited to the prices of the other raw material) during the Track Record Period are set out under the paragraph headed "Sensitivity analysis" under the section headed "Financial information" of this prospectus.

All of our five largest suppliers during the Track Record Period were Independent Third Parties. The table below sets out the background of our five largest suppliers, the length of relationship with our Group, the credit terms and the types of raw materials purchased from those suppliers during the Track Record Period:

Name of suppliers	Background	Length of relationship	Credit terms	Types of raw materials purchased	Years/period in which the supplier was one of our Group's five largest suppliers	Designated Suppliers
Supplier A	A PRC company mainly engaged in the manufacture and sale of decorative materials and packaging materials	Four years	Usually within 60-90 days after delivery	Laser film, glue and others	Years ended 31 March 2011, 2012, 2013 and three months ended 30 June 2013	No
Supplier B	A PRC Company mainly engaged in the manufacture and sale of extruded aluminium products	Three years	Usually 60 days after delivery	Aluminium foils	Years ended 31 March 2012 and 2013	No
Supplier C	A PRC company mainly engaged in the manufacture and sale of paper products	Five years	Usually within 90 days after delivery	Base paper	Years ended 31 March 2012, 2013 and three months ended 30 June 2013	Yes
Supplier D	A PRC company which manufactures a variety of paper products and produces printing paper, wrapping and packing paper, and aluminum foil paper	Eight years	Usually within 180 days after delivery	Base paper	Years ended 31 March 2011, 2012 and 2013	Yes
Supplier E	A PRC company mainly engaged in the manufacture and sale of paper products	Two years	Usually within 90 days after delivery	Base paper	Year ended 31 March 2013 and three months ended 30 June 2013	Yes
Supplier F	A PRC company mainly engaged in the trading of paper and paper pulp	Three years	Usually 30 days after delivery	Base paper	Years ended 31 March 2011, 2012 and three months ended 30 June 2013	No

Name of suppliers	Background	Length of relationship	Credit terms	Types of raw materials purchased	Years/period in which the supplier was one of our Group's five largest suppliers	Designated Suppliers
Supplier G	A PRC company mainly engaged in the manufacturing and printing of packaging materials	Five years	Usually within 90 days after delivery	Laser film and others	Year ended 31 March 2011	No
Supplier H	A PRC company mainly engaged in the manufacture and sale of aluminium foil	Seven years	Payment in advance	Aluminium foils	Year ended 31 March 2011	Yes
Supplier I	A PRC company mainly engaged in the manufacture and sale of aluminium products	Three years	Usually within 180 days after delivery	Aluminium foils	Three months ended 30 June 2013	No

Our Directors confirmed that none of our Directors, their respective associates or any Shareholder who owns 5% or more of the issued Shares of our Company immediately following completion of the Share Offer and the Capitalisation Issue had any interest in any of our five largest suppliers during the Track Record Period.

SALES AND MARKETING

Approved suppliers status and tendering system

As advised by our PRC legal advisors, pursuant to the《煙用物資採購規定》(Rules on the Procurement of Cigarette-related Materials) (the "**Procurement Rules**") issued by the STMA and the China National Tobacco Corporation, cigarette-related materials are mainly procured by way of open tenders. In general, the suppliers which have passed the relevant qualification certification test would become the approved suppliers and would be allowed by the cigarette manufacturers to participate in the tendering process. Our Directors confirm that there is no industry standard for such qualification certification test and they believe that it represents the internal standard set by the cigarette manufacturers. As advised by our legal advisors as to PRC law, the approved supplier status is a status recognised by the cigarette manufacturers only but not by the PRC government. There is, in general, no specific expiry date of the approved supplier status. Nevertheless, from our experience, the cigarette manufacturers will usually conduct qualification certification test once every three years. In carrying out the qualification certification test, the cigarette manufacturers will visit the production facilities of the potential suppliers, inspect the quality record of the potential suppliers and interview the relevant staff of the potential suppliers. In determining the approved supplier status, the cigarette manufacturers may take into account various factors, including but not limited to, the ISO9001 quality management system, the environment management system, the occupational health management system, quality control system of the potential supplier, etc. As at the Latest Practicable Date, we are the approved supplier of, among others, the Guangdong Cigarette Manufacturer, the Shanghai Cigarette Manufacturer. Approved suppliers of cigarette-related packaging materials are usually required to submit tender documents that contain, among others, (i) information and background of the potential supplier; (ii) bidding prices of the products; (iii) information on the production facilities of the supplier; and (iv) information on the production and quality control process of the potential supplier. Based on the aforesaid factors, cigarette manufacturers are entitled to determine the tender results at their sole discretion.

After the tender result is determined, the cigarette manufacturer would usually issue a notice of acceptance of bid or, enter into a sales contract with, the relevant supplier of cigarette-related packaging materials that has won the tenders. The sales period usually range from one to three years and the agreed terms for the sales arrangement could vary among different cigarette manufacturers but usually include: (i) types and specifications of packaging materials to be supplied; (ii) contract sum (if any); (iii) unit price; (iv) delivery method; and (v) settlement terms. Usually, the unit prices of the packaging materials to be supplied during the contract period are fixed and the quantity is subject to our customer's monthly orders.

Each of the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer has adopted the tendering system for procurement of packaging materials.

Nevertheless, as advised by our PRC legal advisors, pursuant to the《煙用物資採購管理規定》(Rules on the Procurement Management of Cigarette-related Materials) (the "**Procurement Rules**") issued by the STMA and the China National Tobacco Corporation, under certain conditions and subject to the approval of the relevant supervisory authority, the procurement can be done by other means, such as competitive negotiation, procurement from single source and request for fee quotation.

The conditions for procurement by competitive negotiation include the following: (i) there was no submission of tenders or no eligible tenders received after invitation for tenders; (ii) the nature is special or the technical requirement is complicated such that it is infeasible to specify the detailed specifications or requirements; (iii) procurement by way of open tenders cannot satisfy the urgent need of the users; and (iv) it is infeasible to calculate the aggregate price in advance.

The conditions for single source procurement include the following: (i) the materials can only be procured from a single supplier; (ii) occurrence of unexpected urgent circumstances such that it becomes infeasible to procure the materials from other suppliers; (iii) it is required to procure from the same supplier in order to ensure consistency; and (iv) extra procurement based on the same terms and conditions of an existing contract, the amount of which is not more than 10% of the existing contract amount.

The conditions for request for fee quotation include the materials to be procured is of unified specifications and standard, the supplies are sufficient and the fluctuation in price is small and the annual procurement amount is less than RMB300,000.

Further, the Procurement Rules expressly stipulate that the obligation of complying with the tender requirement is on the party which requires the cigarette-related materials (the "**User**" or "**Users**") but not the suppliers. While the Procurement Rules contain penalty provisions on the Users which fail to comply with the procurement procedures, there is not any penalty provision on the suppliers.

In addition to those provisions in the Procurement Rules, according to the《煙草行業工程投資、物資採購和宣傳促銷項目管理程度的規定》(Rules on the Management of Project Investment, Procurement of Materials and Promotion Activities of Cigarette Industry) issued by the STMA and the China National Tobacco Corporation, subject to the approval of the relevant supervisory authority, any User which satisfies the following conditions may procure materials by way of competitive negotiation, procurement from single source or request for fee quotation: (i) the number of suppliers is less than 3; (ii) it is related to the safety or secret of the industry; (iii) it is related to the core technical know-how of the cigarette industry; and (iv) adoption of patent or specific technique. Therefore, there is possibility that the Users may adopt other means of procurement other than open tender.

Further, as advised by our PRC legal advisors, according to《中華人民共和國招標投標法》(the Law on Tender Invitation and Tender Submission of the PRC) (the "**Tender Law**") and the relevant implementation rules, procurement of cigarette-related packaging materials does not belong to those matters which must be done by way of open tender. In light of the aforesaid, even if the Users do not procure the materials by way of open tender, the contract entered into between them and the suppliers will not become invalid.

During the Track Record Period, our Group submitted 17 tenders to various cigarette manufacturers in the PRC, including ten tenders submitted to the Guangdong Cigarette Manufacturer, four tenders submitted to the Shanghai Cigarette Manufacturer and three tenders submitted to a cigarette manufacturer in Fujian Province, and was awarded supply contracts from all of them. The success rate of our Group in terms of the number of tenders submitted during the Track Record Period was thus 100%. Our Directors are of the view that our ability to achieve such success rate was attributable to amongst others, (i) the experience and networks of our executive Directors and management team with cigarette manufacturers in the PRC and (ii) our quality management system and capability to produce high quality products, details of which are set out under the paragraph headed "Competitive strengths" of this section.

Customers

Our major customers are cigarette manufacturers and our products procured by them will eventually be used as packaging materials in their cigarette products. Our business relationships with our five largest customers during the Track Record Period ranged from one year to over ten years.

For each of the three years ended 31 March 2013 and the three months ended 30 June 2013, our total revenue amounted to approximately HK$212.1 million, HK$265.8 million, HK$279.0 million and HK$51.1 million respectively. During the same period, sales to our largest customer, the Guangdong Cigarette Manufacturer, amounted to approximately HK$100.4 million, HK$151.0 million, HK$159.1 million and HK$30.6 million respectively, representing approximately 47.3%, 56.8%, 57.0% and 59.8% of our Group's total revenue respectively. During the same period, sales to our second largest customer, the Shanghai Cigarette Manufacturer, amounted to approximately HK$48.3 million, HK$52.3 million, HK$59.4 million and HK$8.5 million respectively, representing approximately 22.8%, 19.7%, 21.3% and 16.5% of our Group's total revenue respectively. For each of the three years ended 31 March 2013 and the three months ended 30 June 2013, sales to our five largest customers, amounted to approximately HK$195.3 million, HK$244.2 million, HK$258.7 million and HK$47.9 million respectively, representing approximately 92.1%, 91.9%, 92.7% and 93.6% of our Group's total revenue respectively. Our five largest customers during the Track Record Period comprised eight different companies, all of which have operation in the PRC except for one with operations in Hong Kong.

We have established business relationships with the Guangdong Cigarette Manufacturer for more than five years and the Shanghai Cigarette Manufacturer for more than ten years. In particular, we manufacture the packaging materials for Chunghwa (中華) brand of cigarette of the Shanghai Cigarette Manufacturer and Jingdian Shuangxi (經典雙喜) (a sub-brand of Shuangxi (雙喜) brand) brand of cigarette of the Guangdong Cigarette Manufacturer. Both Chunghwa and Shuangxi are included in the "20+10" Key Brands. As mentioned in the section headed "Industry Overview" of this prospectus, the Guangdong Cigarette Manufacturer is one of the 16 Provincial Tobacco Industrial Companies and took up over 80% of the cigarette manufacturing market in Guangdong Province in 2012 in terms of production volume; the Shanghai Cigarette Manufacturer is the Cigarette Group and took up the whole cigarette manufacturing market in Shanghai in 2012 and monopolises the downstream cigarette manufacturing market in Shanghai. China National Tobacco Corporation owns 95.12% equity interest in the Guangdong Cigarette Manufacturer and 100% equity interest in the Shanghai Cigarette Manufacturer.

All of our five largest customers during the Track Record Period were Independent Third Parties and none of them was a supplier of our Group. The table below sets out the background of our five largest customers, the length of relationship with our Group, the credit terms offered by our Group and the types of products sold by us to those customers during the Track Record Period:

Name of customers	Background	Length of Relationship	Credit terms	Types of products sold	Years/period in which the customer was one of our Group's five largest customers	Expiry date of the sales contracts/ arrangements
Guangdong Cigarette Manufacturer	One of the 16 Provincial Tobacco Industrial Companies in the PRC principally engaged in the manufacture and sale of cigarettes	Six years	Usually settled within 90 days after delivery	Inner frame paper, cigarette box frame paper, tipping paper and cigarette trademark labels	Years ended 31 March 2011, 2012, 2013 and three months ended 30 June 2013	Seven sales arrangements will expire on 31 May 2014 and three sales arrangements will expire on 30 November 2014
Shanghai Cigarette Manufacturer	The Cigarette Group subordinated to the STMA and principally engaged in the manufacture and sale of cigarettes	13 years	Usually within 90 days of the invoice date	Inner frame paper and cigarette box frame paper	Years ended 31 March 2011, 2012, 2013 and three months ended 30 June 2013	The sales contracts will expire on 31 December 2015
Customer A	One of the 16 Provincial Tobacco Industrial Companies in the PRC principally engaged in the manufacture and sale of cigarettes	Five years	Usually within 60 days of the invoice date	Inner frame paper and cigarette box frame paper	Years ended 31 March 2012, 2013 and three months ended 30 June 2013	The sales contract will expire on 30 April 2014
Customer B	A company with operation in Hong Kong principally engaged in the manufacture and sale of cigarettes	Five years	Usually within 15 days upon delivery	Inner frame paper	Years ended 31 March 2011, 2012, 2013 and three months ended 30 June 2013	N/A *(Note)*

Name of customers	Background	Length of Relationship	Credit terms	Types of products sold	Years/period in which the customer was one of our Group's five largest customers	Expiry date of the sales contracts/ arrangements
Customer C	A PRC company principally engaged in the manufacture and sale of cigarette packaging materials	One year	Usually settled within 90 days after delivery	Inner frame paper	Year ended 31 March 2013	N/A *(Note)*
Customer D	A trading arm and subsidiary of one of the 16 Provincial Tobacco Industrial Companies in the PRC principally engaged in the trading of cigarette packaging materials	Six years	Usually settled within 180 days after delivery	Cigarette paper box	Years ended 31 March 2011 and 2012	The sales arrangements have already expired
Customer E	One of the 16 Provincial Tobacco Industrial Companies in the PRC principally engaged in the manufacture and sale of cigarettes	Five years	Usually within 40 days of the sales invoice date	Inner frame paper and other products	Year ended 31 March 2011	The sales arrangements have already expired
Customer F	One of the 16 Provincial Tobacco Industrial Companies in the PRC principally engaged in the manufacture and sale of cigarettes	One year	Usually within 180 days after delivery	Inner frame paper and cigarette box frame paper	Three months ended 30 June 2013	The sales contract will expire on 31 December 2013

Note: As at the Latest Practicable Date, we had no long-term contractual arrangements with this customer. This customer issues individual purchase order and/or short-term sales contract for each purchase of our Group's products.

Our Directors confirmed that none of our Directors, their respective associates or any Shareholder who owns 5% or more of the issued Shares of our Company immediately following completion of the Share Offer and the Capitalisation Issue had any interest in any of our five largest customers during the Track Record Period.

For the two years ended 31 March 2012, we made certain sales to a cigarette manufacturer based in Hubei Province. Our revenue derived from this customer for the two years ended 31 March 2012 was approximately HK$13.2 million and HK$9.5 million respectively, representing approximately 6.2% and 3.6% of the total revenue during the same period respectively. The said customer ceased its purchase of our products later on because, to the best knowledge of our Directors, it proceeded to manufacture the relevant cigarette-related packaging materials by themselves. Since our sales to this customer only represented a minor portion of our total sales, the loss of this customer did not have any material operational or financial impact to our Group.

Reliance on the Guangdong Cigarette Manufacturer

During the Track Record Period, our Group supplied inner frame paper, cigarette box frame paper, tipping paper and cigarette trademark labels to the Guangdong Cigarette Manufacturer, which is a state-owned cigarette manufacturer in Guangdong Province, one of the 16 Provincial Tobacco Industrial Companies and our largest customer throughout the Track Record Period. In particular, we manufacture the packaging materials for Jingdian Shuangxi (經典雙喜) (a sub-brand of Shuangxi (雙喜) brand) brand of cigarette manufactured by the Guangdong Cigarette Manufacturer. Sales to the Guangdong Cigarette Manufacturer represented approximately 47.3%, 56.8%, 57.0% and 59.8% of our Group's total revenue for the three years ended 31 March 2013 and the three months ended 30 June 2013 respectively. For the risk associated with our reliance on our major customers, please refer to the risk factor titled "Our Group relies heavily on a limited number of major customers and the Guangdong Cigarette Manufacturer is the sole customer of our products with higher profit margins" under the section headed "Risk factors" of this prospectus.

During the Track Record Period, cigarette manufacturers were required under the relevant PRC laws and regulations to select their suppliers of packaging materials by way of open tender. The Guangdong Cigarette Manufacturer generally invites separate tenders for each of the required cigarette-related packaging materials for each product brand once every three years. We have first supplied our products to the Guangdong Cigarette Manufacturer in 2008 and we have maintained good business relationships with it since then. During the Track Record Period, we were able to win all the tenders submitted to the Guangdong Cigarette Manufacturer.

Our Directors consider that our Group has not unduly relied on our relationship with the Guangdong Cigarette Manufacturer on the following grounds:

(a) All of our sales to the Guangdong Cigarette Manufacturer were made in accordance with the sales arrangement between Xinda Packing and the Guangdong Cigarette Manufacturer secured through stringent tendering process and we were able to win all the tenders submitted to the Guangdong Cigarette Manufacturer during the Track Record Period which have demonstrated the competitiveness of our products in terms of quality, services and pricing. Our Directors believe that our market position and competitiveness in the cigarette-related packaging materials industry will be further strengthened after the Listing which enables us to secure new customers in other parts of the PRC in order to reduce our reliance on our existing major customers;

(b) In addition to the Guangdong Cigarette Manufacture, our Group has also conducted business with other state-owned cigarette manufacturers, such as the Shanghai Cigarette Manufacturer and other Provincial Tobacco Industrial Companies, which has demonstrated our Group's capability to attract other customers;

(c) The Guangdong Cigarette Manufacturer also relies on our Group since, as confirmed by the Guangdong Cigarette Manufacturer:

(i) during the Track Record Period, our Group was the largest supplier of tipping paper, cigarette box frame paper and inner frame paper of Jingdian Shuangxi (經典雙喜) (a sub-brand of Shuangxi (雙喜) brand) brand of cigarette products manufactured by the Guangdong Cigarette Manufacturer; and

(ii) for each of the three years ended 31 March 2013, our supply of cigarette-related packaging materials to the Guangdong Cigarette Manufacturer fell in the range of 20% to 30% of the total purchase amounts of the inner frame paper, cigarette box frame paper, tipping paper and cigarette trademark labels of the Guangdong Cigarette Manufacturer.

Therefore, our Directors are of the view that the reliance is mutual. As the Guangdong Cigarette Manufacturer also relies on our supplies given its requirements for consistency in the packaging materials supplied and their adaptability to the production facilities of the Guangdong Cigarette Manufacturer, our Directors believe that it is not likely for the Guangdong Cigarette Manufacturer to switch to another supplier so long as our products comply with their standards and requirements. Therefore, the possibility of sudden termination of all business relationships with our Group by the Guangdong Cigarette Manufacturer in the future is quite remote;

(d) During the Track Record Period, we were awarded the purchase orders of different products by the Guangdong Cigarette Manufacturer by submission of separate, instead of one, tenders for each of the required cigarette related-packaging materials for each brand of cigarette. By providing a variety of products to the Guangdong Cigarette Manufacturer under separate contracts, our Directors are of the view that the risk of reliance on the Guangdong Cigarette Manufacturer is further mitigated, and the possibility of sudden termination of all business relationships with our Group by the Guangdong Cigarette Manufacturer is remote;

(e) According to the Ipsos Report, as a result of the consolidation of the cigarette manufacturing industry in the PRC, the number of cigarette manufacturers in the PRC has maintained at 25 in recent years. It is therefore not uncommon for manufacturers of cigarette-related packaging materials to rely on a few major customers as there are only 25 potential customers in the PRC for our Group;

(f) Sales to the Guangdong Cigarette Manufacturer increased from approximately 47.3% of our Group's total revenue for the year ended 31 March 2011 to the range of 56% to 60% of our Group's total revenue for each of the two years ended 31 March 2013 and the three months ended 30 June 2013. Our proportion of sales to the Guangdong Cigarette Manufacturer increased during the year ended 31 March 2012 because we have developed new products such as tipping paper and cigarette trademark labels and the Guangdong Cigarette Manufacturer has ordered the same from our Group. Therefore, the increase in our sales to the Guangdong Cigarette Manufacturer during the year ended 31 March 2012 was incidental to our launch of such new products rather than the intensification of our Group's reliance on the Guangdong Cigarette Manufacturer; and

(g) During the Track Record Period and as at the Latest Practicable Date, we committed to diversifying our customer base by, among others, securing more new customers. Since 2012, we have established business relationship with six additional customers, among which four are Provincial Tobacco Industrial Companies.

Further, our Group is now in the course of negotiation with new customers for new sales. Taking into account our plan to:

(a) leverage on our existing business relationships with certain key players of the cigarette manufacturing industry in the PRC to further expand our customer base, including exploring business opportunities for the supply of cigarette-related packaging materials to other cigarette manufacturers;

(b) increase our market share in the PRC by, among others, acquiring other market players engaged in the cigarette-related packaging materials industry; and

(c) supply packaging materials and printed papers which are to be used in other industries or products,

details of which are set out under the paragraph headed "Business strategies" of this section, our Directors will endeavour to reduce our Group's reliance on the Guangdong Cigarette Manufacturer in the future. However, having considered that we have a relatively short track record of diversification into other new cigarette manufacturer customers, our Directors consider that our objective to reduce reliance on the Guangdong Cigarette Manufacturer may not be easily achieved in the near future.

Major sales arrangements/contracts with two largest customers

The principal terms of the two arrangements/contracts our Group entered into with each of the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer, being two state-owned cigarette manufacturers based in Guangdong Province and Shanghai and the two largest customers of our Group during the Track Record Period, are as follows:

Sales arrangements with the Guangdong Cigarette Manufacturer

The sales arrangements between our Group and the Guangdong Cigarette Manufacturer are based on (i) the tender invitation documents; (ii) the notices of acceptance of bid issued by the Guangdong Cigarette Manufacturer; (iii) the sales contracts signed with the Guangdong Cigarette Manufacturer from time to time during the terms of the relevant sales arrangements; and (iv) the purchase orders issued by the Guangdong Cigarette Manufacturer to us from time to time.

During the Track Record Period, all the tenders submitted by our Group to the Guangdong Cigarette Manufacturer were accepted. The products supplied by our Group to the Guangdong Cigarette Manufacturer include cigarette box frame paper, cigarette trademark labels, tipping paper and inner frame paper of different specifications.

The major terms of each of the sales arrangements of different types of products are similar and are summarised as follows:

Pricing:	The notices of acceptance of bid set out the applicable price.
Terms of sales arrangements:	As specified in the tender invitation documents and notices of acceptance of bid, the terms of six sales arrangements are from May 2011 to May 2014, three sales arrangements are from December 2011 to November 2014 and one sales arrangement is from January 2013 to May 2014.
Quantities and values:	There is no minimum purchase quantities and values of cigarette-related packaging materials which the Guangdong Cigarette Manufacturer is obliged to procure from our Group. During the terms of the relevant sales arrangements, we generally signed sales contracts with the Guangdong Cigarette Manufacturer once for every one or two months according to the Guangdong Cigarette Manufacturer's request. The corresponding purchase orders were then issued by the Guangdong Cigarette Manufacturer to us from time to time. Indicative quantities and values are specified in each sales contract signed with the Guangdong Cigarette Manufacturer but actual sales quantities are subject to the corresponding purchase orders to be placed with our Group. During the Track Record Period, there was no material discrepancy between the indicative quantities and actual sales quantities.

Trading terms:	As specified in the tender invitation documents and the sales contracts, our Group shall manufacture the products and deliver, at our own costs and expenses, the same to the warehouses designated by the Guangdong Cigarette Manufacturer by road on such date as set out in the relevant purchase orders.
Payment terms:	No specific credit terms have been specified. In practice, the amount is settled within 90 days after our delivery.
Other terms:	Actual sales quantity are subject to customer's purchase orders to be placed with our Group. Our Group shall be required to strictly follow standard product sample approved by the Guangdong Cigarette Manufacturer.
Designated suppliers:	According to the relevant tender invitation documents, we are required to procure the base paper and aluminium foils for the production of the inner frame paper and tipping paper from the designated suppliers.
Renewal:	There is no renewal clause. Our Group needs to submit tender documents to the Guangdong Cigarette Manufacturer again to bid for a new tender. There was no published schedule as to when the Guangdong Cigarette Manufacturer would commence its tendering process as at the Latest Practicable Date. To the best knowledge of our Directors, it may invite tenders around two months before the expiry of the existing contract.

Sales contracts with the Shanghai Cigarette Manufacturer

Contract A:

Date:	18 December 2012
Term:	1 January 2013 to 31 December 2015
Products:	Inner frame paper of different weights and specifications
Trading terms:	Our Group shall manufacture the products and deliver the same to the Shanghai Cigarette Manufacturer in accordance with the requirements as may be designated by the Shanghai Cigarette Manufacturer from time to time. Our Group shall be responsible for the transportation costs.

Total contract amount:	Contract quantities of 3,813,264 kg in total during the contract period with estimated contract value of approximately RMB99 million (equivalent to approximately HK$122 million). The outstanding contract amount as at the Latest Practicable Date was estimated to be approximately RMB60.4 million (equivalent to approximately HK$74.5 million). There is no provision under the sales contract stipulating the consequences of the Shanghai Cigarette Manufacturer failing to meet the contract amounts. For the years of 2010, 2011 and 2012, there had been no material difference between the actual quantities sold to the Shanghai Cigarette Manufacturer and the quantities indicated in the relevant sales contracts. Our Group does not have any arrangement with the Shanghai Cigarette Manufacturer as to how the contract quantity shall be evenly allocated over the entire contract term.
Payment terms:	90 days after receipt of the relevant invoice
Pricing policy:	Prices of products are fixed throughout the contract period.
Designated supplier:	According to the relevant tender invitation documents, we are required to procure the base paper for the production of the inner frame paper from a designated supplier.
Penalty and termination:	If our Group fails to deliver any products to the Shanghai Cigarette Manufacturer within the stipulated timeframe, our Group shall be liable to pay a penalty equivalent to 1% of the purchase price for every seven days of delay. If the penalty reaches 10% of the purchase price, the Shanghai Cigarette Manufacturer shall be entitled to terminate the contract.
Renewal:	There is no renewal clause in the contract. Our Group needs to submit tender documents to the Shanghai Cigarette Manufacturer again to bid for a new contract. There is no published schedule as to when the Shanghai Cigarette Manufacturer will commence its tendering process as at the Latest Practicable Date. From the experience of our Directors, the Shanghai Cigarette Manufacturer may invite tenders around two months before the expiry of the existing contract.

Contract B:

Date:	18 December 2012
Term:	1 January 2013 to 31 December 2015

Products:	Cigarette box frame paper of different weights and specifications
Trading terms:	Our Group shall manufacture the products and deliver the same to the Shanghai Cigarette Manufacturer in accordance with the requirements as may be designated by the Shanghai Cigarette Manufacturer from time to time. Our Group shall be responsible for the transportation costs.
Total contract amount:	Contract quantities of 1,520,000 kg in total during the contract period with estimated contract value of approximately RMB20 million (equivalent to approximately HK$25 million). The outstanding contract amount as at the Latest Practicable Date was estimated to be approximately RMB14.8 million (equivalent to approximately HK$18.2 million). There is no provision under the sales contract stipulating the consequences of the Shanghai Cigarette Manufacturer failing to meet the contract amounts. For the years of 2010, 2011 and 2012, there had been no material difference between the actual quantities sold to the Shanghai Cigarette Manufacturer and the quantities indicated in the relevant sales contracts. Our Group does not have any arrangement with the Shanghai Cigarette Manufacturer as to how the contract quantity shall be evenly allocated over the entire contract term.
Payment terms:	90 days after receipt of the relevant invoice
Pricing policy:	Prices of products are fixed throughout the contract period.
Penalty and termination:	If our Group fails to deliver any products to the Shanghai Cigarette Manufacturer within the stipulated timeframe, our Group shall be liable to pay a penalty equivalent to 1% of the purchase price for every seven days of delay. If the penalty reaches 10% of the purchase price, the Shanghai Cigarette Manufacturer shall be entitled to terminate the contract.
Renewal:	There is no renewal clause in the contract. Our Group needs to submit tender documents to the Shanghai Cigarette Manufacturer again to bid for a new contract. There is no published schedule as to when the Shanghai Cigarette Manufacturer will commence its tendering process. From the experience of our Directors, the Shanghai Cigarette Manufacturer may invite tenders around two months before the expiry of the existing contract.

Pricing

Our Group's products are not subject to any price control or regulation by the PRC governmental authorities and accordingly the prices of our products are in general market-driven. We have to submit tender documents to the cigarette manufacturers to bid for the sales contract. When the cigarette manufacturers issue invitation for tenders of cigarette-related packaging materials, they usually provide a reference price for each of the packaging materials. In our tender documents, we are required to set out the bidding price of our products, which was determined by our Group after taking into account the reference price provided by the cigarette manufacturers, the price trend of the raw materials, the historical price adopted by our Group (if any) and the profits to be earned by our Group. Our Directors are of the view that the price offered by our Group is not the paramount concern of our customers. Rather, the quality of our products, the consistency in such quality and the previous business relationships with our Group are more important factors to be considered by our customers.

The table below sets out the respective average selling price of each of our major products during the Track Record Period:

	For the year ended 31 March			For the three months ended
	2011	**2012**	**2013**	**30 June 2013**
	Average selling price	**Average selling price**	**Average selling price**	**Average selling price**
	RMB per tonne	*RMB per tonne*	*RMB per tonne*	*RMB per tonne*
Tipping paper	– *(Note 1)*	62,375	62,299	63,981
Inner frame paper	25,983	25,881	25,971	25,016
Cigarette box frame paper	16,352	16,648	16,408	15,849
	RMB per million pieces	*RMB per million pieces*	*RMB per million pieces*	*RMB per million pieces*
Cigarette trademark labels	– *(Note 1)*	38,120	38,120	38,120
Cigarette paper boxes	119,293	115,792	47,212 *(Note 2)*	49,728 *(Note 2)*

Notes:

1. No tipping paper and cigarette trademark labels were sold by our Group during the year ended 31 March 2011.

2. Sales of some cigarette paper boxes products were ceased in 2013.

The percentage changes in the respective average prices of each of our major products as compared with those of the immediately preceding financial year are set out below:

	Year ended 31 March		Three months ended 30 June
	2012	2013	2013
	% change in average price	% change in average price	% change in average price
Tipping paper	N/A *(Note 1)*	+0.1%	+2.7%
Inner frame paper	-0.4%	+0.4%	-3.7%
Cigarette box frame paper	+1.8%	-1.4%	-3.4%
Cigarette trademark labels	N/A *(Note 1)*	0.0%	0.0%
Cigarette paper boxes	-2.9%	-2.3% *(Note 2)*	+5.3%

Notes:

1. No tipping paper and cigarette trademark labels were sold by our Group during the year ended 31 March 2011.

2. Since the sales of some cigarette paper boxes products were ceased in 2013, the above change in average price is computed with reference to those products existed in both of 2012 and 2013.

The fluctuation in the average selling prices of each of our major products is mainly due to the change in sales volume of various product items with different selling prices in each product category. The average prices of the tipping paper and the cigarette paper boxes increased during the three months ended 30 June 2013 because more sales were made on the product items of tipping paper and cigarette paper boxes with higher selling price during the period. Our Group only manufactured one type of cigarette trademark label during the Track Record Period, the price of which was specified in the tender. Accordingly, there has been no change in the average selling price of cigarette trademark labels during the Track Record Period.

Credit policy

Most of the transactions with our customers are settled in RMB by way of telegraphic transfer and acceptance notes. We are not in the position to determine the credit terms to be offered to our customers since the relevant credit terms are set out in the tender invitation documents. The credit terms or payment arrangement (if any) are set out in the invitation for tenders issued by the cigarette manufacturers and we usually follow the credit terms or payment arrangement as stated therein. The credit terms in general is 60 to 90 days.

Our Directors are of the view that, since our customers are mainly state-owned enterprises, the credit risks associated with them are not high. Nevertheless, we will proceed to liaise with our debtors that are overdue to settle their outstanding invoices. When our Group considers that recovery is remote, the amount considered irrecoverable will be written off.

For each of the three years ended 31 March 2013 and the three months ended 30 June 2013, the trade and note receivables turnover days of our Group were approximately 104 days, 78 days, 79 days and 106 days respectively. Our Group adopted a policy to make provision for impairment of trade and note receivables when there is objective evidence that our Group will not be able to collect all amounts due according to the original credit terms. No provision for impairment of trade receivables was made during the Track Record Period.

Seasonality of our business

A substantial part of our revenue during the Track Record Period was mainly derived from the sales of cigarette-related packaging materials and our products are sold to cigarette manufacturers. Therefore, seasonal fluctuation in our sales is affected by the business of those cigarette manufacturers in the PRC.

In general, demands for cigarette products in the PRC are higher during those periods around the National Day of China, the year end and the Chinese New Year. To cope with such peak seasons, those cigarette manufacturers usually increase their production levels to cope with the market demand from around September of the current year to around February next year. We experience our peak season shortly before the said period, i.e. from around August of the current year to around January next year, when the cigarette manufacturers usually increase their orders for our products in light of the anticipated increase in their production levels.

Marketing

We promote our products through regularly visiting our existing and target potential customers to understand their needs and make improvement on our products to meet with their needs, and inviting our target potential customers to carry out their qualification certification process on our Group. We also monitor the tender invitations issued by those cigarette manufacturers on the internet and submit our tender documents to them from time to time.

Complaints, products return and product liability

According to the sales contracts with our major customers, our major customers shall have right to reject our products if they are not satisfied with the quality requirements set out therein.

If we receive any complaint or comments on our products from any of our customers, we will assess the complaint or comments on a case-by-case basis and formulate the appropriate solution, such as replacing the same with products which satisfy our customers' requirements or making relevant improvement in the next batch of products to be supplied to our customers. All our products are recorded with serial numbers and we are able to trace (i) the time when the products concerned were made; (ii) the production line which manufactured such products; and (iii) the staff who were responsible for such products.

Our Directors confirm that, during the Track Record Period, (i) there was no material claim for defective products against our Group; (ii) we did not experience any products return by our customers; and (iii) there was no legal claim for product liability against our Group.

In general, there is no express provision under the contracts entered into between our Group and our suppliers for the allocation of liability for product liability which may be incurred by our Group. Nevertheless, in the event that we incur any loss or damage as a result of any defects in the raw materials provided by our suppliers, we may claim against our suppliers in accordance with the applicable PRC laws, regulations and rules.

INVENTORY CONTROL

Our inventory comprises raw materials and finished goods. Since our sales contracts/arrangements with our major customers are usually for terms of three years and their orders are quite stable during the respective term of the contracts/arrangements, it is not difficult for us to plan our procurement and production schedules in advance. We usually commence our production based on our past experience with our customers before our actual receipt of the purchase orders from them. In order to ensure that our production commensurate with the expected orders to be received by our Group from our customers as far as possible, we have assigned specific staff to closely communicate with our major customers, including but not limited to the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer, and conduct discussions with them through meetings and/or conference calls from time to time (usually not less than three times per month). Through such discussions, we will be able to obtain a basic understanding on the forthcoming production plans of our respective customers and conduct an estimate on the amount of all types of cigarette-related packaging materials (including those existing products which we have continued to supply to our customers for years (the "**Existing Products**"), new products and products with new specifications) we will be required to supply to them. Further, for those Existing Products, the seasonal patterns experienced by our Group also assist us to make a better estimate on the amount we are required to manufacture.

Taking into account, among others, the discussions with our customers, the seasonal patterns we experienced, the sales contracts entered into with our customers including the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer, the market trends and economic conditions in the PRC, we will adjust our production schedule to maintain an appropriate level of inventories.

Taking into account, (i) that our Directors considered the effect of the purchase postponement on our sales to be short-term based on, among others, their discussions with the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer at the beginning of 2013; (ii) there has been no indication from the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer that there would be material adverse change in their purchase plans on a year-on-year basis; (iii) any production in haste would incur additional production costs and impact the quality of product; and (iv) even including the piling up of finished goods, our Directors consider the level of inventory as at 31 March 2013 and 30 June 2013 still remained at a reasonable level, our Directors decided not to significantly adjust the production schedule in the first half of 2013 even though the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer postponed their purchases from the first half to the second half of 2013. Our Company will keep communicate with the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer closely from time to time and will consider adjusting our production schedule as and when appropriate.

We formulate our procurement schedule with reference to the prices of the raw materials, the delivery time of our suppliers and the production cycle of our customers. We normally maintain inventory level of raw materials of about one month in order to ensure smooth operations. During the Track Record Period, if, based on the purchase managers index and other market data, we anticipated that the raw materials prices would increase, we may accumulate more raw materials than usual in order to reduce the overall costs of raw materials and stabilise our production costs.

Our inventory of finished goods comprises cigarette-related packaging materials awaiting for delivery to our customers. Our staff review the inventory records from time to time in order to ensure that appropriate levels of inventories are maintained. We usually maintain inventory level of products of about one month to ensure smooth operations.

As at 31 March 2013, 30 June 2013 and 30 September 2013, inventories of our Group totalled approximately HK$33.5 million, HK$34.7 million and HK$25.3 million respectively. For each of the three years ended 31 March 2013, the three months ended 30 June 2013 and the three months ended 30 September 2013, the inventory turnover days of our Group was approximately 40 days, 46 days, 52 days, 88 days and 58 days respectively. Please refer to the paragraph headed "Inventories" under the section headed "Financial information" of this prospectus for details of the changes in the inventory turnover days. Our Group will make provision on inventories when slow moving or obsolete inventories are identified. Provision of approximately HK$0.3 million, HK$1.0 million, HK$0.8 million and HK$0.9 million has been made for certain slow-moving inventories and writing down the cost of certain inventories to their net realisable values as at 31 March 2011, 2012, 2013 and 30 June 2013 respectively.

The following table sets out the breakdown of inventories (before provision for impairment) as at 31 March 2011, 2012, 2013 and 30 June 2013 respectively:

	As at 31 March			**As at 30 June**
	2011	**2012**	**2013**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials	24,559	20,374	14,608	13,305
Finished products	7,052	3,627	19,614	22,244

AWARDS AND CERTIFICATES

After years of development, our products and operations have accomplished a number of milestones and we have obtained a number of awards and certificates. Those major awards and certificates obtained by our Group in recent years are set out below:

Certificate and permit	Awarding organisation	Date of award/ certificate
High Production Value Enterprise 2012 (2012年度產值大戶)	• China Communist District Committee of Shantou (中共汕頭市龍湖區委) • Shantou Longhu Qu People's Government (汕頭市龍湖區人民政府)	May 2013
Substantial Taxpayer 2012 (2012年度納稅大戶)	• China Communist District Committee of Shantou (中共汕頭市龍湖區委) • Shantou Longhu Qu People's Government (汕頭市龍湖區人民政府)	May 2013
AA Customer 2012 (2012年度AA企業客戶)	Bank of China, Shantou Branch	6 March 2013
Guangdong Province Enterprise of Observing Contract and Valuing Credit (2012年度廣東省守合同重信用企業)	Shantou Administration For Industry & Commerce (汕頭市工商行政管理局)	June 2013
Class A Taxpayer (A 級納稅人)	• Shantou Office, State Administration of Taxation(汕頭市國家稅務局) • Administration of Local Taxation of Shantou (汕頭市地方稅務局)	2 July 2012
AA Customer 2011 (2011年度AA企業客戶)	Bank of China, Shantou Branch	16 May 2012
High Production Value Enterprise 2011 (2011年度產值大戶)	• China Communist District Committee of Shantou (中共汕頭市龍湖區委) • Shantou Longhu Qu People's Government (汕頭市龍湖區人民政府)	March 2012
3-Star Supplier (三星級供應商)	Shanghai Cigarette Manufacturer	December 2011

Certificate and permit	Awarding organisation	Date of award/ certificate
High and New Technology Enterprise (高新技術企業)	• Science and Technology Department of Guangdong Province (廣東省科學技術廳) • Financial Department of Guangdong Province (廣東省財政廳) • National Taxation Bureau of Guangdong Province (廣東省國家稅務局) • Local Taxation Bureau of Guangdong Province (廣東省地方稅務局)	November 2011
High Production Value Enterprise Award (產值大戶獎)	• China Communist District Committee of Shantou (中共汕頭市龍湖區委) • Shantou Longhu Qu People's Government (汕頭市龍湖區人民政府)	April 2011
Substantial Taxpayer (納稅大戶)	• China Communist District Committee of Shantou (中共汕頭市龍湖區委) • Shantou Longhu Qu People's Government (汕頭市龍湖區人民政府)	March 2011
Shantou Private Technology Enterprise (汕頭市民營科技企業)	Shantou Bureau of Science and Technology (汕頭市科學技術局)	December 2011
Class A Taxpayer (A級納稅人)	• Shantou Office, State Administration of Taxation (汕頭市國家稅務局) • Administration of Local Taxation of Shantou (汕頭市地方稅務局)	June 2010
Enterprise of Observing Contract and Valuing Credit (守合同重信用企業)	Shantou Administration For Industry & Commerce (汕頭市工商行政管理局)	June 2009

On 17 November 2011, our Group was recognised as a High and New Technology Enterprise (高新技術企業) by the relevant PRC governmental authorities and awarded the High and New Technology Enterprise Certificate, which will remain effective for three years. According to our legal advisors as to PRC law, with such certificate, our Group was and will continue to be entitled to pay enterprise income tax at the reduced rate of 15% for the calendar years of 2011, 2012 and 2013. We have not commenced the renewal process of our High and New Technology Enterprise status as at the Latest Practicable Date. Our Directors expect that our renewal application of the High and New Technology Enterprise Certificate, could be submitted to the relevant PRC governmental authority in or around March 2014 and, from the experience of our Directors, the approval may be granted in the second half of 2014. Assuming that there is no change to the relevant laws and regulations, if the approval is granted, our Group will be entitled to preferential tax treatment for the calendar years of 2014, 2015 and 2016.

ENVIRONMENTAL PROTECTION

We are subject to the PRC national and local environmental laws, regulations and rules including, among others, the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》). We are not required to comply with any special legal or regulatory requirements other than those applicable to all manufacturers in the PRC.

Our Directors are of the view that the production process of our Group does not generate hazards that will cause any significant adverse impact on the environment. Wastes generated by the production of our Group primarily consist of waste paper and unused film. Our Group takes steps to ensure that the wastes produced as a result of the operations are properly disposed of in order to minimise adverse impact on the environment. Scrap film will be reused by our Group. Our Group has also arranged industrial waste collector to collect waste paper produced by our Group during its operations.

We had not encountered any non-compliance issue in respect of any applicable laws and regulations on environmental protection or any complaints from our customers or the public in respect of environmental protection issues. We did not receive any notice of non-compliance with such laws, regulations or rules during the Track Record Period.

For the three years ended 31 March 2013 and the three months ended 30 June 2013, our costs incurred for environmental compliance and pollution controls were approximately HK$11,000, HK$6,000, HK$9,000 and nil respectively. Our Directors estimate our costs to be incurred for the aforesaid matters during the year ending 31 March 2014 will be approximately HK$10,000.

Our Directors are of the view that there are no environmental protection laws and regulations which may affect our production in any material respect. Our legal advisors as to PRC law confirmed that, our production activities were in compliance with the applicable laws and regulations on environmental protection in the PRC during the Track Record Period.

OCCUPATIONAL HEALTH AND SAFETY

The Production Safety Law of the PRC was promulgated on 29 June 2002 and became effective on 1 November 2002.

To ensure compliance with the relevant PRC legal and regulatory requirements, we have compiled the working guidance book containing, among others, regulations on safety management with which all our staff are required to comply. We also conduct training sessions for our new staff on safety management.

Since the commencement of our operations and up to the Latest Practicable Date, we have not experienced any material industrial accidents at our production facilities. We also have not been adjudged by any PRC governmental authority for any non-compliance with any health and safety requirements under the PRC laws, regulations and rules. Our legal advisors as to PRC law have confirmed that our Group was in compliance with all relevant laws and regulations in respect of production safety in the PRC during the Track Record Period.

RESEARCH AND DEVELOPMENT

Different types of technology on printing are required for the production of our products. Our Directors believe that continuous research and development of our products and our technical know-how in our production process are important for our Group to maintain our competitiveness. Our Group keeps abreast of the latest market development through our customers and our own research.

As at the Latest Practicable Date, a total of 69 staff from our management team, administration and finance team, production team, quality control team and sales and marketing team were involved in the research and development work of our Group. Some of the members involved in the research and development have obtained university degrees in the fields of science and engineering.

During the past five years, we have conducted research and development on various technical know-how and the major one of which are as follows:

- research on Inner Vacuum Metalised Paper, which involves vacuum deposition of aluminium;

- research on environmental friendly tipping paper, which involves development of water-based ink with specific chemical contents and pH value;

- technical know-how to reduce the residue of VOC in inner frame paper, which involves production process under insulated environment and specific temperature;

- improvement of the production process of Inner Vacuum Metalised Paper, which involves reduction of the coating process of release agent from two rounds to one round during the production of the said product;

- technical know-how on the production method of laser inner frame paper for cigarette packaging (香煙包裝使用的激光全息鐳射內襯紙的生產方法), which involves improvement in the efficiency of raw material consumption for the production of laser inner frame paper;

- production process of artificial aluminium inner frame paper, which involves the use of special release agent and printing equipments such that the appearance of inner frame paper may show the same visual effect as compared with those inner frame paper which undergoes the deposition of aluminium and adherence process; and

- technical know-how to reduce the metal contents of inner frame paper, which involves use of ink with lower level of metal contents.

We have submitted a patent application on the production method of laser inner frame paper for cigarette packaging (香煙包裝使用的激光全息鐳射內襯紙的生產方法) on 14 December 2010 and has obtained a patent of the same in July 2012.

During the Track Record Period, the expenses incurred by our Group on research and development, which mainly comprised raw material costs, were HK$6.8 million, HK$6.7 million, HK$8.7 million and HK$0.7 million respectively.

STAFF

As at the Latest Practicable Date, our Group employed a total of 226 staff, a breakdown of which by function is as follows:

Management	7
Administration and finance	25
Production	135
Quality control	38
Sales and marketing	3
Others	18

Recruitment and training

We provide on-the-job training to our staff with reference to their respective duties in our Group in order to ensure that they are familiar with the tasks assigned to them.

Staff benefits

We contribute to social welfare insurance for our full-time staff in accordance with the relevant PRC laws, regulations and rules, which includes contributions to basic medical insurance fund, basic pension insurance fund, occupational injury insurance fund, maternity insurance fund and unemployed insurance fund, save as the non-compliance regarding social insurance fund and housing provident fund as detailed in the paragraph headed "Non-compliance incidents" in this section.

Relationship with staff

We recognise the importance of having good working relationships with our staff.

During the Track Record Period, we did not experience any significant problems with our staff nor disruption to our operations due to labour disputes or industrial actions, nor have there been any difficulties in the recruitment and retention of experienced staff.

Our Directors believe that our Group has good working relationships with our staff as a whole.

Anti-corruption measures

Our Group has established certain internal control measures on anti-corruption:

- our Group has compiled staff manual, which contains provisions on the penalties for corruptive and bribery conducts; and
- the staff manual is distributed to each of our staff upon his/her joining our Group and we endeavour to ensure that our staff are aware of the regulations therein through on-the-job trainings and various notices; and

- commercial bribery is strictly prohibited in our Group; our staff, whether acting for himself/herself or on behalf of our Group, are not allowed to offer bribes to procure sales to our customers, including offering bribes to cigarette manufacturers for winning the tenders, or accept bribes when purchasing raw materials; and

- any gift received by our staff from business related units, including our suppliers, customers, or other related parties, should be reported to his/her senior immediately; and

- our Group also encourages our staff to report improper behaviour, and has established report system to enable our staff to report the same to our general manager and factory managers directly on corruptive conducts. Such reports will be reviewed and handled by our general manager/factory managers.

We are not aware of any corrupt practices in our daily operation. Our Directors also confirm that, since the commencement of operation and up to the Latest Practicable Date, our Group, including our employees, had not been involved in any corrupt practices in the procurement of raw materials from our suppliers or in securing contracts from our customers or potential customers.

Our Group's sales contracts with the Shanghai Cigarette Manufacturer also contains anti-corruption provisions which (i) require our Group and the Shanghai Cigarette Manufacturer to abide by any laws, rules and regulations in the PRC regarding anti-corruption; and (ii) prohibit our Group from giving, and the Shanghai Cigarette Manufacturer from receiving, any gifts or money for the purpose of obtaining any illegitimate or improper benefits. If our Group violates any of the aforesaid provisions or commits any bribery conducts, the Shanghai Cigarette Manufacturer will be entitled to impose a penalty on us which ranges from 1% to 5% of the total contract sum of the relevant sales contract with the Shanghai Cigarette Manufacturer, and claim against us for all other damages and losses suffered by the Shanghai Cigarette Manufacturer. Our Directors are of the view that the current anti-corruption measures in place are effective to ensure the compliance by our Group with the relevant laws and regulations and the requirements under our sales contract with the Shanghai Cigarette Manufacturer.

MARKET AND COMPETITION

In general, there is no significant legal entry barrier to the industry which our Group is engaged in. Nevertheless, establishment of a production enterprise of cigarette-related packaging materials require high level of fixed-asset investments, technology, technicians and industry experience. We consider the competition from our potential competitors in the PRC (in particular in Guangdong Province and Shanghai) is not intensive given that (i) we are one of the approved suppliers of certain key players of the cigarette manufacturing industry in the PRC while our potential competitors shall have to pass the stringent qualification certification test before they are recognised as the approved suppliers and in a position to enter the market, which our Directors are of the view that there is certain level of market entry barrier to the industry in terms of technical know-how and qualifications; (ii) we have established more than five years and more than ten years of business relationships with the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturers respectively; and (iii) our experienced management team, quality management system and production facilities enable us to provide quality products to the satisfaction of our customers. From the experience of our Directors, the quality of our products, instead of the price of our products, is the most important concern of our customers. Despite the aforesaid, our competitors, whether local or foreign, may have more and better financial resources, experiences and market reputation as compared to ours. Nevertheless, we believe that the Listing would enhance our financial resources and strengthen our market position and allow us to compete with local and foreign competitors.

According to the Ipsos Report, the respective market shares of our Group (in terms of total sales value of cigarette-related packaging materials) in the PRC, Guangdong Province and Shanghai for the year ended 31 December 2012 were 0.6%, 7.4% and 2.3%.

For further details on the market in which our Group is operating, please refer to the sub-section headed "Cigarette-related packaging materials market in the PRC" under the section headed "Industry overview" of this prospectus.

For details of our competitive strengths, please refer to the paragraph headed "Competitive strengths" of this section.

INSURANCE

We maintain integrated insurance coverage on our production facilities and equipment against property damage with an aggregate insured amount of approximately RMB37 million. We also provide (i) social security insurance in accordance with the relevant laws and regulations of the PRC; (ii) medical insurance to all our staff; and (iii) work injuries insurance to our frontline staff who are responsible for the operation of our machineries. We do not maintain any product liability insurance.

Our Directors are of the view that we have maintained sufficient insurance coverage for our business and operations and is in line with the industry norm.

During the Track Record Period, we did not make any material insurance claims.

PROPERTIES

Our self-owned production base is located at No. 4 Wanji North Street, Wanji Industrial District, Shantou, Guangdong Province, the PRC with a gross floor area of approximately 17,667 sq.m.. We also owned a parcel of industrial land with a site area of 6,242.12 sq.m., which is in Wanji Industrial District, Shantou, Guangdong Province, the PRC and is adjacent to our production base. As at the Latest Practicable Date, our Group had no specific plan for the said parcel of industrial land. Nevertheless, the said parcel of land enables us to be well prepared for further expansion of our production base in the future if necessary. We have obtained valid land use rights certificates and valid building title certificates for our production premises and valid land use rights certificates for our industrial land. We have also leased two offices in Hong Kong situated at Cosco Tower and Rice Merchants Building as our principal place of business in Hong Kong and office respectively. The tenancy agreement in respect of the office premises situated at Rice Merchants Building will constitute an exempted continuing connected transaction of our Company upon the Listing, details of which are set out in the section headed "Connected transaction" of this prospectus.

We do not engage in any property activities as defined in Rule 5.01 of the Listing Rules. The total carrying value of our property interests accounted for less than 15% of our total assets as of 31 March 2013 (calculated with reference to the book value of the relevant property interest, including land costs, buildings and construction in progress, as a percentage of the value of our total assets, both as shown in the accountant's report in Appendix I to this prospectus). No property valuation report in respect of our Group's property interests is required in reliance upon the exemption under section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong). An overview in respect of all property interests as at the Latest Practicable Date, is set out below:

Property interests owned by our Group in Shantou, the PRC

Address and description of location	Usage	Area in square meters *(approx.)*	Permitted usage	Land use rights period	How is the property held, owned	Details of encumbrances liens, pledges and mortgages
An industrial complex situated at No. 4 Wanji North Street, Wanji Industrial District, Shantou, Guangdong Province, the PRC	Industrial	The property was erected upon a parcel of land with a site area of 26,666.67 sq.m.. The property has a total gross floor area of 17,667.24 sq.m..	Industrial	50 years commencing from 26 July 2004 to 25 July 2054	The property is owned by our Group and is occupied by our Group for production and office purposes.	Nil
An industrial land situated at Wanji Industrial District, Shantou, Guangdong Province, the PRC	Industrial	The property comprises a parcel of industrial land with a site area of 6,242.12 sq.m..	Industrial	50 years commencing from 9 December 2005 to 8 December 2055	The property is owned by our Group and is vacant.	Nil

Property interests leased by our Group in Hong Kong

Address and description of location	Usage	Area	Lease period	Rental
Office premises situated at Units 6-7, 19th Floor, High Block, Cosco Tower, Grand Millennium Plaza, 183 Queen's Road Central and 33 Wing Lok Street, Hong Kong	Principal place of business in Hong Kong	Our principal place of business has a saleable area of approximately 1,428 sq.ft.	2 years commencing from 21 November 2013 to 20 November 2015	HK$90,120 per month (exclusive of government rent, rates and management fee)

Address and description of location	Usage	Area	Lease period	Rental
Office premises situated at Office B, 10th Floor, Rice Merchants Building, Nos. 77 & 78 Connaught Road West, Hong Kong	Office	This office has a saleable area of approximately 550 sq.ft.	Two years commencing from 5 September 2013 to 4 September 2015	HK$1 per month

Our Directors confirm that our Group has not made any major acquisitions or disposals of properties since 30 June 2013. Our Directors further confirm that during the Track Record Period, our Group did not commit any violation of laws and regulations in the PRC in relation to the use of, or giving rise to any environmental issues in respect of, our PRC property interests mentioned above. We are not aware of any investigations, notice, pending litigation or breaches of law or title defects in respect of any of our property interests mentioned above.

INTELLECTUAL PROPERTY RIGHTS

(a) Trademarks

As at the Latest Practicable Date, we had applied for registration of the following trademark in Hong Kong:

	Trademark	Applicant	Place of registration	Date of application	Class	Application number
A		Xinda Capital Limited	Hong Kong	8 July 2013	16 *(Note)*	302663569
B						

Note:

Class	Specification of goods and/or services
16	Paper, cardboard and goods made from these materials, not included in other classes; printed matter; bookbinding material; photographs; stationery; adhesives for stationery or household purposes; artists' materials; paint brushes; typewriters and office requisites (except furniture); instructional and teaching material (except apparatus); plastic materials for packaging (not included in other classes); printers' type; printing blocks

(b) Patents

As at the Latest Practicable Date, we have obtained the following patent in the PRC:

Patent	Registered owner	Place of registration	Date of application	Expiry date	Patent number
Production method of laser inner frame paper for cigarette packaging (香煙包裝使用的激光全息鐳射內襯紙的生產方法)	Xinda Packing	PRC	14 December 2010	13 December 2030	ZL201010597104.7

On 15 January 2010, we entered into a use of patent permission contract (專利實施許可合同) with the Patent Owner, pursuant to which the Patent Owner agreed that our Group may use the patent owned by him in respect of double-sided printing facilities and technical know-how (雙面印刷設備和雙面印刷工藝) exclusively for nil consideration during the period between 15 January 2010 and 25 February 2015. Our Group may manufacture, use, sell or agree to sell any products obtained by such patented technical know-how. The said technical know-how was used in our trial production but eventually was not used in the manufacture of our products in large scale. Such technical know-how has not been used by our Group thereafter.

As confirmed by our Directors, none of the members of our Group:

- was involved in any litigation in the PRC and Hong Kong relating to the infringement of any intellectual property rights belonging to third parties in respect of our products during the Track Record Period; and

- had received any notice of any infringement of intellectual property rights up to the Latest Practicable Date.

Further details of our intellectual property rights are set out under the paragraph headed "Intellectual property rights" in Appendix V to this prospectus.

LEGAL PROCEEDINGS

Litigation, arbitration, claims, regulatory action, etc.

During the Track Record Period and up to the Latest Practicable Date, there was no litigation or arbitration pending or threatened against our Group or any of our Directors which could have a material effect on our Group's financial condition or results of operations. We were also not aware of any material claims, complaints, investigation or regulatory action pending or threatened against our Group or any of our Directors which could have a material effect on our Group's financial condition or results of operation.

REGULATORY COMPLIANCE

Licences and permits

As advised by our legal advisors as to PRC law, as at the Latest Practicable Date, our Group has obtained all the approvals, permits, consents, licences and registrations required for our business and operations and all of them are in full force and effect.

In addition to the business licence, our Group has obtained the following licence which is significant to our operations:

Holder of licence	Type of licence	Date of issue	Expiry date	Scope
Xinda Packing	Printing Operation Licence (印刷經營許可證)	1 January 2010	31 December 2013	Printing of packing and decorating printed matters

Since the establishment of Xinda Packing and up to the Latest Practicable Date, we have not experienced any failure in applying for the renewal of the Printing Operation Licence. As advised by our legal advisors as to PRC law, (i) there is no specific requirement under the PRC laws and regulations regarding the timing and procedures for the renewal process of the Printing Operation Licence; (ii) the Printing Operation Licence will be renewed by our Group by 31 December 2013 and the specific procedures will be announced by the relevant PRC governmental authority in due course and (iii) assuming that there is no amendment in the applicable laws and regulations and there is no other requirement on the conditions for renewal in the specific procedures and notices to be announced by the relevant PRC governmental authority, there will be no substantive legal impediment for our Group to renew the Printing Operation Licence. As at the Latest Practicable Date, the relevant PRC governmental authority has not announced the specific procedures for renewal of the Printing Operation Licence. Nevertheless, we have submitted our application for renewal of the same in November 2013. According to our experience the renewal process is expected to be completed by late December 2013.

Non-compliance incidents

We have not fully complied with certain PRC laws and regulations in the past years, a brief description of which is set out below:

- *Non-compliance with the regulations in respect of the social insurance scheme and housing provident fund scheme*

  Xinda Packing is required under the relevant PRC laws and regulations to contribute to the social insurance scheme, such as pension insurance, medical insurance, unemployment insurance, maternity insurance, work-related injury insurance (collectively, the "**social insurance**") and housing provident fund scheme for the benefit of our staff.

Xinda Packing was unable to:

(a) pay the social insurance premiums in full for all our staff prior to 1 May 2013; and

(b) open a housing provident fund account in a timely manner and contribute to the housing provident fund in full prior to 1 March 2013 for all our staff

in accordance with the requirements of the relevant PRC laws, regulations or local policies. According to the best knowledge of our Directors, such failure was due to the reluctance of some of our staff to participate in the contributions to the social insurance scheme and housing provident fund scheme. An office manager of our Group, who has already left our Group, was responsible for overseeing those matters relating to social insurance and housing provident fund at the material time.

According to our legal advisors as to PRC law, under the relevant PRC laws, regulations and local policies, Xinda Packing may be required to make retrospective payment of all outstanding social insurance contributions within a prescribed period. In the event that (i) any unpaid contributions incurred before 1 July 2011 were not repaid within the prescribed period, in addition to all outstanding social insurance contributions incurred before the said date, overdue charge (滯納金) equivalent to 0.2% of the amount of outstanding social insurance contributions will be charged for each day of delay; and (ii) any unpaid contributions incurred on or after 1 July 2011 were not repaid within the prescribed period, in addition to all outstanding social insurance contributions incurred after the said date, overdue charge (滯納金) equivalent to 0.05% of the amount of outstanding social insurance contributions will be charged for each day of delay and an additional penalty (罰金) equivalent to more than one time but less than three times of the unpaid contributions will also be imposed. With respect to the failure to open a housing provident fund account in a timely manner and fully contribute the housing provident fund, Xinda Packing may be ordered to (i) open the account within a prescribed period and any further delay may attract penalty between RMB10,000 and RMB50,000; and (ii) to contribute the outstanding housing provident fund within a prescribed manner, otherwise it may face enforcement action by the court.

Xinda Packing has obtained a written confirmation from the local social insurance authority (being the competent authority as advised by our legal advisors as to PRC law) dated 8 July 2013, confirming that, since 1 May 2013, Xinda Packing has registered for the social insurance scheme in accordance with the applicable laws and has paid all social insurance premium in full for all its employees. Regarding the failure on the part of Xinda Packing to contribute to the social insurance scheme in full in the past in accordance with the statutory requirements, the local social insurance authority has confirmed that it will not request Xinda Packing to pay the outstanding social insurance premium and/or the overdue charge and/or the penalty thereof nor impose any sanction on Xinda Packing. Save for the aforesaid, during the period between the date of establishment of Xinda Packing and the Latest Practicable Date, Xinda Packing has not been in violation of any national and local laws or rules on social insurance, and there were no circumstances which the local social insurance authority might impose administrative sanction on Xinda Packing. As advised by our legal advisors as to PRC law, the possibilities that Xinda Packing will be (i) required to pay the outstanding social insurance premium and/or the overdue charge and/or the penalty; or (ii) imposed any administrative sanction are very remote. Further, we have made provisions of approximately HK$2.3 million, HK$2.7 million and HK$3.1 million as at 31 March 2011, 2012 and 2013 respectively, for the unpaid social insurance premium.

Xinda Packing has obtained a written confirmation from the local housing provident fund authority (being the competent authority as advised by our legal advisors as to PRC law) dated 24 May 2013 confirming that, since 1 March 2013, Xinda Packing has registered at the local housing provident fund authority and established an account on the same and fully contributed outstanding housing provident fund during the period between April 1999 and February 2013 as requested by the relevant authority and in accordance with the applicable national and local laws and regulations on housing provident fund. As advised by our legal advisors as to PRC law, Xinda Packing will not be demanded by the local housing provident fund authority for any outstanding housing provident fund contribution or penalty or subject to any administrative sanction.

As at the Latest Practicable Date, to the best knowledge of our Directors, (i) since the establishment of Xinda Packing, we had not been subject to any administrative penalty actions in respect of the above non-compliance; (ii) we were not aware of any proceedings, claims or disputes brought by the staff of Xinda Packing regarding social insurance or housing provident fund contributions against Xinda Packing; and (iii) we have not received any notice from the social insurance authority or local housing provident fund authority regarding any non-compliance with the social insurance and housing provident fund contributions regulations non demand for the relevant payment.

Taken into account the above factors and the advice from our legal advisors as to PRC law, our Directors share the same view that the risk of having administrative penalty and retrospective payment imposed against our Group in relation to unpaid social insurance contributions is very remote. Further, we have made provisions of approximately HK$2.3 million, HK$2.7 million and HK$3.1 million as at 31 March 2011, 2012 and 2013 respectively, for the unpaid social insurance premium. We believe that the aforesaid non-compliance would not cause material impact on the business operation of Xinda Packing. Our Controlling Shareholders have agreed to fully indemnify us 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 "Tax and other indemnity" in Appendix V to this prospectus for further details.

- *Late payment of registered capital of Xinda Packing*

According to the Implementation Regulation of the Law on Foreign Investment Enterprise (外資企業法實施細則), if a foreign investor contributes to the registered capital of a foreign investment enterprise in the PRC by instalments, the first instalment shall not be less than 25% of the entire registered capital and shall be contributed within 90 days after the issue of the relevant business licence.

The business licence of Xinda Packing was issued on 14 May 1992 and 25% of the then entire registered capital has not been contributed within 90 days. According to the capital verification report of Xinda Packing, as at 30 November 1993, the amount of capital contributed was RMB2,197,757.94. The then registered capital was fully contributed according to the capital verification report dated 16 January 1995. The non-compliance was due to unfamiliarity with the requirements of the relevant laws and regulations at the material time. An office manager of our Group, who has already left our Group, was responsible for overseeing those matters relating to the registered capital of Xinda Packing at the material time. As advised by our legal advisors as to PRC law, failure to contribute the relevant amount of capital within the said 90-day period will result in the Certificate of Approval being lapsed automatically. The foreign investment enterprise shall proceed with the de-registration of the company and return the business licence. If the foreign investment enterprise does not proceed with the de-registration, the relevant PRC governmental authority may terminate its business licence and make announcement of the same. According to the confirmation issued by Bureau of Foreign Trade and Economic Cooperation of Longhu Qu (龍湖區對外貿易經濟合作局) (the "**Confirming Authority**") (being the competent authority as advised by our legal advisors as to PRC law) dated 22 March 2013, the above non-compliance does not constitute material non-compliance and will not affect the continued existence of Xinda Packing. Besides, the Confirming Authority will not impose any administrative sanction on Xinda Packing for the said non-compliance. To the best knowledge of our Directors, since the establishments and up to the Latest Practicable Date, Xinda Packing had not been subject to any administrative penalty actions in respect of the above non-compliance. As advised by our legal advisors as to PRC law, the above non-compliance would not constitute material non-compliance and will not affect the continued existence of Xinda Packing, and Xinda Packing will not be imposed any administrative sanction in respect of the above non-compliance.

- *Late registration of change of business scope in Xinda Packing*

On 7 April 2007, the board of directors of Xinda Packing passed a resolution approving the change of business scope. However, due to unfamiliarity with the requirements of the relevant PRC laws and regulations at the material time, Xinda Packing failed to submit an application for the change of its business scope to the relevant PRC governmental authority within 30 days after the resolution. An office administration officer of our Group at the material time was responsible for overseeing those matters relating to government registration at the material time.

According to the PRC Law on Management of Corporate Registration (中華人民共和國公司登記管理條例), a company shall apply for change of registration within 30 days after the relevant resolutions approving the same. Xinda Packing failed to comply with the said requirement. As advised by our legal advisors as to PRC law, the maximum penalty for late registration which Xinda Packing may be liable is RMB100,000. Xinda Packing has already registered the change of its business scope and was able to obtain the new business licence, and as at the Latest Practicable Date, to the best knowledge of our Directors, the relevant PRC governmental authority has not imposed any administrative sanction on Xinda Packing.

Given that (i) according to the PRC Laws on Administrative Sanction (中華人民共和國行政處罰法), unless otherwise stipulated by other laws, in the event that a non-compliance is not discovered within two years commencing from the date of non-compliance or (for continued non-compliance) the date on which the non-compliance ceases, no administrative sanction will be imposed; (ii) the Implementation Rules on the PRC Laws of Foreign Investment Enterprise (外資企業法實施細則) and the PRC Laws on Management of Corporate Registration do not stipulate otherwise on the above two-year rule; and (iii) the non-compliance continued to exist until August 2007 when the relevant business licence and registration were renewed, and the relevant PRC governmental authority did not impose any administrative sanction on our Group for more than two years thereafter; as advised by our legal advisors as to PRC law, the failure on the part of Xinda Packing to register the change of its business scope within the prescribed period of time will not affect its continued existence and operation under the laws of the PRC and Xinda Packing will not be subject to any administrative sanction due to the said non-compliance. In light of foregoing, provision has not been made in the financial statements of our Company.

- *Failure to file the capital increase in Xinda Packing*

According to the capital verification report dated 16 December 1993, by the end of 30 November 1993, Xinda Packing had received from its shareholder capital contribution in the form of cash in the sum of RMB2,197,757.94. However, due to its unfamiliarity with the requirements of the relevant laws and regulations in the PRC at the material time, Xinda Packing has failed to file the same at the relevant PRC governmental authority. An office manager of our Group, who has already left our Group, was responsible for overseeing those matters relating to government filing at the material time.

According to the capital verification report dated 16 January 1995, during the period between 1 January 1994 and 31 December 1994, Xinda Packing had received from its shareholder capital contribution in the form of cash in the sum of HK$1,360,293 and in the form of machineries and equipments with the aggregate value of HK$655,820. However, due to unfamiliarity with the requirements of the relevant laws and regulations at the material time, Xinda Packing has failed to file the same at the relevant PRC governmental authority. An office manager of our Group, who has already left our Group, was responsible for overseeing those matters relating to government registration at the material time.

According to the capital verification report dated 27 December 2004, up to October 2004, Xinda Packing had received from its shareholder a new capital contribution in cash in the sum of HK$2,000,000. However, Xinda Packing has failed to register the same at the relevant PRC governmental authority. An office manager of our Group, who has already left our Group, was responsible for overseeing those matters relating to government filing at the material time.

According to the Implementation Rules of Foreign Investment Enterprise (外資企業法實施細則), after a foreign investor has contributed to the capital of a foreign investment enterprise, the foreign investment enterprise shall engage a PRC registered accountant to verify the same and issue a capital verification report. It shall then file the capital increase at the relevant PRC governmental authority. As advised by our legal advisors as to PRC law, the applicable PRC laws and regulations do not stipulate any legal consequences or administrative sanctions for failure to do the said filing. Xinda Packing was able to renew its business licence and certificate of approval and as at the Latest Practicable Date, to the best knowledge of our Directors, the relevant PRC government authorities have not imposed any administrative sanction due to the aforesaid non-compliances.

Given that (i) according to the PRC Laws on Administrative Sanction (中華人民共和國行政處罰法), unless otherwise stipulated by other laws, in the event that a non-compliance is not discovered within two years commencing from the date of non-compliance or (for continued non-compliance) the date on which the non-compliance ceases, no administrative sanction will be imposed; (ii) the Implementation Rules on the PRC Laws of Foreign Investment Enterprise (外資企業法實施細則) and the PRC Laws on Management of Corporate Registration do not stipulate otherwise on the above two-year rule; and (iii) the non-compliance continued to exist until May 2005 when the relevant business licence and registration were renewed, and the relevant PRC governmental authority did not impose any administrative sanction on our Group for more than two years thereafter, as advised by our legal advisors as to PRC law, the failure on the part of Xinda Packing to file capital increase will not affect its continued existence and operation under the laws of the PRC and Xinda Packing will not be subject to any administrative sanction due to such non-compliance.

Our Controlling Shareholders have jointly and severally agreed to indemnify our Group against all damages, losses, claims, penalties, liabilities, costs and expenses that we may suffer or incur in relation to the above non-compliance incidents. Please also refer to the paragraph headed "Tax and other indemnity" in Appendix V to this prospectus for further details.

In light of the unfamiliarity with the requirements of relevant PRC laws and regulations being the principal reason of the aforementioned non-compliances, our Group has engaged a legal advisor qualified to practise the laws of the PRC prior to the Listing to provide our Directors and relevant employees with updates regarding, amongst others, the relevant rules and regulations in the PRC relating to the operation of our Group and provide legal services to our Group to ensure our full compliance with the applicable PRC laws and regulations in the future. Further, our Group has strengthened controls in our payroll management and made contributions to the social insurance and housing provident fund in accordance with the relevant rules and regulations in the PRC. In accordance with the Rule 3A.15(5) of the Listing Rules, the Sponsor has reasonable grounds to believe and does believe that our Company has established procedures, systems and controls for the rectification of abovementioned non-compliances which are adequate and effective.

Ongoing compliances

In order to continuously improve our corporate governance and to prevent recurrence of any non-compliance incidents, we have adopted the following measures:

- our Group has appointed Mr. Yu Wing Cheung as the company secretary and group financial controller of our Group on 14 November 2013 to oversee and monitor the internal control measures of our Group. Mr. Yu has over 14 years of working experience in financial management. Mr. Yu has been the company secretary of New Times Energy Corporation Limited (stock code: 166), a company listed on the Main Board of the Stock Exchange during the period between October 2006 and November 2013. With the support of our legal advisors as to PRC law, Mr. Yu will be responsible for ensuring our compliance with the relevant PRC laws and regulations;

- our Group has appointed three independent non-executive Directors with experience in government administration, legal, financial and accounting respectively. In particular, Mr. Lau Kwok Hung, the chairman of the audit committee, has extensive experience in auditing, accounting and financial management and is a fellow member of the Hong Kong Institute of Certified Public Accountants. Another independent non-executive Director, Mr. Fok Po Tin, is a solicitor qualified to practice the laws of Hong Kong and has over 17 years of experience in the legal profession. Our Directors believe that our Group will be able to utilise their experience with respect to ongoing compliance of our Group;

- an audit committee established by our Group, comprising our three independent non-executive Directors, will assume the overall responsibility of reviewing the adequacy and integrity of our internal control and ongoing compliance;

- our Group has engaged a PRC law firm prior to the Listing to provide legal services to our Group to ensure our compliance with the applicable PRC laws and regulations in the future;

- we have arranged our Directors and senior management to attend training programmes on applicable laws and regulations, including the Listing Rules and the relevant rules and regulations in the PRC relating to the operation of our Group, provided by our legal advisors as to Hong Kong law and a PRC law firm prior to the Listing. We will continue to arrange various training programmes to be provided by our legal advisors and/or any appropriate accredited institutions to update our Directors, senior management and relevant staff on the applicable laws and regulations in the PRC and Hong Kong at regular intervals; and

- our Group has improved the existing internal control framework by adopting a set of internal control manual and policies, which covers corporate governance, risk management, operations, legal compliances, finance and audit since July 2013. The internal control improvement measures taken by our Group included (i) organising training to our finance staff to enhance their understanding of Hong Kong Financial Reporting Standards; (ii) appointment of three independent non-executive Directors to our Board; and establish committees' charter to clarify members' roles and responsibilities of the audit committee and remuneration committee; (iii) formulating internal controls policies and procedures for key business activities, including inventory, fixed assets, revenue, cash management and information technology general controls; (iv) enhancing controls in payroll management and contribute social insurance and housing provident fund according to the relevant rules and regulations in the PRC; and (v) establishing internal audit policy and retain documentation/evidence for internal control activities and risk assessment.

Based on the above, our Directors are of the view that our Company has taken all reasonable steps to establish a proper internal control system to prevent future non-compliance with the applicable PRC laws and regulations by our Group.

Please refer to Appendix IV to this prospectus for the relevant laws and regulations application to our Group's business and operations in the PRC.

The Sponsor, based on the due diligence which it has conducted, is of the view that our Directors has the character, experience and integrity required for a Director under Rules 3.08 and 3.09 of the Listing Rules on the following bases:

- all the non-compliance incidents were principally due to the unfamiliarity with the requirements of the relevant laws and regulations in the PRC at the material times by the responsible staff of our Group;

- with respect to the required contributions to the social insurance scheme and the housing provident fund scheme, our Group has already rectified the same by settling the outstanding social insurance premium and contributing to the outstanding housing provident fund in full as required by the relevant PRC governmental authorities;

- with respect to the late payment of registered capital of Xinda Packing, written confirmations have been obtained from the relevant PRC governmental authorities confirming that no administrative sanction will be imposed on our Group;

- with respect to other non-compliance incidents, our PRC legal advisors have advised that no administrative sanction will be imposed on our Group in relation thereto;

- remedial internal control measures have been adopted to ensure our compliance with the Listing Rules and the applicable laws and regulations in the PRC and Hong Kong;

- we have arranged our Directors and senior management to attend training programmes on applicable laws and regulations, including the Listing Rules and the relevant rules and regulations in the PRC relating to the operation of our Group, such training programmes to be provided by our advisors as to Hong Kong law and a PRC law firm prior to the Listing; and

- the extensive experience in the cigarette-related packaging materials industry possessed by our executive Directors.

Having considered the triviality of the above non-compliance incidents of our Group and the above internal control measures and remedial actions taken by us, the Sponsor is of the view that with regard to the above non-compliance incidents, there is no further matter that the Sponsor considers would affect the suitability of our executive Directors to become directors of our Company under Rules 3.08 and 3.09 of the Listing Rules.

Immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise the Over-allotment Option and any options which may be granted under the Share Option Scheme), SXD Limited (which is wholly owned by Mr. Zheng) is entitled to exercise or control the exercise of 30% or more of the voting power at general meetings of our Company. Therefore, our Controlling Shareholders are Mr. Zheng and SXD Limited. Further details of the shareholding interest of our Controlling Shareholders are set out in the corporate structure table in the paragraph headed "Further information about our Directors, substantial Shareholders and experts" in Appendix V to this prospectus.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS AND OUR DIRECTORS

Our Group is capable of carrying on our business independently of our Controlling Shareholders, our Directors and their respective associates (other than members of our Group) taking into consideration the following factors:

(a) Operational independence

Other than the patent on double-sided printing facilities and technical know-how (雙面印刷設備和雙面印刷工藝) and save as disclosed in the section headed "Connected transaction" in this prospectus in relation to the leasing of office premises, our Group holds all the production and operating facilities and technologies relating to our business operations. Sales, marketing and administrative functions relating to our business are carried out independently by our Group. We have sufficient operational capacity in terms of capital, equipment and employees to operate our businesses independently of our Controlling Shareholders, our Directors and their respective associates (other than members of our Group).

(b) Management independence

Our management and operational decisions are made by our Board and our senior management personnel. Our Board comprises two executive Directors and three independent non-executive Directors. Mr. Zheng is also a director of SXD Limited, being one of our Controlling Shareholders and solely an investment holding company of Mr. Zheng for holding the Shares. Save as disclosed above, none of our Directors or our senior management personnel serves any executive or management role in SXD Limited.

Each of our Directors is aware of his fiduciary duties as a Director which require, among other things, that he acts for the best interest of our Group and not to allow any conflict between his duties as a Director and his personal interest. In the event that there is a potential conflict of interest arising from any transaction to be entered into between our Group and any of our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant Board meetings in respect of such transaction and shall not be counted in the quorum. Further, our other executive Director, i.e. Mr. Zheng Minsheng, and our three independent non-executive Directors will ensure that the decisions of our Board are made after due consideration of independent and impartial opinions.

(c) Financial independence

Our Group has an independent financial system and makes financial decisions according to our business needs. Our Group has sufficient capital to operate our business independently, and has adequate internal resources to support our day-to-day operations.

During the Track Record Period, our Group relied principally on shareholder's equity, shareholder's loan, cash generated from operations and bank borrowings to finance our business. Upon completion of the Share Offer, our Group expects that our operations will be financed mainly by the net proceeds of the Share Offer, internally generated funds and borrowings from financial institutions.

As at Latest Practicable Date, the trade related and non-trade related amounts due to or from our Controlling Shareholders, our Directors and their respective associates (other than members of our Group) had been fully settled and there were no outstanding loans or loan guarantees to or from our Controlling Shareholders, our Directors and their respective associates (other than members of our Group).

DEED OF NON-COMPETITION

Our Controlling Shareholders and Mr. Zheng Minsheng have entered into the Deed of Non-competition in favour of our Company (for ourselves and as trustee for each of our subsidiaries from time to time), under which each of our Controlling Shareholders and Mr. Zheng Minsheng has undertaken to our Company that they shall not, and shall procure that none of their respective associates (other than members of our Group) shall, during the Restricted Period (as defined below), directly or indirectly, either on their own account, in conjunction with, on behalf of, or through any person, firm or company, among other things, carry on, participate or be interested, engaged or otherwise involved in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) any business of the manufacture and sale of cigarette-related packaging materials in the PRC and any other new business which our Group may undertake from time to time after the Listing (the "**Restricted Business**").

The Deed of Non-competition does not apply to the relevant Controlling Shareholder or Mr. Zheng Minsheng in the circumstances where it or he has:

(a) any interest in the shares of any member of our Group; or

(b) interest in the shares of a company other than our Group provided that:

    (i) any Restricted Business conducted or engaged in by such company (and assets relating to any Restricted Business) accounts for less than 5% of that company's consolidated sales or consolidated assets, as shown in that company's latest audited accounts; and

(ii) the total number of shares held by our Controlling Shareholders, Mr. Zheng Minsheng and their associates in aggregate does not exceed 5% of the issued shares of that class of the company in question and our Controlling Shareholders, Mr. Zheng Minsheng and their associates are not entitled to appoint a majority of the directors of that company.

The "**Restricted Period**" stated in the Deed of Non-competition refers to the period during which:

(a) the Shares remain listed on the Stock Exchange; and

(b) our Controlling Shareholders, Mr. Zheng Minsheng and their associates (other than members of our Group), individually or jointly, are entitled to exercise, or control the exercise of, not less than 30% of the voting power at general meetings of our Company; or

(c) any of Mr. Zheng, Mr. Zheng Minsheng or their associates remains as a director of any member of our Group.

Each of our Controlling Shareholders and Mr. Zheng Minsheng has further undertaken to procure that, during the Restricted Period, any business investment or other commercial opportunity relating to the Restricted Business (the "**New Opportunity**") identified by or offered to our Controlling Shareholders, Mr. Zheng Minsheng and/or any of their associates (other than members of our Group) (the "**Offeror**") is first referred to us in the following manner:

(a) our Controlling Shareholders and Mr. Zheng Minsheng are required to, and shall procure their associates (other than members of our Group) to, promptly refer, or procure the referral of, the New Opportunity to us, and shall promptly give written notice to us of any New Opportunity containing all information reasonably necessary for us to consider whether (i) the New Opportunity would constitute competition with our business and/or any other new business which our Group may undertake at the relevant time; and (ii) it is in the interest of our Group to pursue the New Opportunity, including but not limited to the nature of the New Opportunity and details of the investment or acquisition costs (the "**Offer Notice**"); and

(b) the Offeror will be entitled to pursue the New Opportunity only if (i) the Offeror has received a written notice from us declining the New Opportunity and confirming that the New Opportunity would not constitute competition with our business; or (ii) the Offeror has not received the notice from us within ten business days from our receipt of the Offer Notice. If there is a material change in the terms and conditions of the New Opportunity pursued by the Offeror, the Offeror shall refer the New Opportunity as so revised to us in the manner as set out above.

Upon receipt of the Offer Notice, we will seek opinions and decisions from a committee of our Board consisting of our Directors who do not have a material interest in the matter as to whether (a) such New Opportunity would constitute competition with our business; and (b) it is in the interest of our Company and our Shareholders as a whole to pursue the New Opportunity.

With a view to avoiding competition of businesses between our Group and our Controlling Shareholders, our independent non-executive Directors shall, at least on an annual basis, review the compliance with and enforcement of the terms of the Deed of Non-competition by our Controlling Shareholders and the results of such review shall be included in our annual report for our Shareholders.

Each of our Controlling Shareholders and Mr. Zheng Minsheng has further undertaken to promptly:

(a) provide all relevant information for the annual review by our independent non-executive Directors for the compliance with and enforcement of the terms of the Deed of Non-competition;

(b) allow, subject to confidentiality restrictions imposed by any third party, our representatives, our auditors and (if necessary) our compliance advisor to have access to their business, financial and corporate records as may be necessary for our independent non-executive Directors to determine whether our Controlling Shareholders, Mr. Zheng Minsheng and their associates have complied with the terms of the Deed of Non-competition;

(c) make an annual declaration in our annual report on the compliance with the Deed of Non-competition in accordance with the Listing Rules; and

(d) address such other enquiries as may be made by the Stock Exchange, the SFC, any other regulatory bodies or our Company from time to time;

Our Controlling Shareholders and Mr. Zheng Minsheng, for themselves and on behalf of their associates (other than members of our Group), have also acknowledged that we may be required by the relevant laws, rules and regulations of the stock exchange(s) on which we may be listed and the regulatory bodies in effect from time to time to:

(a) disclose, from time to time, information on the New Opportunity, including but not limited to disclosing through public announcements or our annual reports our decision to pursue or decline the New Opportunity and our Controlling Shareholders have agreed to the necessary disclosure to comply with any such requirement; and

(b) comply with such further legal or regulatory requirements in connection with the Deed of Non-competition and our Controlling Shareholders and Mr. Zheng Minsheng have agreed to do all such acts to facilitate our Company to comply with the same.

Mr. Zheng Minsheng (being one of our executive Directors), through Shantou Lejing, has been engaging in the trading of printing materials, such as base paper, in the PRC. As Shantou Lejing was not equipped with any processing facilities, Mr. Zheng Minsheng occasionally imported the printing materials into the PRC through XDHK and engaged Xinda Packing to process them prior to delivery to his clients. The revenue contributed by Shantou Lejing for each of the three years ended 31 March 2013 amounted to approximately HK$675,000, HK$719,000 and nil, which was insignificant when compared with the total revenue of our Group. Our Directors consider that there is a clear delineation between the business conducted by our Group and that conducted by Mr. Zheng Minsheng as the former focuses on the manufacture and sale of cigarette-related packaging materials while the latter focuses on the trading of printing materials. To allocate more time for managing the day-to-day operations of our Group, Mr. Zheng Minsheng and Shantou Lejing have ceased their business of trading of printing materials in the PRC and Mr. Zheng Minsheng has further undertaken not to engage in the trading of printing materials in the PRC, whether on his own account or through any company or partnership, after the Listing.

Our Directors confirmed that none of our Controlling Shareholders, our Directors and their associates (other than members of our Group) has any interest in a business, other than our business, which competes or is likely to compete, either directly or indirectly, with our business.

CORPORATE GOVERNANCE MEASURES

Our Controlling Shareholders, our executive Directors and their respective associates may not compete with us as provided in the Deed of Non-competition. Our Directors believe that there are adequate corporate governance measures in place to manage existing and potential conflict of interest. In order to further avoid potential conflict of interest, we have implemented the following measures:

(a) the Articles provide that, unless otherwise provided, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his associates have a material interest nor shall such Director be counted in the quorum present at the meeting;

(b) a Director with material interest shall make full disclosure in respect of the matters which conflict or potentially conflict with our interest and absent himself from meetings of our Board on matters in which such Director or his associates have a material interest, unless the attendance or participation of such Director at such meeting of our Board is specifically requested by a majority of our independent non-executive Directors;

(c) our Directors who have no material interest in the matters discussed will, based on the information available to them, review on an annual basis (i) the compliance with the Deed of Non-competition; and (ii) all the decisions taken in relation to whether to pursue the New Opportunity under the Deed of Non-competition. Findings of such review will be disclosed in our annual report after the Listing;

(d) we will use our best endeavours to ensure that our Board should include a balanced composition of executive and independent non-executive Directors. We have appointed three independent non-executive Directors whom we believe possess sufficient experience and are not involved in any business or other relationship which could interfere in any material manner with the exercise of their independent judgment. Details of our independent non-executive Directors are set out under the section headed "Directors and senior management" of this prospectus; and

(e) we will appoint Haitong International Capital Limited as our compliance advisor, which will provide advice and guidance to us in respect of compliance with the Listing Rules and various requirements relating to directors' duties and corporate governance.

Our Company, as the tenant, entered into a tenancy agreement (the "**Tenancy Agreement**") dated 24 July 2013 with Mr. Zheng, as the landlord, to lease the premises at Office B, 10th Floor, Rice Merchants Building, Nos. 77 & 78 Connaught Road West, Hong Kong for a term of two years commencing from 5 September 2013 to 4 September 2015 (both days inclusive) at a monthly rent of HK$1 as one of the office premises of our Group in Hong Kong.

As Mr. Zheng is one of our executive Directors and Controlling Shareholders and therefore a Connected Person, and it is expected that the Tenancy Agreement will continue after the Listing, the entering into of the Tenancy Agreement constituted a continuing connected transaction of our Company pursuant to Rule 14A.14 of the Listing Rules. Our Directors believe that the terms of the Tenancy Agreement are in the interests of our Company and our Shareholders as a whole.

Given that the Tenancy Agreement is on terms no less favourable to our Group than terms available from Independent Third Parties and the rent under the Tenancy Agreement is nominal, the Tenancy Agreement falls within the de minimis threshold under Rule 14A.33(3) of the Listing Rules and is exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

DIRECTORS

Our Board consists of five Directors, including two executive Directors and three independent non-executive Directors. The following table sets forth information regarding our Directors.

Name	Age	Position in our Group	Date of appointment as Director	Roles and responsibilities
Mr. Zheng Andy Yi Sheng (鄭毅生)*	53	Chairman, executive Director, chief executive officer and general manager	29 April 2013	Overall strategic planning and business development
Mr. Zheng Minsheng (鄭敏生)*	50	Executive Director and deputy general manager	24 July 2013	Procurement, production management and quality control
Mr. Ma Wenming (馬文明)	70	Independent non-executive Director	24 July 2013	As an independent non-executive Director
Mr. Lau Kwok Hung (劉國雄)	67	Independent non-executive Director	24 July 2013	As an independent non-executive Director
Mr. Fok Po Tin (霍寶田)	54	Independent non-executive Director	24 July 2013	As an independent non-executive Director

* *Mr. Zheng Andy Yi Sheng is the elder brother of Mr. Zheng Minsheng.*

Executive Directors

Mr. ZHENG Andy Yi Sheng (鄭毅生), aged 53, is our founder, our Chairman, an executive Director, our chief executive officer and general manager. He has over 20 years of experience in the packaging material industry. Since 1992, he has been the director of Xinda Packing and became our Chairman since 1997.

Mr. Zheng was awarded a fellowship of Asian College of Knowledge Management in 2013. The said fellowship was granted after assessing the (i) leadership; (ii) professional knowledge; (iii) leadership ethics; and (iv) leadership achievement of Mr. Zheng. It is not a taught nor a research-based programme. In obtaining such fellowship, Mr. Zheng was required to submit a self-assessment report with supporting documents to the election board of Asian College of Knowledge Management.

He is the elder brother of Mr. Zheng Minsheng, an executive Director and the deputy general manager of our Group.

Mr. ZHENG Minsheng (鄭敏生), aged 50, is an executive Director and the deputy general manager of our Group. He has over 20 years of experience in the packaging material industry. Since 1992, he has been a director and deputy general manager of Xinda Packing and is responsible for procurement of raw materials, production management and quality control.

Mr. Zheng is the younger brother of Mr. Zheng Andy Yi Sheng, our founder, Chairman and an executive Director.

Save as disclosed in this prospectus, each of Mr. Zheng Andy Yi Sheng and Mr. Zheng Minsheng has not been a director of any other listed company during the three years immediately preceding the date of this prospectus.

Independent non-executive Directors

Mr. MA Wenming (馬文明), aged 70, is an independent non-executive Director. Mr. Ma was the factory manager of Anyang Cigarette Factory (安陽捲煙廠) and was the division head (司長) of development and planning division (發展計劃司) of STMA.

Mr. Ma was an independent director of Shenzhen Jinjia Color Printing Group Co., Ltd. (深圳勁嘉彩印集團股份有限公司), a company listed on the Shenzhen Stock Exchange with stock code 002191, from November 2006 to April 2008.

Mr. LAU Kwok Hung (劉國雄), aged 67, is an independent non-executive Director. Mr. Lau is a fellow member of the Hong Kong Institute of Certified Public Accountants. He is experienced in financial accounting, auditing, tax, company secretarial matter and corporate finance. In particular, he has over ten years of experiences in mergers, acquisitions and corporate restructuring. He also obtained a Specialist Qualification (SQ) in Insolvency issued by the Hong Kong Institute of Certified Public Accountants and a Diploma in International Business Valuation.

Mr. Lau has been an executive director of Neptune Group Limited (formerly known as Mandarin Resources Corporation Limited and subsequently Massive Resources International Corporation Limited), a company listed on the Stock Exchange and its stock code is 00070, during the period between October 2001 and November 2012.

Mr. FOK Po Tin (霍寶田), aged 54, is an independent non-executive Director. Mr. Fok is a solicitor qualified to practice the laws of Hong Kong and the sole proprietor of Henry Fok & Co. He has over 17 years of experience in the legal profession.

Mr. Fok graduated from The Chinese University of Hong Kong with a business administration degree and Peking University with a law degree. He also completed the Common Professional Examination in HKU School of Professional and Continuing Education in 1992.

Mr. Fok has held various positions in the following companies listed on the Stock Exchange: (i) an independent non-executive director of Neptune Group Limited (stock code: 00070) during the period between 31 January 2004 and 30 September 2004; (ii) an executive director of Xian Yuen Titanium Resources Holdings Limited (stock code: 00353) (formerly known as Aurora Global Investment Holdings Limited) during the period between 1 March 2007 and 16 April 2009; (iii) an executive director of Yueshou Environmental Holdings Limited (stock code: 01191) (formerly known as China Rich Holdings Limited) during the period between 12 March 2007 and 11 August 2008; (iv) an executive director of Bestway International Holdings Limited (stock code: 00718) during the period between 17 September 2007 and 16 June 2009; and (v) an independent non-executive director of Long Success International (Holdings) Limited (stock code: 08017) during the period between 2 November 2012 and 5 February 2013.

Save as disclosed in this section, Mr. Ma Wenming, Mr. Lau Kwok Hung and Mr. Fok Po Tin has not been a director of any other companies listed on any securities market in Hong Kong or overseas during the three years immediately preceding the date of this prospectus.

Information that needs to be disclosed pursuant to Rule 13.51(2) of the Listing Rules

There is no information of each of our Directors which needs to be disclosed pursuant to the requirements under Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules, and save as disclosed in this section, there are no other matters that need to be brought to the attention of our Shareholders under Rule 13.51(2) of the Listing Rules in connection with his appointment as a Director.

SENIOR MANAGEMENT

The following table sets forth information regarding our senior management:

Name	Age	Position in our Group	Year of joining our Group	Roles and responsibilities
Mr. Li Zhiyong (李志勇)	52	Deputy general manager	1995	Overseeing the sales and marketing of our Group
Mr. Li Yaohui (李耀輝)	38	Factory manager	2007	Overseeing the operation of the factory manufacturing inner framer paper and cigarette box frame paper
Mr. Li Cancheng (李燦澄)	33	Factory manager	2006	Overseeing the operation of the factory manufacturing tipping paper and cigarette trademark labels
Ms. Cai Peihua (蔡佩華)*	49	Financial officer	2000	Overseeing the accounting and financial matters of our Group

* *Ms. Cai is the spouse of Mr. Zheng Minsheng, an executive Director and the deputy general manager of our Group.*

Mr. LI Zhiyong (李志勇), aged 52, is the deputy general manager of our Group. Mr. Li has worked in our Group since September 1995. Mr. Li graduated from Shantou Commercial Bureau Staff Amateur Secondary School (汕頭市商業局職工業餘中學).

Mr. LI Yaohui (李耀輝), aged 38, has been the factory manager of our Group since June 2007. Mr. Li has been the deputy general manager of Chaoan Jixiang Mould Company Limited (潮安吉祥膜業有限公司) during the period between 2004 and 2007. Mr. Li completed a course in business administration in Meizhou Jiaying University (梅州嘉應大學) in July 1996.

Mr. LI Cancheng (李燦澄), aged 33, has been the office assistant, officer and factory manager of our Group since August 2006. Mr. Li has been a drawing designer in Shantou Zhaohua Electric Company Limited (汕頭市兆華電業有限公司) during the period between 1999 and 2006. Mr. Li completed a course in economic management in South China University of Technology (華南理工大學) in July 2005. Mr. Li has been awarded the qualification of intermediate economist (中級經濟師) in human resources by Ministry of Human Resources and Social Security of the People's Republic of China in January 2010.

Ms. CAI Peihua (蔡佩華), aged 49, has been the financial officer of our Group since December 2000. Ms. Cai is the spouse of Mr. Zheng Minsheng, an executive Director and the deputy general manager of our Group. Ms. Cai completed a course in industrial financial accounting in Shantou Yeyu University (汕頭市業餘大學) in July 1990.

None of the members of the senior management has been a director of any other companies listed on any securities market in Hong Kong or overseas during the three years immediately preceding the date of this prospectus.

COMPANY SECRETARY AND GROUP FINANCIAL CONTROLLER

Mr. YU Wing Cheung (余永祥), aged 55, graduated from The Open University of Hong Kong with a degree of bachelor of business administration. Mr. Yu is a member of the Hong Kong Institute of Certified Public Accountants and has over 14 years of working experience in financial management. Mr. Yu was the company secretary of New Times Energy Corporation Limited (stock code: 00166) ("**New Times**"), a company listed on the Stock Exchange, and the financial controller of Jumbo Hope Group Limited, a wholly-owned subsidiary of New Times, during the period between October 2006 and November 2013.

DIRECTORS' REMUNERATION

Our Directors' remuneration is determined with reference to the prevailing market practice, our Company's remuneration policy and his/her duties and responsibilities with our Group. For each of the three years ended 31 March 2013 and the three months ended 30 June 2013, the aggregate of the remuneration paid and benefits in kind granted to our Directors by our Group was approximately HK$120,000, HK$162,000, HK$210,000 and HK$56,000 respectively.

Each of our executive Directors has entered into a service agreement with our Company for an initial term of three years commencing from the Listing Date subject to the early termination provisions contained therein. Each of our executive Directors is entitled to a basic salary. Under the service agreements, the basic annual remunerations payable by our Group to our executive Directors after the Listing are set out below:

Executive Directors	HK$/per year
Mr. Zheng Andy Yi Sheng (鄭毅生)	500,000
Mr. Zheng Minsheng (鄭敏生)	400,000

The salary of each of our executive Directors shall be reviewed at the discretion of our Board (or its designated committee) and decided by our Board (or its designated committee) after the relevant Director has completed each year of service.

Each of our independent non-executive Directors has signed an appointment letter with our Company for an initial term of three years commencing from the Listing Date subject to the early termination provisions contained therein. Under the appointment letters, the basic annual remuneration payable by our Group to our independent non-executive Directors after Listing are as follows:

Independent non-executive Directors	HK$/per year
Mr. Ma Wenming (馬文明)	100,000
Mr. Lau Kwok Hung (劉國雄)	100,000
Mr. Fok Po Tin (霍寶田)	100,000

The director's fee for each of our independent non-executive Directors during the three-year term is fixed.

The remuneration of each Director is determined by reference to market terms, seniority, his/her experiences, duties and responsibilities within our Group. Our Directors are entitled to statutory benefits as required by law from time to time such as pension. Under the present arrangement, the aggregate of our Directors' remuneration in cash and benefits in kind for the year ending 31 March 2014 is estimated to be approximately HK$447,000.

CORPORATE GOVERNANCE

Our Directors recognise the importance of good corporate governance in the management and internal control of our Group. We will comply with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

Pursuant to code provision A.2.1 of the Corporate Governance Code, the responsibilities of the chairman and chief executive officer should be segregated and should not be performed by the same individual. However, Mr. Zheng is the Chairman and the chief executive officer of our Group. Mr. Zheng takes a leading role in the day-to-day management and is responsible for effective functioning of our Board. With the support of other executive Director and other senior management, the Chairman is also responsible for the overall strategic development of our Group. Having considered the current business operations, our Directors consider that this management structure provides our Group with strong and consistent leadership in both our Company's decision making process and operation.

Our Company established a corporate governance committee on 14 November 2013 pursuant to a resolution of our Directors passed on 14 November 2013. The primary duties of the corporate governance committee are to evaluate and make recommendations to our Board on corporate governance matters of our Group.

The corporate governance committee comprises two executive Directors and one independent non-executive Director, namely Mr. Zheng, Mr. Zheng Minsheng and Mr. Lau Kwok Hung.

AUDIT COMMITTEE

Our Company established an audit committee on 14 November 2013 with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of our Group.

The audit committee comprises three independent non-executive Directors, namely Mr. Lau Kwok Hung, Mr. Ma Wenming and Mr. Fok Po Tin. Mr. Lau Kwok Hung is the chairman of the audit committee.

REMUNERATION COMMITTEE

Our Company established a remuneration committee pursuant to a resolution of our Directors passed on 14 November 2013 in compliance with the Corporate Governance Code as set forth in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to our Directors and other senior management.

The remuneration committee comprises three independent non-executive Directors, namely Mr. Lau Kwok Hung, Mr. Ma Wenming and Mr. Fok Po Tin. Mr. Lau Kwok Hung is the chairman of the remuneration committee.

NOMINATION COMMITTEE

Our Company established a nomination committee pursuant to a resolution of our Directors passed on 14 November 2013. The primary duties of the nomination committee are to make recommendations to our Board on the appointment of Directors and management and Board succession.

The nomination committee comprises one executive Director and two independent non-executive Directors, namely Mr. Zheng, Mr. Lau Kwok Hung and Mr. Fok Po Tin. Mr. Zheng is the chairman of the nomination committee.

SHARE OPTION SCHEME

Our Group has conditionally adopted the Share Option Scheme under which employees of our Group including executive Directors and other eligible participants may be granted options to subscribe for Shares on 14 November 2013. The principal terms of the Share Option Scheme are set out in the paragraph headed "Share Option Scheme" in Appendix V to this prospectus.

COMPLIANCE ADVISOR

Our Company will appoint Haitong International Capital Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules. Our compliance advisor will advise us in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;

- where a transaction, which might constitute a notifiable and/or connected transaction, is contemplated, including share issues and share repurchases;

- if our Group proposes to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or if the business activities, developments or results of our Group deviate from any forecast, estimate or other information in this prospectus; and

- if the Stock Exchange makes an inquiry of our Group under Rule 13.10 of the Listing Rules regarding unusual movements in the price or trading volume of the Shares.

The term of the appointment of the compliance advisor shall commence on the Listing Date and end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date (i.e. the date of despatch of the annual reports of our Company in respect of our results for the financial year ending 31 March 2015), subject to early termination.

So far as our Directors are aware, immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), the following persons (not being a Director or chief executive of our Company) will have an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any of our subsidiaries:

Name of entity	Company concerned	Nature of interest	Number of Shares *(Note 1)*	Percentage of interests in our Company immediately following completion of the Capitalisation Issue and the Share Offer
SXD Limited	Our Company	Beneficial interest	225,000,000 (L) *(Note 2)*	75
Ms. Chen Annie Ni	Our Company	Interest of spouse	225,000,000 (L) *(Note 3)*	75

Notes:

1. The letter "L" denotes the entity's long position in the Shares.

2. Of these 225,000,000 Shares, 11,250,000 Shares may be subject to the stock borrowing arrangement to be effected pursuant to the Stock Borrowing Agreement.

3. Ms. Chen Annie Ni, the spouse of Mr. Zheng, is deemed under the SFO to be interested in these 225,000,000 Shares in which Mr. Zheng is deemed to be interested upon the Listing.

Save as disclosed herein, our Directors are not aware of any person who will, immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), have an interest or a short position in the Shares or the underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any of our subsidiaries.

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

Authorised:		*HK$*
2,000,000,000	Shares	20,000,000

Shares issued and fully paid or credited as fully paid:

1	Share in issue	0.01
239,999,999	Shares to be issued under the Capitalisation Issue	2,399,999.99
60,000,000	Shares to be issued under the Share Offer	600,000.00
300,000,000	Shares	3,000,000.00

According to Rule 8.08 of the Listing Rules, at the time of the Listing and at all times thereafter, our Company must maintain the "minimum prescribed percentage" of 25% of our Company's issued share capital in the hands of the public.

Assumptions

The above table assumes that the Share Offer and the Capitalisation Issue become unconditional but takes no account of any Shares which may be allotted and issued under the Over-allotment Option and any Shares which may be issued pursuant to the exercise of options which may be granted under the Share Option Scheme or of any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandates as described below.

Ranking

The Offer Shares will rank pari passu in all respects with all Shares in issue or to be issued as set out in the above table, and will qualify in full for all dividends and other distributions hereafter declared, made or paid on the Shares after the date of this prospectus other than participation in the Capitalisation Issue.

Share Option Scheme

Our Company has conditionally adopted the Share Option Scheme, the principal terms of which are set out in the paragraph headed "Share Option Scheme" in Appendix V to this prospectus.

General mandate to issue new Shares

Our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with a total nominal value of not more than the aggregate of:

1. 20% of the total nominal amount of the Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue; and

2. the total nominal amount of the Shares repurchased by our Company (if any) pursuant to a separate mandate to repurchase Shares and described more fully in the paragraph headed "General mandate to repurchase Shares" below.

This general mandate is in addition to the powers of our Directors to allot, issue or deal with Shares under a rights issue or an issue of Shares pursuant to the exercise of any options which may be granted under the Share Option Scheme or any other share scheme or similar arrangement for the time being adopted by our Company or any Shares allotted in lieu of the whole or part of a dividend on shares of our Company in accordance with the Articles or pursuant to a specific authority granted by our Shareholders in general meeting or pursuant to the Share Offer and the Capitalisation Issue.

This general mandate will expire:

- at the conclusion of our Company's next annual general meeting; or
- the expiration of the period within which our Company is required by the Articles or any applicable laws of Cayman Islands to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever occurs first.

For further details of this general mandate, please see the paragraph headed "Written resolutions of our sole Shareholder" in Appendix V to this prospectus.

General mandate to repurchase Shares

Our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with an aggregate nominal amount of not more than 10% of the total nominal amount of the Shares issued and to be issued immediately following completion of the Share Offer and the Capitalisation Issue.

This general mandate only relates to repurchases made on the Stock Exchange or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules and all applicable laws. A summary of the relevant requirements in the Listing Rules is set out in the paragraph headed "Repurchase of our own securities" in Appendix V to this prospectus.

This general mandate will expire:

- at the conclusion of our Company's next annual general meeting; or
- the expiration of the period within which our Company is required by the Articles or any applicable laws of Cayman Islands to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever occurs first.

For further details of this general mandate, please see the paragraph headed "Written resolutions of our sole Shareholder" in Appendix V to this prospectus.

The following discussion and analysis of our financial condition and results of operations are based on and should be read in conjunction with our financial information for each of the three years ended 31 March 2013 and the three months ended 30 June 2013, including the notes thereto, as set out in the accountant's report in Appendix I to this prospectus. Our financial information has been prepared in accordance with HKFRSs. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed and elsewhere in this prospectus, particularly in sections headed "Risk factors," and "Forward looking statements."

OVERVIEW

We are principally engaged in the manufacture and sale of cigarette-related packaging materials in the PRC. Our major products include tipping paper (接裝紙), inner frame paper (內襯紙), cigarette box frame paper (框架紙) and cigarette trademark labels (封簽紙). During the Track Record Period, we also manufactured certain amount of cigarette paper boxes (香煙外盒) for our customers and the production volume of such products had diminished significantly. The aforementioned change of product mix was a result of a strategic move of our Group to improve our profitability by, among others, assessing the profitability of the products from time to time and reducing the sales and manufacture of under-performing products with lower profit margin to better utilise its capacity on sales and manufacture of products with higher profit margin. In the determination of the strategy of product sales, our Group takes into account, among others, the future prospect of the customers and the brands of cigarette products. Having considered the high profit margin and future prospect of tipping paper and cigarette trademark labels, our Group launched these products in 2012. On the other hand, given that the profit margin earned from the sales of cigarette paper boxes for some cigarette brands of existing customers was low or even negative, the sales of such product was reduced significantly during the Track Record Period.

During the Track Record Period, our customers mainly comprised seven cigarette manufacturers, including the Guangdong Cigarette Manufacturer, the Shanghai Cigarette Manufacturer and other five Provincial Tobacco Industrial Companies, with operation in, among others, Guangdong Province, Shanghai, Guangxi Zhuang Autonomous Region, Shaanxi Province, Fujian Province and Jiangxi Province which in aggregate contributed approximately 76.1%, 85.3%, 91.8% and 92.4% of our total revenue for each of the three years ended 31 March 2011, 2012 and 2013 and the three months ended 30 June 2013 respectively. During the Track Record Period, we also supplied cigarette-related packaging materials to other customers with operation in Hong Kong, Henan Province and Guangdong Province. For the three years ended 31 March 2013 and the three months ended 30 June 2013, our sales to the largest customer, the Guangdong Cigarette Manufacturer, amounted to approximately HK$100.4 million, HK$151.0 million, HK$159.1 million and HK$30.6 million respectively, representing approximately 47.3%, 56.8%, 57.0% and 59.8% of our Group's total revenue respectively. For the three years ended 31 March 2013 and the three months ended 30 June 2013, our sales to the second largest customer, the Shanghai Cigarette Manufacturer, amounted to approximately HK$48.3 million, HK$52.3 million, HK$59.4 million and HK$8.5 million respectively, representing approximately 22.8%, 19.7%, 21.3% and 16.5% of our Group's total revenue respectively. We have established business relationship with the Guangdong Cigarette Manufacturer for more than five years and the Shanghai Cigarette Manufacturer for more than ten years. As mentioned in the section headed "Industry overview", the Guangdong Cigarette Manufacturer is one of the 16 Provincial Tobacco Industrial Companies and took up over 80% of cigarette manufacturing market in Guangdong Province in 2012 in terms of production volume; the Shanghai Cigarette Manufacturer is in the Cigarette Group and took up the whole cigarette manufacturing market in Shanghai in 2012 and monopolises the downstream cigarette manufacturing market in Shanghai.

For the three years ended 31 March 2013 and the three months ended 30 June 2013, we generated turnover of approximately HK$212.1 million, HK$265.8 million, HK$279.0 million and HK$51.1 million respectively. The CAGR from the year ended 31 March 2011 to the year ended 31 March 2013 was approximately 14.7%. A decrease in turnover of approximately HK$19.6 million or 27.7% was observed when comparing the three months ended 30 June 2013 to the corresponding period of 2012, which was, to the best knowledge of our Directors, mainly due to the postponement of purchases made by the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer from the first half of 2013 to the second half of the same year. To the best knowledge of our Directors, such postponement of purchases was due to their adjustments of internal production schedules. As far as our Directors are aware, commencing from the beginning of 2013, the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer have adjusted their respective production schedules to the effect that (i) in the first half of 2013, they reduced the production of finished goods which would be sold in the second half of 2013 and (ii) they proceeded to produce those finished goods in the second half of 2013 instead. The abovementioned adjustment of production arrangement is for better inventory management of the cigarette manufacturers and according to the understanding of our Directors, this policy also applied to other Provincial Tobacco Industrial Companies. After discussions with the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer, our Directors are not aware of any indication from them that these would be any material adverse change in their purchase plans on a year-on-year basis. According to the Ipsos Report and based on the best knowledge and belief of our Directors and our discussions with the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer at the beginning of 2013, our Directors are not aware of any significant cigarette industry reform that would result in material adverse change in the demand in the cigarette-related packaging materials market and the cigarette market in the PRC. Our Directors expect the postponement of purchases on our sales performance will be short-term and it would not have any material adverse impact on our Group on a year-on-year basis.

Subsequent to the Track Record Period, our Group recorded an unaudited revenue of approximately HK$78 million for the three months ended 30 September 2013, representing an increase of approximately 14.8% as compared with the corresponding period of 2012 and an increase of approximately 52.3% as compared to the three months ended 30 June 2013. This increase was mainly a result of the bounce back of our sales to the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer. Based on the unaudited management accounts, our Group recorded an unaudited revenue of approximately HK$129 million for the six-month period from 1 April 2013 to 30 September 2013, representing only a decrease of approximately 6.9% was noted when comparing with the corresponding period of 2012. During the same period, our net profit attributable to the owner of our Company was approximately HK$9.6 million, HK$29.7 million, HK$44.7 million and HK$8.2 million respectively. The CAGR from the year ended 31 March 2011 to the year ended 31 March 2013 was approximately 115.6%. Despite the fact that our gross profit margin improved from approximately 28.2% for the year ended 31 March 2013 to approximately 30.7% for the three months ended 30 June 2013, our net profit margin decreased slightly from approximately 16.0% for the year ended 31 March 2013 to approximately 15.9% for the three months ended 30 June 2013 as listing expense of approximately HK$3.1 million was recorded in the latter period which contributes a 6% decrease in net profit margin.

FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our results of operations and our financial condition have been, and we believe will continue to be, affected by a number of factors including those set out as follows, some of which are beyond our control.

Cigarette market in the PRC

We are a supplier of cigarette manufacturers in the PRC and therefore the cigarette consumption in the PRC directly affects the demand of cigarette-related packaging materials. According to the Ipsos Report, in spite of the restrictive measures implemented by the PRC government on the expansion of the cigarette market in the PRC in the past few years, the cigarette market in the PRC still maintained its high growth rate over the past few years and reached RMB1,167 billion in terms of retail sales value by the end of 2012, representing a growth of approximately 12.1% over that of 2011 and it is further expected that by 2017, the cigarette market in the PRC will reach RMB2,165 billion in terms of retail sales value, attaining a CAGR of approximately 13.3% over the period from 2013 to 2017, higher than that of the period from 2008 to 2012, when the CAGR was approximately 12.4%.

The market consolidation driven by the government policies

We believe that the success of our business depends on, among other factors, our ability to retain existing and secure new customers which can benefit from the market consolidation driven by the government policies.

The cigarette industry in the PRC is highly regulated and has undergone restructuring and consolidation in the recent decade, details of which are set out in the section headed "Industry overview" of this prospectus. According to the Ipsos Report, as a result of the efforts on industry consolidation, the number of cigarette manufacturers in the PRC has decreased from 200 in 2000 to 25 in 2012 and the number of cigarette brands has decreased from 155 in 2008 to 98 in 2012.

We have established business relationships with (i) the Guangdong Cigarette Manufacturer, our largest customer during the Track Record Period, for more than five years and (ii) the Shanghai Cigarette Manufacturer, our second largest customer during the Track Record Period, for more than ten years. The Guangdong Cigarette Manufacturer is one of the 16 Provincial Tobacco Industrial Companies and a state-owned cigarette manufacturer. The Shanghai Cigarette Manufacturer is the Cigarette Group and also a state-owned cigarette manufacturer. Apart from the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer, we have another five customers which are Provincial Tobacco Industrial Companies during the Track Record Period. Leveraging on being an approved supplier of the key players of the cigarette manufacturing industry of the PRC and our established business relationships with the state-owned cigarette manufacturers, our Group is expected to enjoy larger market share as a result of the expected increase in market shares of the cigarette brands for which our Group is one of their suppliers.

If we fail to retain existing and secure new customers which can benefit from the market consolidation driven by the government policies, we may lose our current market share and our revenue may decrease, which may have a negative impact on our business, financial condition and results of operations.

Competition

In general, there is no significant legal entry barrier to the industry which our Group is engaged in. Nevertheless, establishment of a production enterprise of cigarette-related packaging materials require high level of fixed-asset investments, technology, technicians and industry experience. Our competitors, whether local or foreign, may have more and better financial resources, experiences and market reputation as compared to ours. Nevertheless, we believe that the Listing would enhance our financial resources and strengthen our market position and allow us to compete with local and foreign competitors.

Product Pricing

Our Group's products are not subject to any price control or regulation by the PRC governmental authorities and accordingly the prices of our products are in general market-driven. We have to submit tender documents to cigarette manufacturers to bid for the supply contract. In our tender documents, we have to set out our proposed price of our products. In the determination of our proposed price, we would consider the historical price we offered to our customers, the costs of raw materials, our operation overheads and the profits to be earned by our Group.

Raw materials or interruptions in the supply of raw materials

The major raw materials used by our Group include base paper and aluminium foils. During the Track Record Period, the total purchases of raw materials incurred by our Group were approximately HK$193.2 million, HK$193.4 million, HK$194.7 million and HK$31.5 million respectively. The major raw materials used by our Group include base paper and aluminum foils and:

- the purchases of base paper accounted for approximately 43.9%, 38.5%, 33.7% and 37.9%; and
- the purchases of aluminium foils accounted for approximately 31.5%, 32.4%, 27.0% and 24.9%

of our Group's total purchases of raw materials for each of the three years ended 31 March 2013 and the three months ended 30 June 2013 respectively.

The average price for procuring:

- base paper (i) increased by approximately 2.5% during the year ended 31 March 2012 as compared with the average price for procuring the same during the year ended 31 March 2011; (ii) decreased by approximately 2.0% during the year ended 31 March 2013 as compared with the average price for procuring the same during the year ended 31 March 2012; and (iii) decreased by approximately 2.1% during the three months ended 30 June 2013 as compared with the average price for procuring the same during the year ended 31 March 2013; and
- aluminium foils (i) increased by approximately 12.3% during the year ended 31 March 2012 as compared with the average price for procuring the same during the year ended 31 March 2011; (ii) decreased by approximately 7.5% during the year ended 31 March 2013 as compared with the average price for procuring the same during the year ended 31 March 2012; and (iii) decreased by approximately 7.7% during the three months ended 30 June 2013 as compared with the average price for procuring the same during the year ended 31 March 2013.

Such price fluctuations will affect our production costs, which will in turn affect our gross profit margin.

Save for, among others, the demand and supply of aluminium foils, the production costs and margins of the aluminium foils manufacturers and the production and inventory lead time of the aluminium foils manufacturer which may postpone, exaggerate and/or flatten the fluctuation of price of aluminium foils, the fluctuation of price of aluminium foil observed from the market is generally in line with the fluctuation of aluminium.

The fluctuation of the price of paper pulp would usually be reflected in the purchase price of paper products, including base paper, certain months later as paper manufacturing is the downstream industry of paper pulp industry. In addition, given that there are some other factors such as, without limitation to, the production costs and margins of the paper manufacturers, the demand and supply of paper products, and the production and inventory lead time of the paper manufacturer, the effect of the price fluctuation of paper pulp on that base paper may be postponed, exaggerated and/or flattened.

Further, we currently do not have long-term contractual arrangements with our suppliers. Any unexpected shortage or delay in delivery may result in interruption in the supply of raw materials. Such interruption may affect our production schedule and we may need extra time to source raw materials from other alternative suppliers, which may in turn adversely affect our reputation and relationship with our customers. Failure to secure sufficient quantities of raw materials at the required standards for our existing operations at reasonable prices may have a material and adverse impact on our business, financial position and results of operation.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our Group's financial information has been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). The preparation of our Group's financial information in conformity with HKFRSs requires our Group's management to adopt accounting policies and make estimates and assumptions that affect amounts reported in our Group's financial information. The accountant's report in Appendix I to this prospectus sets forth these significant accounting policies in Note 2 to Section II, which are important for an understanding of our financial condition and results of operations. Some of our accounting policies involve subjective assumptions, estimates and judgements that are discussed in Note 4 to Section II of the accountant's report in Appendix I to this prospectus. In the application of our accounting policies, our management is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Our estimates and associated assumptions are based on historical experience and various factors that are considered to be relevant. Our estimates and underlying assumptions are reviewed by our management on an ongoing basis. Our management has identified below the accounting policies, estimates and judgements that they believe are critical to the preparation of the financial information. However, uncertainty about these estimates and assumptions could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Basis of presentation of financial information

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 29 April 2013. In anticipation of the Listing, we underwent the Reorganisation, pursuant to which our Company became the holding company of the companies now comprising our Group. As our Company had not been involved in any other business prior to the Reorganisation and the Reorganisation is merely a reorganisation of the Listing Business with no change in ultimate owner or business. The combined financial information of the companies now comprising our Group is presented using their carrying values under Mr. Zheng, our Controlling Shareholder for all periods presented, or since the respective dates of incorporation/establishment of the combining entities, or since the date when the combining companies first came under the control of our Controlling Shareholder, which is earlier. For the purpose of this report, the financial information of our Group as at 31 March 2011, 2012 and 2013 and 30 June 2013 and for each of the years ended 31 March 2011, 2012 and 2013 and the three months ended 30 June 2013 has been prepared on a basis in accordance with the principles of the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. Our Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of our Group's activities, as described below.

Sales of goods are recognised when a group entity has delivered products to the customer; the customer has accepted the products and collectability of the related receivables is reasonably assured.

Income from processing services is recognised when the services are rendered.

Interest income is recognised using the effective interest method.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and any impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to our Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance were charged in profit or loss during the Track Record Period in which they were incurred. Depreciation on property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Plant and Buildings	3 – 20 years
Machinery	5 – 10 years
Office equipment	3 – 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable distribution costs.

Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where our Group entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by our Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Financial assets

(a) Classification

Our Group classifies its financial assets in the following categories: loans and receivables and fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets.

Our Group's loans and receivables comprise "trade and other receivables", "restricted cash" and "cash and cash equivalents" in the combined balance sheets.

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which our Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and our Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the combined statements of comprehensive income in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit or loss as part of other income when our Group's right to receive payments is established.

Impairment of financial assets

Our Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "**loss event**") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, our Group may measure impairment on the basis of fair value of an instrument using an observable market price.

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 recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the profit or loss.

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis should be read in conjunction with the combined financial information of our Group included in the accountant's report set out in Appendix I to this prospectus. The combined financial information had been prepared in accordance with HKFRSs.

Summary of results of operations

The selected financial information from our combined income statements and combined statements of cash flows for the three years ended 31 March 2013 and the three months ended 30 June 2013, as well as our combined balance sheets as at 31 March 2011, 2012 and 2013 and 30 June 2013, set forth below are derived from our accountant's report included in Appendix I to this prospectus, and should be read in conjunction with the accountant's report and this section.

	Year ended 31 March			Three months ended 30 June	
	2011	**2012**	**2013**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Revenue	212,143	265,821	278,983	70,709	51,121
Cost of sales	(184,437)	(215,401)	(200,439)	(55,134)	(35,404)
Gross profit	27,706	50,420	78,544	15,575	15,717
Distribution costs	(2,508)	(3,340)	(3,722)	(803)	(599)
Administrative expenses	(13,021)	(13,623)	(20,760)	(1,608)	(5,224)
Other (losses)/gains – net	(95)	(65)	(80)	3	(93)
Operating profit	12,082	33,392	53,982	13,167	9,801
Finance income	824	1,696	2,280	479	713
Finance costs	(449)	(83)	–	–	–
Finance income – net	375	1,613	2,280	479	713
Profit before income tax	12,457	35,005	56,262	13,646	10,514
Income tax expense	(2,833)	(5,317)	(11,524)	(2,615)	(2,363)
Profit for the year/period attributable to owner of our Company	9,624	29,688	44,738	11,031	8,151
Other comprehensive income					
Item that will not be reclassified to profit or loss:					
Currency translation differences	2,802	3,381	485	(623)	2,451
Other comprehensive income for the year/period	2,802	3,381	485	(623)	2,451
Total comprehensive income for the year/period attributable to owner of our Company	12,426	33,069	45,223	10,408	10,602
Earnings per share					
– Basic and diluted	N/A	N/A	N/A	N/A	N/A
Dividends	–	–	27,655	–	35,975

Revenue

Set out below is a table showing our revenue by product category during the Track Record Period:

	For the year ended 31 March						For the three months ended 30 June			
	2011		2012		2013		2012		2013	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%	*HK$'000* (Unaudited)	%	*HK$'000*	%
Sales of cigarette-related packaging materials products:										
– inner frame paper (內襯紙)	142,339	67.1%	174,432	65.6%	162,476	58.2%	47,931	67.8%	27,587	54.0%
– cigarette box frame paper (框架紙)	41,975	19.8%	35,748	13.4%	26,256	9.4%	6,282	8.9%	7,320	14.3%
– tipping paper (接裝紙)	–	–	26,994	10.2%	69,044	24.7%	9,946	14.1%	11,952	23.4%
– cigarette trademark labels (封簽紙)	–	–	12,099	4.6%	17,244	6.2%	4,361	6.2%	3,688	7.2%
– cigarette paper boxes (香煙外盒)	26,627	12.6%	15,285	5.8%	3,457	1.3%	2,189	3.0%	574	1.1%
	210,941	99.5%	264,558	99.6%	278,477	99.8%	70,709	100.0%	51,121	100.0%
Sales from processing services	639	0.3%	651	0.2%	255	0.1%	–	–	–	–
Others *(Note)*	563	0.2%	612	0.2%	251	0.1%	–	–	–	–
	212,143	100.0%	265,821	100.0%	278,983	100.0%	70,709	100.0%	51,121	100.0%

Note: "Others" include but not limited to revenue generated from trading of printing materials for Shantou Lejing and sales of scrapped materials.

During the Track Record Period, the sales of inner frame paper remained our key product line and contributed about 67.1%, 65.6%, 58.2% and 54.0% of our total revenue during each of the three years ended 31 March 2013 and the three months ended 30 June 2013 respectively. Based on the method of production, the inner frame paper can be further categorised into inner aluminium paper, inner laser paper and inner vacuum metalised paper. The tipping paper is our another important product line and contributed about 10.2%, 24.7% and 23.4% of our total revenue during each of the two years ended 31 March 2013 and the three months ended 30 June 2013 respectively, since it was launched in 2012.

Our revenue increased by approximately 25.3% from approximately HK$212.1 million for the year ended 31 March 2011 to approximately HK$265.8 million for the year ended 31 March 2012, and further increased by approximately 5.0% to approximately HK$279.0 million for the year ended 31 March 2013. Our revenue decreased from approximately HK$70.7 million for the three months ended 30 June 2012 to approximately HK$51.1 million for the three months ended 30 June 2013. The increase in revenue from the year ended 31 March 2011 to the year ended 31 March 2012 was mainly contributed by the increase in sales of inner frame paper, and the launch of tipping paper and cigarette trademark labels, which was partially offset by the decrease in sales of cigarette paper boxes and cigarette box frame paper. The increase in revenue from the year ended 31 March 2012 to the year ended 31 March 2013 was mainly contributed by the increase in sales of tipping paper, and cigarette trademark labels, which was partially offset by the decrease in sales of cigarette paper boxes, inner frame paper and cigarette box frame paper. The decrease in revenue from the three months ended 30 June 2012 to the three months ended 30 June 2013 was mainly due to the decrease in sales of inner frame paper.

During the Track Record Period, we also manufactured certain amount of cigarette paper boxes (香煙外盒) for our customers, but the production volume of such products had diminished significantly because of their relatively low profit margin, which in turn was due to the fact that (i) the cigarette brands of the cigarette paper boxes our Group supplied were not under "20+10" Key Brands and were generally lower-priced than the brands under "20+10" Key Brands such that the cigarette paper boxes they purchased were low-end cigarette paper which were our major products boxes with low added value; (ii) our Group did not make any significant investments in our production facilities for the production of cigarette paper boxes as we focused our limited resources on the manufacturing of inner frame paper and cigarette box frame paper which were our major products and those production facilities currently used by our Group can only manufacture cigarette paper box products with low added value; and (iii) our Group was not able to achieve economies of scale in our production of cigarette paper boxes given that the low production volume of such products manufactured by our Group and the production volume was decreasing during the Track Record Period.

The aforementioned launch of tipping paper and cigarette trademark labels in 2012 and reduction of sales of cigarette box papers in 2012 and 2013 were results of a strategic move of our Group to improve our profitability by, among others, assessing the profitability of the products from time to time and reducing the sales and manufacture of under-performing products with lower profit margin to better utilise its capacity on sales and manufacture of products with higher profit margin. In the determination of the strategy of product sales, our Group takes into account, among others, the future prospect of the customers and the brands of cigarette products. Having considered the high profit margin and future prospect of tipping paper and cigarette trademark labels, our Group launched these products in 2012. On the other hand, given that the profit margin earned from the sales of cigarette paper boxes for some cigarette brands of existing customers was low or even negative, we reduced the sales of such product significantly during the Track Record Period.

Besides the launching of our new product of tipping paper and cigarette trademark labels, our Directors believe our increase in sales of cigarette-related packaging materials was attributable to, among others, the consolidation of the cigarette industry which benefits our major customers as illustrated under the section headed "Industry overview" of this prospectus.

The decrease in sales of inner frame paper and cigarette box frame paper in 2013 as compared to 2012 was mainly contributed by (i) the drop in sales of the captioned products to the Guangdong Cigarette Manufacturer in 2013; and (ii) the cessation of purchase by one customer with operation in Hubei Province in 2013 which used to purchase inner frame paper from us. The decrease in sales of inner frame paper for the three months ended 30 June 2013 as compared to the three months ended 30 June 2012 was mainly due to, among others, the drop of our sales of the said products to the Guangdong Cigarette Manufacturer, which, to the best knowledge of our Directors, postponed their purchases from the first half of 2013 to the second half of the same year. Despite we have won the tenders for the supply to the Guangdong Cigarette Manufacturer, the tenders only govern the selling prices for our supplies and there is no purchase quantity in the tender that the Guangdong Cigarette Manufacturer is obliged to purchase from us. From time to time the Guangdong Cigarette Manufacturer may adjust their purchase supplied by us, our Directors believe the adjustments were due to, among other factors, the adjustment of production schedule of the Guangdong Cigarette Manufacturer. As mentioned in paragraph headed "Latest development" under the sections headed "Summary" and "Financial information" of this prospectus, our sales performance improved subsequent to 30 June 2013 which was mainly due to, to the best knowledge of our Directors, the postponement of purchases made by the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer from the first half of 2013 to the second half of the same year. For the six-month period from 1 April 2013 to 30 September 2013, our Group recorded unaudited revenue of approximately HK$129 million, representing only a decrease of approximately 6.9% was observed when compared with the corresponding period of 2012. Please refer to the paragraph headed "Latest development" under this section and the section headed "Summary" of this prospectus for details.

Considering that (i) the forecasted steady growth of total revenue of cigarette-related packaging materials industry in the PRC from approximately RMB38 billion in 2013 to approximately RMB41 billion in 2017 as mentioned in the paragraph headed "Cigarette-related packaging materials market in the PRC" under the section headed "Industry overview" of this prospectus; (ii) the improvement of our sales to the Guangdong Cigarette Manufacture and the Shanghai Cigarette Manufacturer in the third quarter of 2013; and (iii) currently there is no indication from the Guangdong Cigarette Manufacturer that there would be any material adverse change of the plan of their purchase from us on a year-on-year basis, in the absence of unforeseen circumstances, we expect that the impact of aforementioned adjustments of sales plan and production schedule of the Guangdong Cigarette Manufacturer on our sales performance will be short-term and we do not expect that there would be any material adverse change in our production and sales schedule on a year-on-year basis.

Approximately 0.5%, 0.4%, 0.2% and nil of our revenue for each of the three years ended 31 March 2013 and for three months ended 30 June 2013 was attributable to the trading of printing materials with Shantou Lejing (a company which is 90% owned by Mr. Zheng Minsheng, an executive Director), our sales of scrapped materials and our provision of processing services. Under the processing arrangement, our Group is mainly responsible for providing the printing and/or adherence and colouring services on the base papers according to the product specifications provided by our customers and our customers are mainly responsible for providing the base papers and other supplies, e.g. aluminium foil and/or ink, to be used in the processing. Our Group charges processing fee from such provision of services.

During the Track Record Period, we generated revenue from the trading of printing materials with and provision of processing services with Shantou Lejing. Please refer to the paragraph headed "Deed of non-competition" under the section headed "Relationship with Controlling Shareholders" of this prospectus for further details on the trading business of Mr. Zheng Minsheng.

Since generally our selling prices were fixed when we were awarded the sales contracts after the tendering process, the change in revenue of each product categories during the three years ended 31 March 2013 and the three months ended 30 June 2013 was mainly due to the change in their respective quantities sold during the corresponding period. From the perspective of analysis by customers, the revenue increase from the year ended 31 March 2011, through 2012, to year ended 31 March 2013 was contributed by, among others, receipt of more orders from some of our existing customers and receipt of new orders from new customers. Since 2012, we have established business relationship with six additional customers, among which four are the Provincial Tobacco Industrial Companies.

The following table sets forth the breakdown of our revenue by geographical location of our customers during the Track Record Period:

	For the year ended 31 March						For the three months ended 30 June			
	2011		2012		2013		2012		2013	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%	*HK$'000* (Unaudited)	%	*HK$'000*	%
Guangdong Province	102,277	48.2%	156,104	58.7%	169,786	60.9%	40,719	57.6%	32,370	63.3%
Shanghai	49,452	23.3%	52,252	19.7%	59,437	21.3%	15,003	21.2%	8,453	16.5%
Henan Province	22,608	10.7%	12,161	4.6%	–	–	–	–	–	–
Hong Kong	10,840	5.1%	12,412	4.7%	12,097	4.3%	2,909	4.1%	2,072	4.1%
Guangxi Zhuang Autonomous Region	8,823	4.2%	17,100	6.4%	21,705	7.8%	5,238	7.4%	3,911	7.7%
Hubei Province	13,236	6.2%	9,492	3.6%	–	–	–	–	–	–
Shaanxi Province	–	–	3,168	1.2%	9,138	3.3%	4,651	6.6%	–	–
Others *(Note)*	4,907	2.3%	3,132	1.1%	6,820	2.4%	2,189	3.1%	4,315	8.4%
	212,143	100.0%	265,821	100.0%	278,983	100.0%	70,709	100.0%	51,121	100.0%

Note: "Others" include but not limited to revenue generated from customers who were located at Fujian Province and Jiangxi Province.

As set out above, our sales to the Guangdong Province and Shanghai, at which our largest customer and second largest customer throughout the Track Record Period was located respectively, in aggregate contributed approximately 71.5%, 78.4%, 82.2% and 79.8% of our total revenue during the Track Record Period.

Cost of sales

The following table sets forth the breakdown of our Group's cost of sales by cost type during the Track Record Period:

	For the year ended 31 March						For the three months ended 30 June			
	2011		2012		2013		2012		2013	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%	*HK$'000* (Unaudited)	%	*HK$'000*	%
Raw materials	166,649	90.4%	191,648	89.0%	178,254	89.0%	48,758	88.4%	31,110	87.9%
Direct labour	4,851	2.6%	7,541	3.5%	8,204	4.0%	2,305	4.2%	1,715	4.8%
Manufacturing overheads *(Note)*	12,937	7.0%	16,212	7.5%	13,981	7.0%	4,071	7.4%	2,579	7.3%
	184,437	100.0%	215,401	100.0%	200,439	100.0%	55,134	100.0%	35,404	100.0%

Note: Manufacturing overheads include but not limited to the utilities expenses, depreciation of property, plant and equipment and amortisation of prepaid operating lease.

As illustrated in the above table, the cost of raw materials was our major components of costs of sales, accounting for around 90% of our total costs of sales for each of the three years ended 31 March 2013 and the three months ended 30 June 2013, followed by manufacturing overheads and then labor costs. Base paper and aluminium foils were the two major raw materials we used in the production. The purchases of base paper accounted for approximately 43.9%, 38.5%, 33.7% and 37.9% and that of aluminium foil accounted for approximately 31.5%, 32.4%, 27.0% and 24.9% of our Group's total purchases of raw materials for each of three years ended 31 March 2013 and the three months ended 30 June 2013 respectively.

Our cost of sales increased by approximately 16.8% from approximately HK$184.4 million for the year ended 31 March 2011 to approximately HK$215.4 million for the year ended 31 March 2012. From the perspective of cost components, the increase in the cost of sales when comparing the year ended 31 March 2011 with 2012 was mainly due to the increase in the cost of raw materials, which was, in turn, mainly contributed by the increase in sales (which means more raw materials were used in the production) and increase in the average price of base papers and aluminium foil (being our two major materials for production) by approximately 2.5% and 12.3% respectively. The subsequent decrease in the cost of sales for the year ended 31 March 2013 was mainly attributable to (i) the decrease in the cost of raw materials, which in turn, was mainly caused by the change of product mix and the decrease of purchase price of base paper and aluminium foils; and (ii) the decrease in the manufacturing overheads which our Directors consider is due to, among others, the effect of our stringent cost control on production and economies of scale. The average purchase price of base paper and aluminium foils decreased by approximately 2.0% and 7.5% respectively for the year ended 31 March 2013 as compared with that of 2012. The decrease in the cost of sales of approximately 35.8% from approximately HK$55.1 million for the three months ended 30 June 2012 to approximately HK$35.4 million for the three months ended 30 June 2013 was mainly due to (i) the decrease in the cost of raw materials, which was, in turn, due to the decrease in sales by approximately 27.7% and the decrease in the average price of base papers and aluminum foils by approximately 2.1% and 7.7% respectively; and (ii) the decrease in our manufacturing overheads which we believe was attributable to, among others, our commitment of stringent cost control on production. We have prepared a sensitivity analysis of our net profit attributable to the owners of our Company under the scenario of 10% increase or decrease in the price of each of base paper and aluminium foils during the Track Record Period. Please refer to the paragraph headed "Sensitivity analysis" of this section for details.

From the perspective of product mix, the increase in cost of sales from the year ended 31 March 2011 to 2012 was mainly caused by the overall increase in sales, which was, in turn, mainly attributable to the increase in sales of inner frame paper and tipping paper. Subsequently, despite the sales increased by approximately 5.0%, our cost of sales decreased by approximately 6.9% to approximately HK$200.4 million for the year ended 31 March 2013. As mentioned in the paragraph headed "Revenue" of this section, the increase in sales was as a net result of, among others, (i) the increase in sales of tipping paper; (ii) offsetting by the decrease in sales of cigarette paper boxes and inner frame paper. As illustrated in the paragraph headed "Gross profit and gross profit margin" of this section, for the year ended 31 March 2013, the sales of tipping paper generated a gross profit margin of approximately 46.8% while the inner frame paper and the cigarette paper boxes generated a gross profit margin of approximately 20.5% and 9.2% respectively. As a result, the increase in cost of sales caused by the increase of sale of tipping paper (a relatively high gross profit margin product) has been outweighed by the effect caused by the decrease in sale of inner frame paper and cigarette paper boxes (relatively low gross profit margin products), and therefore the overall cost of sales for the year ended 31 March 2013 decreased as compared with that for the year ended 31 March 2012. The decrease in the cost of sales for the three months ended 30 June 2013 as compared to the three months ended 30 June 2012 was mainly due to the decrease in our sales of inner frame paper and the decrease in the average price of base papers and aluminium foil by approximately 2.1% and 7.7% respectively.

Gross profit and gross profit margin

Set out below is an analysis of our gross profit, gross profit margins and the percentage contribution to total revenue by major product categories during the Track Record Period:

	For the year ended 31 March									For the three months ended 30 June					
	2011			2012			2013			2012			2013		
	Gross profit	Gross profit margin	% of revenue contribution	Gross profit	Gross profit margin	% of revenue contribution	Gross profit	Gross profit margin	% of revenue contribution	Gross profit	Gross profit margin	% of revenue contribution	Gross profit	Gross profit margin	% of revenue contribution
	HK$'000	%		*HK$'000*	%		*HK$'000*	%		*HK$'000* (Unaudited)	%		*HK$'000*	%	
Gross profit analysis by cigarette-related packaging material products:															
– inner frame paper (內襯紙)	24,288	17.1%	67.1%	25,557	14.7%	65.6%	33,309	20.5%	58.2%	8,648	18.0%	67.8%	6,394	23.2%	54.0%
– cigarette box frame paper (框架紙)	7,398	17.6%	19.8%	7,800	21.8%	13.4%	6,150	23.4%	9.4%	1,327	21.1%	8.9%	1,984	27.1%	14.3%
– tipping paper (接裝紙)	–	–	–	12,145	45.0%	10.2%	32,283	46.8%	24.7%	3,825	38.5%	14.1%	6,116	51.2%	23.4%
– cigarette trademark labels (封簽紙)	–	–	–	6,643	54.9%	4.6%	7,143	41.4%	6.2%	1,780	40.8%	6.2%	1,243	33.7%	7.2%
– cigarette paper boxes (香煙外盒)	(4,233)	-15.9%	12.6%	(1,399)	-9.2%	5.8%	318	9.2%	1.3%	(5)	-0.2%	3.0%	(20)	-3.5%	1.1%
Overall gross profit margin		**13.1%**			**19.0%**			**28.2%**			**22.0%**			**30.7%**	

Depending on, inter alia, product specification, quality requirements by the customers and technology requirements in the production, the gross profit margins varied among different products categories.

During the Track Record Period, the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer were the major customers of our inner frame paper and cigarette box frame paper, while the Guangdong Cigarette Manufacturer was also the sole customer of our tipping papers and cigarette trademark labels. Taking into account (i) the Guangdong Cigarette Manufacturers and the Shanghai Cigarette Manufacturers are the leading cigarette manufacturers in the PRC; and (ii) we supplied packaging materials for certain of their major brands of cigarette products, our products in general are able to achieve high profit margin. In addition, our Directors are of the view that in general we can achieve higher gross profit from tipping papers and cigarette trademark labels than other product categories due to (i) the more advanced technology requirement in their production such as the laser punching on the tipping paper; and (ii) the Guangdong Cigarette Manufacturer, which is the leading cigarette manufacturer, as the only customer for those products during the Track Record Period and our Directors consider it can afford a higher price for our better quality and stable supply of packaging products; and we have lower gross profit from cigarette paper boxes due to the fact that (i) the cigarette brands of the cigarette paper boxes our Group supplied were not under "20+10" Key Brands and were generally lower-priced than the brands under "20+10" Key Brands such that the cigarette paper boxes they purchased were low-end cigarette paper boxes with low added value; (ii) our Group did not make any significant investments in our production facilities for the production of cigarette paper boxes as we focused our limited resources on the manufacturing of inner frame paper and cigarette box frame paper which were our major products and those production facilities currently used by our Group can only manufacture cigarette paper box products with low added value; and (iii) our Group was not able to achieve economies of scale in our production of cigarette paper boxes given that the low production volume of such products manufactured by our Group and the production volume was decreasing during the Track Record Period.

The table below sets out the respective average selling prices of each of our major products during the Track Record period:

	For the year ended 31 March			For the three months ended 30 June
	2011	2012	2013	2013
	Average selling price	Average selling price	Average selling price	Average selling price
	RMB per tonne	*RMB per tonne*	*RMB per tonne*	*RMB per tonne*
Tipping paper	– *(Note 1)*	62,375	62,299	63,981
Inner frame paper	25,983	25,881	25,971	25,016
Cigarette box frame paper	16,352	16,648	16,408	15,849
	RMB per million pieces	*RMB per million pieces*	*RMB per million pieces*	*RMB per million pieces*
Cigarette trademark labels	– *(Note 1)*	38,120	38,120	38,120
Cigarette paper boxes	119,293	115,792	47,212 *(Note 2)*	49,728 *(Note 1)*

Notes:

1. No tipping paper and cigarette trademark labels were sold by our Group during the year ended 31 March 2011.

2. Sales of some cigarette paper boxes products were ceased in 2013.

The percentage changes in the respective average prices of each of our major products as compared with those of the immediately preceding financial year are set out below:

	Year ended 31 March		Three months ended 30 June
	2012	2013	2013
	% change in average price	% change in average price	% change in average price
Tipping paper	N/A *(Note 1)*	+0.1%	+2.7%
Inner frame paper	-0.4%	+0.4%	-3.7%
Cigarette box frame paper	+1.8%	-1.4%	-3.4%
Cigarette trademark labels	N/A *(Note 1)*	0.0%	0.0%
Cigarette paper boxes	-2.9%	-2.3% *(Note 2)*	+5.3%

Notes:

1. No tipping paper and cigarette trademark labels were sold by our Group during the year ended 31 March 2011.

2. Since the sales of some cigarette paper boxes products were ceased in 2013, the above change in average price is computed with reference to those products existed in both of 2012 and 2013.

The fluctuation in the average selling prices of each of our major products is mainly due to the change in sales volume of various product items with different selling prices in each product category. The average prices of the tipping paper and the cigarette paper boxes increased during the three months ended 30 June 2013 because more sales were made on the product items of tipping paper and cigarette paper boxes with higher selling price during the period. Our Group only manufactured one type of cigarette trademark label during the Track Record Period, the price of which was specified in the tender. Accordingly, there has been no change in the average selling price of cigarette trademark labels during the Track Record Period.

Since generally our selling prices were fixed when we were awarded the sales contracts after the tendering process, the changes in gross profit and gross profit margin during the Track Record Period were, in general, mainly contributed by the factors of production, e.g. costs and consumption of raw materials, and manufacturing overheads.

Our gross profit and gross profit margin increased from approximately HK$27.7 million and 13.1% respectively, for the year ended 31 March 2011 to approximately HK$50.4 million and 19.0% respectively, for the year ended 31 March 2012, and then further increased to approximately HK$78.5 million and 28.2% respectively, for the year ended 31 March 2013. Our gross profit and gross profit margin increased from approximately HK$15.6 million and 22.0% for the three months ended 30 June 2012 to approximately HK$15.7 million and 30.7% for the three months ended 30 June 2013.

The gross profit margin for the year ended 31 March 2011 of approximately 13.1% increased to approximately 19.0% for the year ended 31 March 2012. In general, the increase was a net result of (i) reduction of raw material consumed during production which was due to, inter alia, (a) the change of product mix such as launch of tipping paper and cigarette trademark labels in 2012 and decrease in the sales of cigarette paper boxes in 2012 as compared to 2011; (b) more stringent control on production such as enhancing the operation skills of staffs to avoid wastage by internal training, imposing more stringent requirements in the inspection of finished goods from production, holding the relevant production staff accountable for any abnormal wastage of raw materials during the production and assessing the fulfillment of pre-determined levels of passing rate of finished goods and wastage of raw materials in the performance appraisal of production staff; and (ii) offsetting by the increase of raw materials price. The average prices of base paper and aluminium foils increased by approximately 2.5% and 12.3% respectively, in 2012 as compared to 2011. Subsequently, the gross profit margin further increased to approximately 28.2% for the year ended 31 March 2013, which was primarily attributable to, inter alia, (i) reduction of raw material consumed which was mainly due to, among others, (a) the change of product mix such as further increase in sales of tipping paper and cigarette trademark labels; (b) more stringent control on production; and (ii) the decrease of raw material purchase price. The average prices of base paper and aluminium foils decreased by approximately 2.0% and 7.5% respectively, in 2013 as compared to 2012. The increase of our gross profit margin for the three months ended 30 June 2013 was primarily attributable to, among others, reduction of raw materials consumed by us which was, in turn, mainly due to (i) the change of our product mix such as the further increase in our sales of tipping paper and cigarette trademark labels; (ii) the decrease in the average prices of base papers and aluminium foil by approximately 2.1% and 7.7% respectively; and (iii) more stringent cost control on production.

During the Track Record Period, we implemented various measures to tighten our control on the production, including but limited to (i) imposing more stringent requirements in the inspection of finished goods from production; (ii) holding the relevant production staff inspection accountable for any abnormal wastage of raw materials during the production; and (iii) assessing the fulfillment of pre-determined levels of passing rate of finished goods and wastage of raw materials in the performance appraisal of production staff.

From the perspective of product mix, the increase in our gross profit and gross profit margin in 2012 as compared with that of 2011 was mainly attributable to (i) the launch of two new products, i.e. tipping paper and cigarette trademark labels, which generated relatively higher gross profit margin than the existing products; (ii) decrease in sales of cigarette paper boxes (generating negative gross profit margin) in addition to the improvement of its gross profit margin for the year ended 31 March 2012; (iii) the overall improvement of the gross profit margin of our existing products (except for the inner frame paper). The further increase of our gross profit and gross profit margin in 2013 as compared with that of 2012 for the three months ended 30 June 2013 as compared with that of the corresponding period of 2012 was mainly driven by overall improvement of the gross profit margin of all of our products (except for cigarette trademark labels).

From the perspective of impact of fluctuation of raw material prices, assuming other factors remaining constant, (i) an increase of approximately 2.5% in average purchase price of base paper in the year ended 31 March 2012 as compared to the year ended 31 March 2011 would result in a decrease in gross profit margin by approximately 0.7% in the year ended 31 March 2012 as compared to the year ended 31 March 2011; (ii) a decrease of approximately 2.0% in average purchase price of base paper in the year ended 31 March 2013 as compared to the year ended 31 March 2012 would result in an increase in gross profit margin by approximately 0.5% in the year ended 31 March 2013 as compared to the year ended 31 March 2012; and (iii) a decrease of approximately 2.1% in average purchase price of base paper for the three months ended 30 June 2013 as compared to the year ended 31 March 2013 would result in an increase in gross profit margin by approximately 0.4% for the three months ended 30 June 2013 as compared to the year ended 31 March 2013. Regarding aluminium foil, assuming other factors remain constant, (i) an increase of approximately 12.3% in average purchase price in the year ended 31 March 2012 as compared to the year ended 31 March 2011 would result in a decrease in gross profit margin by approximately 2.9% in the year ended 31 March 2012 as compared to the year ended 31 March 2011; and (ii) a decrease of approximately 7.5% in average purchase price in the year ended 31 March 2013 as compared to the year ended 31 March 2012 would result in an increase in gross profit of approximately 1.3% in the year ended 31 March 2013 as compared to the year ended 31 March 2012; and (iii) a decrease of approximately 7.7% in average purchase price for the three months ended 30 June 2013 as compared to the year ended 31 March 2013 would result in an increase in gross profit margin by approximately 1.1% for the three months ended 30 June 2013 as compared to the year ended 31 March 2013.

The gross profit margin of inner frame paper decreased from approximately 17.1% for the year ended 31 March 2011 to the approximately 14.7% for the year ended 31 March 2012. The decrease was primarily attributable to (i) the change of underlying product mix involving the reduction in the sales of those products with relatively high gross profit margin in 2012; and (ii) the increase in the purchase prices of the raw materials. The average purchase prices of aluminium foils, the major material of inner frame paper, increased by approximately 12.3% in 2012 as compared to 2011. Subsequently, the increase in gross profit margin of inner frame paper to approximately 20.5% for the year ended 31 March 2013 was mainly due to (i) the decrease in prices of raw materials; and (ii) the reduction of raw materials consumed during the production which our Directors consider it is the result of, among others, more stringent control on the production. The average purchase prices in aluminium foils decreased by approximately 7.5% in 2013 as compared to 2012.

The gross profit margin of cigarette box frame paper increased from approximately 17.6% for the year ended 31 March 2011, through approximately 21.8% for the year ended 31 March 2012, and then further to approximately 23.4% for the year ended 31March 2013. The increase in gross profit margin in 2012 as compared with 2011 was primarily due to the reduction of raw materials consumed during the production which our Directors believe it is due to, among others, more stringent control on production, while the increase in 2013 as compared with 2012 was primarily due to reduction in the purchase prices of raw materials.

The increase of gross profit of tipping paper from approximately 45.0% for the year ended 31 March 2012 to approximately 46.8% for the year ended 31 March 2013 was mainly attributable to economies of scale which was in turn, due to the significant increase in sales and manufacture of tipping paper in 2013. The decrease in the gross profit margin of cigarette trademark labels from approximately 54.9% for the year ended 31 March 2012 to approximately 41.4% for the year ended 31 March 2013 and to approximately 33.7% for the three months ended 30 June 2013 was mainly resulted from the change of product specification of recurring items as requested by the customer to add one laser label at the back of each of cigarette trademark labels which meant additional costs for the production.

In general, the negative gross profit of cigarette paper boxes for the two years ended 31 March 2011 and 2012 and the three months ended 30 June 2013 was primarily attributable to (i) diseconomies of scale; and (ii) provision for impairment of inventories. The production cost of the cigarette paper boxes absorbed the production overheads of the factory plant, e.g. the depreciation of the plant, amortisation of the prepaid operating lease of the land use right. Given the production volume as well as the sale of the cigarette paper boxes was small for the captioned periods, the production of cigarette paper boxes suffered from diseconomies of scale which led to higher average production cost. Starting from 2012 with the launch of tipping paper, the tipping paper took up a large proportion of the manufacturing overheads due to its large and increasing amount of sale and production volume, which effectively led to the dilution of overhead absorbed by cigarette paper boxes, and improved the profitability of the cigarette paper box in 2013.Nonetheless, the further decrease in our sales of cigarette paper boxes for the three months ended 30 June 2013 rendered diseconomies of scale on production which, together with the inventory provision of approximately HK$0.1 million, resulted in the negative gross profit of cigarette paper boxes. The lower gross profit margin for the year ended 31 March 2011 as compared to that of 2012 was mainly attributable to extra production cost incurred in 2011 for replenishment of a batch of finished products which were damaged during delivery. With respect to finished goods of cigarette paper boxes and the raw materials for their production, impairment provision has been made for certain slow-moving inventories which have been stored for more than one year and writing down the costs of certain inventories to their net realisable values. Provision has been made of approximately HK$0.3 million, HK$0.7 million and HK$0.1 million for each of the two years ended 31 March 2011 and 2012 and the three months ended 30 June 2013 respectively, and expensed in cost of sales for the corresponding periods. As those inventories with impairment provision have been either subsequently utilised in the production or sold, provision of approximately HK$0.2 million has been reversed and credited to the cost of sales for the year ended 31 March 2013.

Distribution costs

Distribution costs primarily consist of (i) transportation expenses for the delivery of our products to our customers; (ii) travelling expenses of our staff responsible for the sales and distribution activities; and (iii) insurance expenses. The following table sets out the breakdown of our Group's distribution costs for the years/periods indicated:

	For the year ended 31 March						For the three months ended 30 June			
	2011		2012		2013		2012		2013	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%	*HK$'000* (Unaudited)	%	*HK$'000*	%
Transportation expenses	2,078	82.8%	2,877	86.1%	3,166	85.1%	726	90.4%	459	76.6%
Travelling expenses	292	11.6%	343	10.3%	313	8.4%	36	4.5%	86	14.4%
Insurance expenses	87	3.5%	109	3.3%	144	3.9%	12	1.5%	10	1.7%
Others	51	2.1%	11	0.3%	99	2.6%	29	3.6%	44	7.3%
	2,508	100.0%	3,340	100.0%	3,722	100.0%	803	100.0%	599	100.0%

Our Group's total distribution costs were approximately HK$2.5 million, HK$3.3 million, HK$3.7 million and HK$0.6 million for each of the three years ended 31 March 2013 and the three months ended 30 June 2013 respectively, which accounted for about 1.2%, 1.3%, 1.3% and 1.2% of our Group's revenue respectively.

Administrative expenses

Administrative expenses primarily consist of (i) research and development costs which mainly include raw material cost and staff costs for the purpose of research and development; (ii) listing expenses; (iii) staff salaries and allowances relating to our Group's management and administrative personnel; (iv) depreciation and amortisation; (v) travelling expenses; (vi) office and utilities expenses; and (vii) other tax expenses. The following table sets out the breakdown of our Group's administrative expenses for the years/periods indicated:

	For the year ended 31 March						For the three months ended 30 June			
	2011		2012		2013		2012		2013	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%	*HK$'000* (Unaudited)	%	*HK$'000*	%
Research & development expenses	6,768	52.0%	6,731	49.4%	8,743	42.1%	–	–	654	12.5%
Listing expenses	–	–	–	–	4,653	22.4%	–	–	3,145	60.2%
Staff salaries and allowances	1,744	13.4%	2,663	19.5%	3,154	15.2%	697	43.3%	498	9.5%
Depreciation and amortisation	1,639	12.6%	1,812	13.3%	1,421	6.9%	258	16.0%	456	8.7%
Travelling expenses	801	6.2%	179	1.3%	510	2.5%	95	5.9%	74	1.4%
Office and utilities expenses	788	6.0%	932	6.8%	653	3.1%	105	6.5%	103	2.0%
Other tax expenses	716	5.5%	842	6.2%	901	4.3%	206	12.8%	182	3.5%
Others *(Note)*	565	4.3%	464	3.5%	725	3.5%	247	15.5%	112	2.2%
	13,021	100.0%	13,623	100.0%	20,760	100.0%	1,608	100.0%	5,224	100.0%

Note: "Others" includes bank charges and staff training expenses.

Our Group's total administrative expenses amounted to approximately HK$13.0 million, HK$13.6 million, HK$20.8 million and HK$5.2 million for each of the three years ended 31 March 2013 and the three months ended 30 June 2013 respectively, which accounted for about 6.1%, 5.1%, 7.4% and 10.2% of our Group's total revenue respectively.

Different types of technology on printing are required for the production of our products. Our Directors believe that continuous research and development of our products and our technical know-how in our production process are important for our Group to maintain our competitiveness. Our Group keeps abreast of the latest market development through our customers and our own research. Set out below is an analysis of expense components of research and development expenses for the years/periods indicated:

	For the year ended 31 March						For the three months ended 30 June			
	2011		2012		2013		2012		2013	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%	*HK$'000* (Unaudited)	%	*HK$'000*	%
Raw materials	5,411	79.9%	6,070	90.2%	7,652	87.5%	–	–	149	22.8%
Staff salaries and allowances	735	10.9%	330	4.9%	585	6.7%	–	–	505	77.2%
Others	622	9.2%	331	4.9%	506	5.8%	–	–	–	–
	6,768	100.0%	6,731	100.0%	8,743	100.0%	–	100.0%	654	100.0%

We submitted a patent application on the production method of laser inner frame paper for cigarette packaging (香煙包裝使用的激光全息鐳射內襯紙的生產方法) on 14 December 2010 and has obtained a patent of the same in July 2012. During the Track Record Period, we conducted research and development on various technical know-how. Please refer to the paragraph headed "Research and development" under the section headed "Business" of this prospectus for details of our research and development, and technical know-how.

The total estimated listing expenses (including underwriting commission) in connection with the Share Offer was approximately HK$26.4 million based on the mid-point of the stated range of the Offer Price. For the year ended 31 March 2013, our Group incurred listing expenses amounting to approximately HK$4.7 million, which was fully charged to the profit and loss accounts. For the three months ended 30 June 2013, we incurred listing expenses of approximately HK$5.8 million, of which HK$3.1 million was charged to the profit and loss accounts of our Group and approximately HK$2.7 million was capitalised. It is estimated that listing fees in the sum of approximately HK$5.8 million will be capitalised after the Listing and the remaining listing fees in the sum of approximately HK$10.1 million will be charged to the profit and loss accounts of our Group for the nine months ending 31 March 2014.

Other losses/(gains) – net

Other losses/(gains) – net mainly consist of (i) net foreign exchange losses/(gains) arising from day-to-day operation; and (ii) fair value losses arising from the investment in the shares of listed companies in exchange markets of the PRC. The following table sets out the breakdown of our Group's other losses/(gains) – net for the years/periods indicated:

	For the year ended 31 March			For the three months ended 30 June	
	2011	**2012**	**2013**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Foreign exchange losses/(gains), net	95	65	55	(15)	46
Disposal and fair value losses of financial assets at fair value through profit or loss	–	–	25	12	47
	95	65	80	(3)	93

Finance income-net

Finance income-net primarily consists of (i) interest income derived from bank deposits; (ii) interest income derived from other financial assets; and (iii) netting with interest expenses on borrowings. The following table sets out the breakdown of our Group's finance income-net for the years/periods indicated:

	For the year ended 31 March			For the three months ended 30 June	
	2011	**2012**	**2013**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Finance income					
– Interest income derived from bank deposits	824	1,477	1,746	436	713
– Interest income derived from other financial assets	–	219	534	43	–
	824	1,696	2,280	479	713
Finance costs					
– Interest expenses on borrowings	(449)	(83)	–	–	–
	375	1,613	2,280	479	713

Net profit

Our net profit for each of the three years ended 31 March 2013 and the three months ended 30 June 2013 was approximately HK$9.6 million, HK$29.7 million, HK$44.7 million and HK$8.2 million respectively. Our net profit margin was approximately 4.5%, 11.2%, 16.0% and 15.9% for each of the three years ended 31 March 2013 and the three months ended 30 June 2013 respectively. The increase in our net profit as well as our net profit margin from 2011 to 2012 was mainly due to (i) increase in our gross profits; and (ii) better cost control on distribution costs and administrative expenses as these expenses represented a relatively low percentages of our revenue during the Track Record Period. For each of the three years ended 31 March 2011, 2012 and 2013 and the three months ended 30 June 2013, the distribution costs represented approximately 1.2%, 1.3%, 1.3% and 1.2% of our revenue of the corresponding year/period respectively, and administrative expenses represented about 6.1%, 5.1%, 7.4% and 10.2% of our revenue of the corresponding year/(period) respectively. For a detailed analysis of gross profit, please refer to the paragraph headed "Gross profit and gross profit margin" of this section. For a detailed comparison on year-on-year basis/period-on-period of distribution costs and administrative expenses during the Track Record Period, please refer to the paragraphs headed "Year ended 31 March 2011 compared to year ended 31 March 2012", "Year ended 31 March 2011 compared to year ended 31 March 2012" and "The three months ended 30 June 2013 compared to the three months ended 30 June 2012" of this section.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year ended 31 March 2012 compared to year ended 31 March 2011

Revenue

Revenue increased by approximately 25.3% from approximately HK$212.1 million for the year ended 31 March 2011 to approximately HK$265.8 million for the year ended 31 March 2012. The increase in revenue was mainly the net effect of (i) the increase in sales of inner frame paper by approximately 22.6% from approximately HK$142.3 million for the year ended 31 March 2011 to approximately HK$174.4 million for the year ended 31 March 2012; (ii) launch of tipping paper and cigarette trademark labels which contributed additional sales of approximately HK$39.1 million in aggregate; and (iii) decrease in sales of cigarette paper boxes by 42.6% from approximately HK$26.6 million for the year ended 31 March 2011 to approximately HK$15.3 million for the year ended 31 March 2012.

The increase in sales of inner frame paper was mainly attributable to more sales made to the Guangdong Cigarette Manufacturer, a state-owned cigarette manufacturer and our largest customer during the Track Record Period. The launch of tipping paper and cigarette trademark labels and reduction of sales of cigarette paper boxes was the consequence of the strategic move of our Group to improve our profitability by, amongst others, increasing the sales of those products with higher gross profit margin, e.g. tipping paper and cigarette trademark labels, and reducing the sales of those products with lower gross profit margin, e.g. cigarette paper boxes. The sales of tipping paper and cigarette trademark labels was made to the Guangdong Cigarette Manufacturer.

In term of the geographical location of our customers, the sales increase was mainly the net result of (i) increase in sales to Guangdong Province by approximately HK$53.8 million which was, in turn, due to more sales made to the Guangdong Cigarette Manufacturer; (ii) increase in sales to Guangxi Zhuang Autonomous Region by approximately HK$8.3 million which was attributable to more sales of inner frame paper, which was, in turn, primarily due to more purchase made by one Guangxi state-owned cigarette manufacturer; and (iii) decrease in sales to Henan Province by approximately HK$10.4 million which was, in turn, due to less sales of cigarette paper boxes made to the customers there, as a result of the strategic move of our Group to improve our profitability.

Besides the launching of our new product of tipping paper and cigarette trademark labels, our Directors believe our increase in sales of cigarette-related packaging materials was attributable to, amongst others, the consolidation of the cigarette industry which benefits our major customers as illustrated under the section headed "Industry overview" of this prospectus.

We commenced our business with 3 new state-owned cigarette manufacturers which contributed, in aggregate, HK$3.8 million of sales during the year ended 31 March 2012.

Cost of sales

Cost of sales increased by approximately 16.8%, from approximately HK$184.4 million for the year ended 31 March 2011 to approximately HK$215.4 million for the year ended 31 March 2012, primarily due to the increase in production volume, as a result of increase in sales, during the year. Another reason for the increase in the cost of sales was the increase in purchase price of our major raw materials, i.e. base paper and aluminium foils. The average purchase price of base paper and aluminium foils increased by approximately 2.5% and 12.3% respectively for the year ended 31 March 2012 as compared to that of 2011.

Gross profit and gross profit margin

Gross profit and gross profit margin increased from approximately HK$27.7 million and 13.1% for the year ended 31 March 2011 to approximately HK$50.4 million and 19.0% respectively, for the year ended 31 March 2012. The increase in both of our gross profit and gross profit margin was mainly attributable to (i) launch of two new products, i.e. tipping paper and cigarette trademark labels, which achieved gross profit margin of approximately 45.0% and 54.9% respectively, relatively higher gross profit margin than the existing products; (ii) decrease in sales of cigarette paper boxes (generating negative gross profit margin) in addition to the improvement of its gross profit margin from approximately -15.9% for the year ended 31 March 2011 to approximately -9.2% for the year ended 31 March 2012; and (iii) our more stringent control on the production.

Distribution costs

Distribution costs increased by approximately HK$0.8 million or approximately 33.2% from approximately HK$2.5 million for the year ended 31 March 2011 to approximately HK$3.3 million for the year ended 31 March 2012. The increase was primarily a result of the increase in transportation expenses (for the delivery of our products to our customers) by approximately HK$0.8 million, which was, in turn, in line with the increase in our revenue across the years.

Administrative expenses

Administrative expenses increased by approximately HK$0.6 million or approximately 4.6% from approximately HK$13.0 million for the year ended 31 March 2011 to approximately HK$13.6 million for the year ended 31 March 2012. The increase was mainly due to increase in staff salaries and allowances by approximately HK$0.9 million which was, in turn, the result of increment in salary and welfare, and staff training.

Other losses-net

Other losses-net decreased by approximately HK$30,000 or approximately 31.6% from approximately HK$95,000 for the year ended 31 March 2011 to approximately HK$65,000 for the year ended 31 March 2012. The decrease was due to the decrease in foreign exchange losses which arised from day-to-day operation.

Finance income-net

Our finance income-net increased by approximately HK$1.2 million or approximately 330.1% from approximately HK$0.4 million for the year ended 31 March 2011 to approximately HK$1.6 million for the year ended 31 March 2012. The increase was mainly due to the increase in interest income derived from bank balance which was, in turn, the result of larger average bank balances of latter period.

Net profit

Our net profit increased by approximately HK$20.1 million or approximately 208.5% from approximately HK$9.6 million for the year ended 31 March 2011 to approximately HK$29.7 million for the year ended 31 March 2012. The increase was mainly due to the improvement of gross profit across the years. For a detailed analysis of gross profit, please refer to the paragraph headed "Gross profit and gross profit margin" of this section.

Year ended 31 March 2013 compared to year ended 31 March 2012

Revenue

Revenue increased by approximately 5.0% from approximately HK$265.8 million for the year ended 31 March 2012 to approximately HK$279.0 million for the year ended 31 March 2013. The increase in revenue was mainly the net effect of (i) the further increase in sales of tipping paper and cigarette trademark labels which were newly launched in 2012 and contributed additional sales of HK$47.2 million in aggregate; (ii) the decrease in sales of inner frame paper by approximately HK$12.0 million or 6.9% and the decrease in sales of cigarette box frame paper by approximately HK$9.5 million or 26.6%, due to drop in sales of the captioned products to the Guangdong Cigarette Manufacturer in 2013; and (iii) further decrease of sales of cigarette paper boxes by approximately 77.4% from approximately HK$15.3 million for the year ended 31 March 2012 to approximately HK$3.5 million for the year ended 31 March 2013.

Similar to the trend of the year ended 31 March 2012 as compared to the year ended 31 March 2011, the further increase in sales of tipping paper and cigarette trademark labels were mainly attributable to (i) more purchases were made by the Guangdong Cigarette Manufacturer; and (ii) the effect of our Group's strategic move for profitability improvement.

In term of the geographical location of our customers, the sales increase was mainly the net result of (i) increase in sales to Guangdong Province by approximately HK$14.1 million which was, in turn, due to more sales made to the Guangdong Cigarette Manufacturer; (ii) increase in sales to Shanghai by approximately HK$7.2 million mainly attributable to more purchase made by the Shanghai Cigarette Manufacturer; (iii) increase in sales to Guangxi Zhuang Autonomous Region by approximately HK$4.6 million, which was, in turn, primarily due to more purchase made by one Guangxi state-owned cigarette manufacturer; (iv) increase in sales to Shaanxi Province by approximately HK$6.0 million primarily due to more purchase made by one Shaanxi state-owned cigarette manufacturer; (v) decrease in sales to Henan Province which was, in turn, due to cessation of sales of cigarette paper boxes was made to the customers there, as a result of the strategic move of our Group to improve our profitability; and (vi) the cessation of sales to the customer with operation in Hubei Province.

Besides our strategic move of increase of sales of products with high margin and sales reduction of those products with low margin, since our major customers include state-owned cigarette manufacturers, such as Guangdong Cigarette Manufacturer and Shanghai Cigarette Manufacturer, our Directors believe the increase in sales in cigarette-related packaging materials was attributable to, among others, our major customers benefit under the consolidation of the cigarette industry as being illustrated under the section headed "Industry overview" of this prospectus.

We commenced our business with 1 new state-owned cigarette manufacturer which contributed, in aggregate, HK$3.4 million of our sales during the year ended 31 March 2013.

Cost of sales

Cost of sales decreased by approximately 6.9%, from approximately HK$215.4 million for the year ended 31 March 2012 to approximately HK$200.4 million for the year ended 31 March 2013, primarily due to the decreases in purchase price of base paper and aluminium foils (both of them are our major raw materials) and the change of our product mix. The average purchase price of base paper and aluminium foil decreased by approximately 2.0% and 7.5% respectively for the year ended 31 March 2013 as compared with that of 2012.

When comparing our product mix for the year ended 31 March 2012 and 2013, the increase in sales was as a result of, among others, (i) increase in sales of tipping paper; and (ii) decrease in sales of cigarette paper boxes and inner frame paper. As illustrated in the next paragraph headed "Gross profit and gross profit margin", for the year ended 31 March 2013, the sales of tipping paper achieved a gross profit margin of approximately 46.8% while that of inner frame paper and cigarette paper boxes achieved a gross profit margin of approximately 20.5% and 9.2% respectively. As a result, the increase in cost of sales levied by the increase in sales of tipping paper (a relatively high gross profit margin product) has been outweighed by the decrease in sales of inner frame paper and cigarette paper boxes (relatively low gross profit margin products) and overall cost of sales for the year ended 31 March 2013 decreased as compared with that for the year ended 31 March 2012.

Gross profit and gross profit margin

Gross profit and gross profit margin increased from approximately HK$50.4 million and 19.0% respectively, for the year ended 31 March 2012 to approximately HK$78.5 million and 28.2% respectively, for the year ended 31 March 2013. The increase in both of our gross profit and gross profit margin was mainly driven by overall improvement of the gross profit margin of all of our products (except for cigarette trademark labels), which was, in turn, due to, inter alia, the decrease in average purchase price of base paper and aluminium foil by approximately 2.0% and 7.5% respectively. The decrease in gross profit margin of cigarette trademark labels was resulted by the change of product specification of recurring items by the customer to add one laser label at the back of each of cigarette trademark labels as requested by the customer which meant additional costs for the production.

Distribution costs

Distribution costs increased by approximately HK$0.4 million or approximately 11.4% from approximately HK$3.3 million for the year ended 31 March 2012 to approximately HK$3.7 million for the year ended 31 March 2013. The increase was primarily a result of the increase in transportation expenses (for the delivery of our products to our customers) by approximately HK$0.3 million, which was, in turn, in line with the increase in our revenue across the years.

Administrative expenses

Administrative expenses increased by approximately HK$7.1 million or approximately 52.4% from approximately HK$13.6 million for the year ended 31 March 2012 to approximately HK$20.8 million for the year ended 31 March 2013. The increase was primarily attributable to (i) increase of research and development by approximately HK$2.0 million; (ii) listing expenses of approximately HK$4.7 million; and (iii) increase in staff salaries and allowances by approximately HK$0.5 million which was, in turn, the result of salary and welfare increment.

Other losses-net

Other losses-net increased by approximately HK$15,000 or approximately 23.1% from approximately HK$65,000 for the year ended 31 March 2012 to approximately HK$80,000 for the year ended 31 March 2013. The increase was a net result of (i) disposal and fair value losses arising from the investment in the shares of listed companies in exchange markets of the PRC of approximately HK$25,000; and (ii) the decrease in foreign exchange loss, which was arising from our daily operation, by approximately HK$10,000.

Finance income-net

Our finance income-net increased by approximately HK$0.7 million or approximately 41.4% from approximately HK$1.6 million for the year ended 31 March 2012 to approximately HK$2.3 million for the year ended 31 March 2013. The increase was mainly due to (i) the increase in interest income derived from bank deposits of approximately HK$0.3 million which was, in turn, as a result of larger average bank balances of latter period; and (ii) the increase in interest income derived from investment of other financial assets of approximately HK$0.3 million. We have ceased the investment of other financial assets during the year ended 31 March 2013.

Net profit

Our net profit increased by approximately HK$15.1 million or approximately 50.7% from approximately HK$29.7 million for the year ended 31 March 2012 to approximately HK$44.7 million for the year ended 31 March 2013. The increase was mainly due to the improvement of gross profit margin across the years. For details of analysis of gross profit, please refer to the paragraph headed "Gross profit and gross profit margin" of this section.

The three months ended 30 June 2013 compared to the three months ended 30 June 2012

Revenue

Revenue decreased by approximately 27.7% from approximately HK$70.7 million for the three months ended 30 June 2012 to approximately HK$51.1 million for the three months ended 30 June 2013. The decrease in revenue was mainly attributable to (i) decrease in sales of the inner frame paper of approximately HK$20.3 million due to, among others, drop of sales of captioned product to the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer; (ii) further decrease in sales of cigarette paper boxes of approximately HK$1.6 million; partially offset by (iii) increase in sales of tipping paper and cigarette box frame paper of approximately HK$3.0 million in aggregate mainly due to the increase in sales to the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer.

In term of the geographical location of our customers, the sales decrease was mainly attributable to (i) the decrease in sales to Guangdong Province by approximately HK$8.3 million which was, in turn, mainly due to the drop of sales to the Guangdong Cigarette Manufacturer; (ii) the decrease in sales to Shanghai by approximately HK$6.6 million, which was mainly contributed by the drop of sales to the Shanghai Cigarette Manufacturer; and (iii) the decrease in sales to Shaanxi Province by approximately HK$4.7 million, which was mainly due to, to the best knowledge of our Directors, the short-term adjustment of purchase plan of one Shaanxi state-owned cigarette manufacturer.

The decrease in revenue for the three months ended 30 June 2013 as compared to the corresponding period of 2012 was mainly due to the postponement of the purchase made by the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer from the first half of 2013 to the second half of the same year. To the best knowledge of our Directors, such postponement of purchases was due to their adjustments of internal production schedules. As far as our Directors are aware, commencing from the beginning of 2013, the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer have adjusted their respective production schedules to the effect that (i) in the first half of 2013, they reduced the production of finished goods which would be sold in the second half of 2013 and (ii) they proceeded to produce those finished goods in the second half of 2013 instead. The abovementioned adjustment of production arrangement is for better inventory management of the cigarette manufacturers and according to the understanding of our Directors, this policy also applied to other Provincial Tobacco Industrial Companies. After discussions with the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer, our Directors are not aware of any indication from them that these would be any material adverse change in their purchase plans on a year-on-year basis. According to the Ipsos Report and based on the best knowledge and belief of our Directors and our discussions with the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer at the beginning of 2013, our Directors are not aware of any significant cigarette industry reform that would result in material adverse change in the demand in the cigarette-related packaging materials market and the cigarette market in the PRC. Our Directors expect the effect of postponement of purchases on our sales performance will be short-term and it would not have any material adverse impact on our Group on a year-on-year basis.

As mentioned under the paragraph headed "Latest development" under the sections headed "Summary" and "Financial information" of this prospectus, our sales performance improved subsequent to 30 June 2013 which mainly due to the bounce back of sales to the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer. Based on the unaudited management accounts, the sales for the six months ended 30 September 2013 remained in the comparable level of the corresponding period in 2012. Please refer to the paragraph headed "Latest development" under the sections headed "Summary" and "Financial information" of this prospectus for details.

Cost of sales

Cost of sales decreased by approximately 35.8% from approximately HK$55.1 million for the three months ended 30 June 2012 to approximately HK$35.4 million for the three months ended 30 June 2013, primarily due to (i) the decreases in cost of raw materials, which was, in turn, due to decrease in sales by approximately 27.7% and the decrease on the average prices of base paper and aluminium foil; and (ii) decrease in manufacturing overheads which we believed to be contributed by, among others, our commitment of stringent costs control on production.

Gross profit and gross profit margin

Gross profit and gross profit margin increased from approximately HK$15.6 million and 22.0% respectively, for the three months ended 30 June 2012 to approximately HK$15.7 million and 30.7% respectively, for the three months ended 30 June 2013. The increase in both of our gross profit and gross profit margin for the three months ended 30 June 2013 was mainly due to, among others, reduction of raw material consumed which was mainly due to, among others, (i) the change of product mix such as further increase in sales of tipping paper and cigarette trademark labels; (ii) the decrease in average prices of base papers and aluminium foil by approximately 2.1% and 7.7% respectively; and (iii) more stringent control on production. The decrease in gross profit margin of cigarette trademark labels was attributable to the change of product specification of recurring items by a customer to add one laser label at the back of each of cigarette trademark labels as requested by that customer which meant additional costs for the production.

Distribution costs

Distribution costs decreased by approximately HK$0.2 million or approximately 25.4% from approximately HK$0.8 million for the three months ended 30 June 2012 to approximately HK$0.6 million for the three months ended 30 June 2013. The decrease was primarily a result of the decrease in transportation expenses (for the delivery of our products to our customers) by approximately HK$0.3 million, which was, in turn, due to the drop in our revenue across the periods.

Administrative expenses

Administrative expenses increased by approximately HK$3.6 million or approximately 224.9% from approximately HK$1.6 million for the three months ended 30 June 2012 to approximately HK$5.2 million for the three months ended 30 June 2013. The increase was primarily attributable to the listing expenses of approximately HK$3.1 million.

Other losses-net

The other losses-net for the three months ended 30 June 2013 represented (i) disposal and fair value losses arising from the investment in the shares of listed companies in exchange markets of the PRC of approximately HK$47,000; and (ii) the foreign exchange loss, which was arising from our daily operation, of approximately HK$46,000.

Finance income-net

Our finance income-net increased by approximately HK$0.2 million or approximately 48.9% from approximately HK$0.5 million for the three months ended 30 June 2012 to approximately HK$0.7 million for the three months ended 30 June 2013. The increase was mainly due to the increase in interest income derived from bank deposits which was, in turn, as a result of larger average bank balances of latter period.

Net profit

Our net profit decreased by approximately HK$2.9 million or approximately 26.1% from approximately HK$11.0 million for the three months ended 30 June 2012 to approximately HK$8.2 million for the three months ended 30 June 2013. The decrease was mainly due to the listing expense of approximately HK$3.1 million recorded in the latter period.

Major balance sheet items

Property, plant and equipment

Property, plant and equipment consist of plant and buildings, machinery and office equipment. As at 31 March 2011, 2012 and 2013 and 30 June 2013, the carrying amount of our property, plant and equipment amounted to approximately HK$41.7 million, HK$41.2 million, HK$45.5 million and HK$49.4 million respectively.

The decrease in property, plant and equipment as at 31 March 2012 compared to 31 March 2011 of approximately HK$0.5 million was primarily due to annual depreciation charge. The increase in property, plant and equipment as at 31 March 2013 compared to 31 March 2012 of approximately HK$4.4 million was the net effect of (i) addition of buildings, and machinery of approximately HK$9.1 million in aggregate as the results of the purchases of one laser punching machine and renovation of building; and (ii) annual depreciation charge of approximately HK$4.9 million. The increase in property, plant and equipment as at 30 June 2013 compared to 31 March 2013 of approximately HK$3.9 million was the net effect of (i) addition of building of approximately HK$4.6 million mainly due to the renovation of the building; and (ii) annual depreciation charge of approximately HK$1.4 million.

As at 31 March 2011, the plant and building with net book value totaling approximately HK$16.8 million were pledged as collateral for our borrowing of approximately HK$5.9 million. No property, plant and equipment were pledged as collateral as at 31 March 2012 and 2013 and 30 June 2013. Please refer to the paragraph headed "Indebtedness" of this section for details of our indebtedness.

Prepaid operating lease

Prepaid operating lease represents our interests in land use rights of the land parcel on which our current production base is located and the adjacent land parcel. As at 31 March 2011, 2012 and 2013 and 30 June 2013, the carrying amount of prepaid operating lease amounted to approximately HK$7.0 million, HK$7.1 million, HK$7.0 million and HK$7.0 million respectively. The change in carrying values across the years was due to the exchange differences and annual amortisation. The aforementioned land use rights are held on lease for the period of 50 years in the PRC.

As at 31 March 2011, prepaid operating lease with net book value totaling approximately HK$5.1 million more pledged as collateral for our borrowing of approximately HK$5.9 million. No prepaid operating lease was pledged as collateral as at 31 March 2012 and 2013 and 30 June 2013. Please refer to the paragraph headed "Indebtedness" of this section for details of our indebtedness.

Inventories

The following table is a summary of our balance of inventories as at 31 March 2011, 2012 and 2013, 30 June 2013 and 30 September 2013 respectively:

	As at 31 March						As at 30 June		As at 30 September	
	2011		2012		2013		2013		2013	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (Unaudited)	*%*
Raw materials	24,559	77.7%	20,374	84.9%	14,608	42.7%	13,305	37.4%	13,877	53.9%
Finished goods	7,052	22.3%	3,627	15.1%	19,614	57.3%	22,244	62.6%	11,879	46.1%
	31,611	100.0%	24,001	100.0%	34,222	100.0%	35,549	100.0%	25,756	100.0%
Less: provision for impairment	(295)		(956)		(758)		(905)		(462)	
	31,316		23,045		33,464		34,644		25,294	

Our inventory mainly comprises raw materials and finished goods. The major raw materials used by our Group include base paper and aluminium foils. The value of our inventories accounted for approximately 19.6%, 13.9%, 15.9% and 19.5% of our total current assets as at 31 March 2011, 2012 and 2013 and 30 June 2013 respectively. We typically manage our inventories of raw materials on a weighted average price basis so that the cost of each supply is determined based on the weighted average of the cost of similar supplies at the beginning of the period and the cost of similar supplies purchased or produced during the period. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Our Group will make provision on inventories when slow moving or obsolete inventories are identified.

Movements in provision for impairment of inventories are as follows:

	As at 31 March			As at 30 June
	2011	**2012**	**2013**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At beginning of the year	–	295	956	758
– Provision for/(reversal of) impairment	295	661	(198)	147
At end of the year	295	956	758	905

Provision for impairment has been made of approximately HK$0.3 million, HK$1.0 million, HK$0.8 million and HK$0.9 million for certain slow-moving inventories and writing down the costs of certain inventories to their net realisable values as at 31 March 2011, 2012 and 2013 and as at 30 June 2013 respectively. The reversal of impairment during the year ended 31 March 2013 was mainly resulted from the subsequent utilisation or sales of those inventories with provision made previously for the year ended 31 March 2011 or 2012 in 2013.

Our inventory balance decreased by approximately 26.4%, from approximately HK$31.3 million as at 31 March 2011 to approximately HK$23.0 million as at 31 March 2012, and then increased by approximately 45.2% to approximately HK$33.5 million as at 31 March 2013. The decrease in the inventory balance as at 31 March 2012 as compared to 2011 was mainly attributable to the decrease of raw materials and finished goods. The relatively high stock level of raw materials included, amongst others, base paper and aluminium foils piled up during the year ended 31 March 2011 in anticipation of the increase in purchase price of base paper and aluminium foils in the forthcoming period. Those previously piled-up base paper and aluminium foils had been utilised in the production during the year ended 31 March 2012 and decreasing trend of purchase price of base paper and aluminium foils for the forthcoming period was anticipated. These factors have led to the raw materials as at 31 March 2012 recorded at lower level as compared to 2011.

The increase in the inventory balance as at 31 March 2013 as compared to 31 March 2012 was the net effect of (i) decrease in raw materials by approximately HK$5.6 million; and (ii) increase in finished goods by approximately HK$16.0 million. The decrease of raw material balance was a result of the success of our inventory control in order to avoid the piling-up of stock. The increase in finished goods was mainly due to the best knowledge of our Directors, the postponement of the purchase of the Guangdong Cigarette Manufacturer from the first half of 2013 to the second half of the same year.

The increase in the inventory balance as at 30 June 2013 as compared to 31 March 2013 was primarily attributable to the increase in the finished goods by approximately HK$2.5 million. The increase in finished goods was, to the best knowledge of our Directors, mainly due to the postponement of purchases made by the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer from the first half of 2013 to the second half of the same year. However, the sales to the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer improved subsequent to 30 June 2013. Based on the unaudited management accounts, the sales for the six months ended 30 September 2013 remained in the comparable level of the corresponding period in 2012. Please refer to the paragraph headed "Latest development" under the sections headed "Summary" and "Financial information" of this prospectus for details.

We usually maintain inventory level of raw materials of approximately one month in order to ensure smooth operations. During the Track Record Period, if we anticipated that the prices of raw materials would increase, we would accumulate more raw materials than usual. With respect to finished goods, our staff review the inventory records from time to time in order to ensure that appropriate levels of finished goods are maintained. We usually maintain inventory level of finished goods of approximately one month to ensure smooth operations.

Set out below is the aging analysis of our inventory as at 31 March 2011, 2012 and 2013 and 30 June 2013:

	As at 31 March 2011				
	Total	**<30 days**	**31 – 60 days**	**61 – 180 days**	**181 days – 1 year**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials	24,276	11,555	3,406	6,671	2,644
Finished goods	7,040	1,704	5,083	253	–
	31,316	13,259	8,489	6,924	2,644

	As at 31 March 2012				
	Total	**<30 days**	**31 – 60 days**	**61 – 180 days**	**181 days – 1 year**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials	20,141	11,297	3,695	4,535	614
Finished goods	2,904	2,624	165	115	–
	23,045	13,921	3,860	4,650	614

	As at 31 March 2013				
	Total	**<30 days**	**31 – 60 days**	**61 – 180 days**	**181 days – 1 year**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials	14,563	11,015	167	2,940	441
Finished goods	18,901	12,324	4,691	1,886	–
	33,464	23,339	4,858	4,826	441

	As at 30 June 2013				
	Total	**<30 days**	**31 – 60 days**	**61 – 180 days**	**181 days – 1 year**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials	13,271	7,096	3,586	2,400	189
Finished goods	21,373	7,739	4,702	8,738	194
	34,644	14,835	8,288	11,138	383

Our overall inventory aging was improved during the Track Record Period. Our Directors believe that the improvement was due to, amongst others, our continuous commitment in inventory control.

The improvement of overall inventory aging as at 31 March 2012 as compared with 31 March 2011 was mainly attributable to the shortening aging of raw materials. As mentioned above, base paper and aluminium foils were piled up during the year ended 31 March 2011 in anticipation of the increase in purchase price in the forthcoming period and this resulted in some base paper and aluminium foils still being not utilised as at 31 March 2011 and lengthening the aging accordingly. In 2012, since (i) the previously piled-up base paper and aluminium foils were utilised in the production; and (ii) decreasing trend of base paper and aluminium foils in forthcoming period was anticipated and therefore there was no need to pile up the raw materials, the aging of raw materials improved.

The improvement of overall inventory aging as at 31 March 2013 as compared with 31 March 2012 was primarily attributable to the shortening aging of raw materials. Our Directors believe that it was due to the success of our inventory control. Nevertheless, lengthening of aging of finished goods, in particular in the aging category of "31-60 days" and "61-180 days", was observed. It was mainly due to the delay of purchase made by some cigarette manufacturers, including the Guangdong Cigarette Manufacturer, in the first quarter of 2013 as compared with the corresponding period of 2012. We would adjust our production schedule to avoid piling up of finished goods as appropriate in the future if this trend persists.

Nonetheless, due to (i) the three-month period ended 30 June 2013 was low season for our Group; and (ii) the decrease in sales which was mainly attributable to the decrease in sales to the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer as well as the lengthening of aging of raw materials and finished goods as at 30 June 2013 was observed as compared to 31 March 2013. However, our sales performance recovered subsequent to 30 June 2013. Please refer to the paragraph headed "Latest development" under the sections headed "Summary" and "Financial information" for details.

Approximately 92% of inventories, as at 30 June 2013 was subsequently utilised/sold up to 30 September 2013.

The following table sets out our average inventory turnover days for the Track Record Period:

	For the year ended 31 March			For the three months ended 30 June	For the three months ended 30 September
	2011	2012	2013	2013	2013
Average inventories turnover days *(Note)*	40	46	52	88	58

Note: Average inventories turnover days for each of the years ended 31 March 2011, 2012 and 2013 and the three months ended 30 June 2013 and the three months ended 30 September 2013 were calculated based on the average of the inventories balance (net of specific provision for inventories, if any) as at the beginning and ending dates of the year/period divided by the cost of sales of the respective years/period and multiplied by 365 days/91 days/92 days.

Our average inventories turnover days increased from approximately 40 days during the year ended 31 March 2011 to approximately 46 days during the year ended 31 March 2012, and then increased to approximately 52 days during the year ended 31 March 2013. The increase in the average inventory turnover days in 2012 was primarily due to the relatively high level of opening inventories balance for the computation of average inventories turnover day for the year ended 31 March 2012. The relatively high level of opening inventories was due to, among others, base paper and aluminium foils piled up during the year ended 31 March 2011 in anticipation of the increase in purchase price of base paper and aluminium foils in the forthcoming period.

The further increase in average inventories turnover days in 2013 as compared with 2012 was mainly attributable to the increase of finished goods at the first quarter of calendar year of 2013 and the decrease in cost of sales in 2013 as compared to 2012. As mentioned above, the increase of finished goods was mainly due to (i) the maintenance of certain level of inventory of finished goods to accommodate the urgent sales orders from our customers and ensure smooth operations, and such inventory of finished goods was sold from time to time; and (ii) to the best knowledge of our Directors, the postponement of purchase of the Guangdong Cigarette Manufacturer from the first half of 2013 to the second half of the same year. Our Directors believe that the adjustments were due to, among other factors, the adjustment of the production schedule of the Guangdong Cigarette Manufacturer.

The increase in average inventories turnover days for the three months ended 30 June 2013 as compared with the year ended 31 March 2013 was primarily a result of decrease in sale which was, in turn, mainly due to (i) the three-month period ended 30 June 2013 was low season for our Group; and (ii) to the best knowledge of our Directors, the postponement of purchases made by the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer from the first half of 2013 to the second half of the same year. However, our sales performance improved subsequent to 30 June 2013 such that based on the unaudited management accounts, our sales for the six months ended 30 September the same year remained in the comparable level of the corresponding period of 2012. Please refer to the paragraph headed "Latest development" under the sections headed "Summary" and "Financial information" of this prospectus for details. We expect the impact of the adjustments of the production schedule of the Guangdong Cigarette Manufacturer on our sales performance will be short-term. For details, please refer to the sub-paragraph headed "Revenue" under the paragraph headed "Management discussion and analysis" under this section.

The average inventories turnover days for the three months ended 30 September 2013 decreased to 58 days, which was primarily due to the decrease in inventories balance and increase in our cost of sales as a result of our improved sales performance subsequent to 30 June 2013, which was in turn mainly due to, to the best knowledge of our Directors, the postponement of purchases made by the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer from the first half of 2013 to the second half of the same year.

Trade and note receivables

As at 31 March 2011, 2012 and 2013 and 30 June 2013, our Group recorded trade and note receivables balance of approximately HK$57.9 million, HK$55.5 million, HK$65.5 million and HK$54.0 million respectively. Our trade and note receivables decreased by approximately HK$2.4 million or approximately 4.1% from approximately HK$57.9 million as at 31 March 2011 to approximately HK$55.5 million as at 31 March 2012, and then increased by approximately HK$10.0 million or approximately 18.0% to HK$65.5 million as at 31 March 2013 and then decreased by approximately HK$11.5 million or approximately 17.6% to approximately HK$54.0 million as at 30 June 2013. In general, the change in trade and note receivables across the years during the Track Record Period was mainly contributed by the change in sales. Breakdown of the trade and note receivables of our Group as at 31 March 2011, 2012 and 2013 and 30 June 2013 is set out as follows:

	As at 31 March						As at 30 June	
	2011		2012		2013		2013	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Trade receivables	52,531	90.8%	51,418	92.7%	65,488	100.0%	53,950	100.0%
Note receivables – bank acceptance notes	5,343	9.2%	4,071	7.3%	–	–	–	–
	57,874	100.0%	55,489	100.0%	65,488	100.0%	53,950	100.0%

Our Group generally collects note receivables upon maturity, which primarily have 180-day maturity period. As shown in the above table, trade receivables represented approximately 90.8%, 92.7%, 100.0% and 100.0% of the trade and note receivables of our Group as at 31 March 2011, 2012 and 2013 and 30 June 2013 respectively.

As at 31 March 2011 and 2012, our Group placed note receivables of approximately HK$5.3 million and HK$4.1 million with designated banks as guarantee for the issuance of bank acceptance notes. No note receivable was pledged as at 31 March 2013 and 30 June 2013.

The following table sets out the aging analysis of our trade receivables based on invoice date as at 31 March 2011, 2012 and 2013 and 30 June 2013:

	As at 31 March						As at 30 June	
	2011		2012		2013		2013	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%	*HK$'000*	%
Less than 30 days	41,866	79.7%	43,346	84.3%	40,971	62.6%	36,117	66.9%
31 days to 60 days	6,475	12.3%	7,521	14.6%	20,470	31.3%	12,814	23.8%
61 days to 90 days	4,190	8.0%	–	–	2,298	3.5%	2,825	5.2%
91 days to 180 days	–	–	551	1.1%	1,749	2.6%	2,049	3.8%
Over 180 days	–	–	–	–	–	–	145	0.3%
	52,531	100.0%	51,418	100.0%	65,488	100.0%	53,950	100.0%

As at 31 March 2011, 2012 and 2013 and 30 June 2013, trade receivables were all within due dates and no provision was made.

We are not able to determine the credit terms to be offered to our customers. The credit terms (if any) are set out in the invitation for tenders issued by the cigarette manufacturers and we usually follow the credit terms as stated therein when we submit our tender documents to them. In general, the credit term is 60-90 days. The lengthening of aging of trade receivables, in particular for the category of "91 days to 180 days" and "Over 180 days" was mainly attributable to the delay settlements of some customers while they were still within the due dates allowed.

The following table sets out our average trade and note receivables turnover days for the Track Record Period:

	For the year ended 31 March			For the three months ended 30 June	For the three months ended 30 September
	2011	2012	2013	2013	2013
Average trade and note receivables turnover days *(Note)*	104	78	79	106	74

Note: Average trade and note receivables turnover days for each of the years ended 31 March 2011, 2012 and 2013 and the three months ended 30 June 2013 and the three months ended 30 September 2013 were calculated based on the average of the trade and note receivables balance (net of specific provision, if any) as at the beginning and ending dates of the year/period divided by the revenue of the respective years/period and multiplied by 365 days/91 days/92 days.

In general, the range of average trade and note receivables turnover days for three years ended 31 March 2013 fell within the credit period we granted to our customers. Since there was a relatively larger balance of note receivables as at 31 March 2011 which was in general with maturity period of 180 days, it resulted in higher average trade and note receivables turnover days for the year ended 31 March 2011. While the aging pattern of our trade receivables as at 30 June 2013 was not materially different from that as at 31 March 2013, the increase in average trade and note receivables turnover days from approximately 79 days for the year ended 31 March 2013 to approximately 106 days for the three months ended 30 June 2013 was mainly due to the decrease in sale which was, in turn, mainly due to (i) the three-month period ended 30 June 2013 was low season for our Group; and (ii) the decrease in sales which was, to the best knowledge of our Directors, mainly attributable to the postponement of the purchases made by the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer from the first half of 2013 to the second half of the same year. However, our sales performance improved subsequent to 30 June 2013 such that based on the unaudited management accounts, our sales for the six months ended 30 September 2013 remained in the comparable level of the corresponding period of 2012. Please refer to the paragraph headed "Latest development" under the sections headed "Summary" and "Financial information" of this prospectus for details. The average trade and note receivables turnover days decreased from approximately 106 days for the three months ended 30 June 2013 to 74 days for the three months ended 30 September 2013, which was mainly attributable to the increase in sales which was, in turn, mainly due to the postponement of purchases made by the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer from the first half of 2013 to the second half of the same year.

During the Track Record Period, we did not experience any material bad debt problem from these customers. Based on our assessment, the management considers that no provision for impairment is necessary as there has not been a significant change in credit quality and the balances are still considered fully recoverable, given that approximately 86% of trade and note receivables as at 30 June 2013 was subsequently received up to 31 October 2013.

Prepayment and other receivables

The following table sets out the breakdown of our prepayment and other receivables as at 31 March 2011, 2012 and 2013 and 30 June 2013:

	As at 31 March						As at 30 June	
	2011		2012		2013		2013	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%	*HK$'000*	%
Advance to suppliers	1,858	39.1%	613	8.8%	835	95.4%	711	18.3%
Deferred listing expenses	–	–	–	–	–	–	2,710	69.9%
Other financial assets	–	–	6,292	90.7%	–	–	–	–
Other receivables	2,897	60.9%	33	0.5%	40	4.6%	456	11.8%
	4,755	100.0%	6,938	100.0%	875	100.0%	3,877	100.0%

Advance to suppliers refer to the deposit paid to vendors for the purchasers. As at 31 March 2011, other receivables included but not limited to the deposit for the tendering of sales contract of cigarette-related packaging materials of approximately HK$1.9 million, which has been refunded after completion of tender.

The other financial assets referred to investments with fixed or determinable repayment periods of less than 14 days, fixed or determinable rates of return and treasury bonds of the PRC government as the collateral. We made these investments through the stock market of the PRC. Our investment in other financial assets was ceased in 2013.

Amounts due from a related party/Amounts due to related parties

The following table sets out the breakdown of amounts due from a related party/ amounts due to related parties as at 31 March 2011, 2012 and 2013 and 30 June 2013:

	As at 31 March			As at 30 June
	2011	2012	2013	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts due from a related party:				
– Mr. Zheng	–	1,509	13,195	5,638
Amounts due to related parties:				
– Mr. Zheng	32,676	–	–	–
– Mr. Zheng Minsheng	237	247	247	–
– Shantou Lejing	10,725	11,144	1,892	–
	43,638	11,391	2,139	–

The balances with Mr. Zheng were arisen as a result of the advance to and/or from Mr. Zheng by our Company's subsidiaries, while the balances with Mr. Zheng Minsheng and Shantou Lejing were arisen as a result of the advance from Mr. Zheng Minsheng and his company. The above balances were unsecured, interest-free and repayable on demand, which are cash advances in nature. Xinda Packing, our subsidiary, has recognised dividend as declared to Mr. Zheng, the then sole shareholder, in the sum of approximately RMB23.0 million (equivalent to approximately HK$29.1 million) on 24 April 2013. After deducting the relevant withholding tax of approximately RMB1.1 million (equivalent to approximately HK$1.4 million), the net amount of approximately RMB21.9 million (equivalent to approximately HK$27.7 million) was paid in May 2013. Our Company declared dividends of (i) RMB19.0 million (equivalent to approximately HK$24.0 million) on 10 October 2013; and (ii) RMB9.5 million (equivalent to approximately HK$12.0 million) on 11 November 2013 to SXD Limited, a company wholly-owned by Mr. Zheng. All of the aforesaid dividends were settled in the form of cash payment before the Latest Practicable Date. All the amounts due with the related parties were also settled in the form of cash payment before the Latest Practicable Date.

Trade and notes payables

As at 31 March 2011, 2012 and 2013 and 30 June 2013, our Group recorded trade and notes payables balance of approximately HK$78.1 million, HK$83.0 million, HK$91.1 million and HK$79.3 million respectively. The increase in trade and notes payables by approximately HK$4.8 million or approximately 6.2% as at 31 March 2012 as compared with that of 31 March 2011, and further increase by approximately HK$8.2 million or approximately 9.8% as at 31 March 2013 were mainly due to increase in purchase of raw materials for the three years ended 31 March 2013, which was in line with our sales growth during the same periods. The trade and notes payables decreased from approximately HK$91.1 million as at 31 March 2013 to approximately HK$79.3 million as at 30 June 2013 was mainly resulted from the decrease in sales and therefore purchase of raw materials for the three months ended 30 June 2013. No interest was charged for the bank acceptance notes during the Track Record Period as our Group placed cash deposits as restricted cash and note receivables (as the case may be) as guarantee for the issuance of bank acceptance notes respectively. The bank charged our Group an administration fee of 0.05% of the total amount of the bank acceptance notes during the Track Record Period. Our Group used bank acceptance notes to settle purchases of raw materials as the bank acceptance notes usually have a maturity period of 180 days which is longer than the credit period of 60-90 days offered by our suppliers in general.

Breakdown of the trade and note payables of our Group as at 31 March 2011, 2012 and 2013 and 30 June 2013 is set out as follows:

	As at 31 March						As at 30 June	
	2011		2012		2013		2013	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%	*HK$'000*	%
Trade payables	18,304	23.4%	25,928	31.2%	40,761	44.7%	33,402	42.1%
Notes payables – bank acceptance notes	59,832	76.6%	57,044	68.8%	50,372	55.3%	45,938	57.9%
	78,136	100.0%	82,972	100.0%	91,133	100.0%	79,340	100.0%

With reference to the above table, trade payables represented approximately 23.4%, 31.2%, 44.7% and 42.1% of the trade and notes payables of our Group as at 31 March 2011, 2012 and 2013 and 30 June 2013 respectively. We have not entered into any long term supply binding contracts with our suppliers. The maturity period of note payables are usually 180 days.

The following table sets out the aging analysis of our trade payables as at 31 March 2011, 2012 and 2013 and 30 June 2013 respectively, based on the relevant invoice dates:

	As at 31 March						As at 30 June	
	2011		2012		2013		2013	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%	*HK$'000*	%
Less than 90 days	16,821	91.9%	23,594	91.0%	34,393	84.4%	24,747	74.1%
91 days to 180 days	1,327	7.2%	2,168	8.4%	4,465	11.0%	8,382	25.1%
Over 180 days	156	0.9%	166	0.6%	1,903	4.6%	273	0.8%
	18,304	100.0%	25,928	100.0%	40,761	100.0%	33,402	100.0%

Our Group generally receive credit term of 60–90 days from our suppliers for open account.

From the above aging analysis, approximately 91.9%, 91.0%, 84.4% and 74.1% of the total trade payables of our Group were within 90 days as at 31 March 2011, 2012 and 2013 and 30 June 2013 respectively, which fell within the credit periods granted by our suppliers.

As at 31 March 2011, 2012 and 2013 and 30 June 2013, our Group placed cash deposits as restricted cash of approximately HK$53.9 million, HK$52.3 million, HK$49.8 million and HK$46.3 million and note receivables of approximately HK$5.3 million, HK$4.1 million, nil and nil with a designated bank as guarantee for the issuance of note payables respectively.

The following table sets out our average trade and notes payables turnover days for the Track Record Period:

	For the year ended 31 March			For the three months ended 30 June	For the three months ended 30 September
	2011	2012	2013	2013	2013
Average trade and notes payables turnover days *(Note)*	153	137	159	219	155

Note: Average trade and notes payables turnover days for each of the years ended 31 March 2011, 2012 and 2013 and the three months ended 30 June 2013 and the three months ended 30 September 2013 were calculated based on the average of the trade and notes payables balance as at the beginning and ending dates of the year/period divided by the cost of sales of the respective years/period and multiplied by 365 days/91 days/92 days.

As illustrated above, the average trade and notes payables turnover days of our Group for each of the three years ended 31 March 2013 and the three months ended 30 June 2013 were longer than the credit period in general offered by our suppliers mainly due to our use of notes payable to settle the purchase which were of maturity period of up to 180 days. Due to (i) the increase in cost of sales in 2012 as compared to 2011 which was in turn mainly attributable to, among others, the increase in sales; and (ii) the increase in trade and note payables in 2012 was not that significant as compared to the increase in cost of sales, which was in turn led by the decrease in purchase close to the financial year ended 31 March 2012 in anticipation of decrease in purchase price of base paper and aluminum foils (both of them are the major raw materials), there was a drop of the average trade and notes payables turnover days for 2012 as compared to 2011. The average trade and notes payables turnover days for 2013 restored to the similar level of that for 2011. The increase of average trade and notes payables turnover days from approximately 159 days for the year ended 31 March 2013 to approximately 219 days for the three months ended 30 June 2013 was mainly due to the decrease in sales and cost of sales which were, in turn, mainly due to (i) the three-month period ended 30 June 2013 was low season for our Group; and (ii) the decrease in sales and cost of sales which was, to the best knowledge of our Directors, mainly attributable to the postponement of purchases made by the Guangdong Cigarette Manufacturer the Shanghai Cigarette Manufacturer from the first half of 2013 to the second half of the same year. However, our sales performance improved subsequent to 30 June 2013 such that based on the unaudited management accounts, our sales for the six months ended 30 September 2013 remained in the comparable level of the corresponding period of 2012 and an increase of approximately 52.1% as compared to the three months ended 30 June 2013. Please refer to the paragraph headed "Latest development" under the sections headed "Summary" and "Financial information" of this prospectus for details. As at 31 October 2013, approximately 80.2% of the trade and notes payables as at 30 June 2013 had been subsequently settled. The average trade and notes payables turnover days decreased from approximately 219 days for the three months ended 30 June 2013 to 155 days for the three months ended 30 September 2013, which was mainly due to the increase in sales and cost of sales which was, in turn, mainly attributable to the postponement of purchases made by the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer from the first half of 2013 to the second half of the same year.

Other payables

The following table sets out the breakdown of our other payables as at 31 March 2011, 2012 and 2013 and 30 June 2013:

	As at 31 March						As at 30 June	
	2011		2012		2013		2013	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%	*HK$'000*	%
Accrual for staff costs and allowances	3,118	85.5%	3,996	44.7%	4,733	46.3%	4,059	26.1%
Other tax payables	129	3.5%	3,958	44.2%	3,008	29.4%	3,699	23.8%
Accrual for listing expenses	–	–	–	–	590	5.8%	4,448	28.6%
Accrual for renovation of office building	–	–	–	–	619	6.1%	2,165	13.9%
Other accruals	398	11.0%	993	11.1%	1,264	12.4%	1,176	7.6%
	3,645	100.0%	8,947	100.0%	10,214	100.0%	15,547	100.0%

Other payables mainly include the provision for unpaid social insurance contributions and accrued payroll costs, other tax payables (which mainly referred to the value-added tax payable arising from our sales) accrual for listing expenses, accrual for renovation of office building and other miscellaneous taxes, other accruals (which include output value-added tax payable arisen from sales of our products) and miscellaneous accrual expenses, such as accrued transportation expenses and accrued utilities expenses. As disclosed in the paragraph headed "Regulatory compliance – Non-compliance incidents" under the section headed "Business" of this prospectus, Xinda Packing was unable to, amongst others, fully pay the social insurance premiums for all its employees prior to 1 May 2013. Taking into account a written confirmation from local social insurance authority (being the competent authority as advised by our legal advisors as to PRC law) regarding the failure on the part of Xinda Packing to fully contribute to the social insurance scheme in the past in accordance with the statutory requirements, the local social insurance authority will not request Xinda Packing to pay the outstanding social insurance premium and/or the penalty thereof nor impose any sanction on Xinda Packing. We have been advised by our legal advisors as to PRC law, that the possibilities that Xinda Packing will be (i) required to pay the outstanding social insurance premium and/or the penalty; and (ii) imposed any administrative sanction are remote. Provision of approximately HK$2.3 million, HK$2.7 million and HK$3.1 million was made for the unpaid social insurance contribution as at 31 March 2011, 2012 and 2013 respectively.

The increase in accrual for staff costs and allowances from approximately HK$3.1 million as at 31 March 2011 to approximately HK$4.0 million as at 31 March 2012, and then further increase to approximately HK$4.7 million, was mainly due to the provision for unpaid social insurance contributions for the three years ended 31 March 2013. The other tax payables mainly referred to value-added tax payable arising from our sales near to the respective year ends. The relatively low level of other tax payables as at 31 March 2011 was mainly due to the set-off of value-added tax payable arising from the sales close to the year end by the value-added tax receivable arising from the purchases in or close to the same period. The increase of other accruals from approximately HK$1.0 million as at 31 March 2012 to approximately HK$2.5 million as at 31 March 2013 was mainly due to the increase in accrued transportation expenses and accrued expense of factory and building. The accrual for renovation of office building as at 30 June 2013 referred to the amounts payables to the constructors of renovation of our office building. We intend to apply certain amount of net proceeds of the Share Offer to finance the remaining capital expenditure of the renovation of existing production facilities and office building, please refer to the paragraph headed "Production facilities and capacity" under the section headed "Business" for further details.

Net current assets and liabilities

The following table sets out details of our current assets and current liabilities as at 31 March 2011, 2012 and 2013, 30 June 2013 and 30 September 2013:

	As at 31 March			As at 30 June	As at 30 September
	2011	**2012**	**2013**	**2013**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Current assets					
Inventories	31,316	23,045	33,464	34,644	25,294
Trade and note receivables	57,874	55,489	65,488	53,950	71,797
Prepayments and other receivables	4,755	6,938	875	3,877	5,014
Amounts due from a related party	–	1,509	13,195	5,638	1,262
Financial assets at fair value through profit or loss	–	–	635	596	729
Restricted cash	53,857	52,267	49,810	46,326	47,747
Cash and cash equivalents	11,697	27,001	46,596	32,611	54,657
	159,499	166,249	210,063	177,642	206,500

	As at 31 March			As at 30 June	As at 30 September
	2011	2012	2013	2013	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Current liabilities					
Trade and notes payables	78,136	82,972	91,133	79,340	82,436
Other payables	3,645	8,947	10,214	15,547	20,033
Amounts due to related parties	43,638	11,391	2,139	–	–
Borrowings	5,936	–	–	–	–
Current income tax liabilities	6,142	7,881	7,545	5,677	7,794
	137,497	111,191	111,031	100,564	110,263
Net current assets	22,002	55,058	99,032	77,078	96,237

Our current assets primarily consist of restricted cash, trade and note receivables, inventory and cash and cash equivalents. Our current liabilities primarily consist of trade and notes payables and amounts due to related parties. We manage our working capital by closely monitoring the level of our trade and note receivables, trade and notes payables as well as inventory level.

Our net current assets increased by approximately HK$33.1 million or 150.2% from approximately HK$22.0 million as at 31 March 2011 to approximately HK$55.1 million as at 31 March 2012, primarily due to net effect of (i) the decrease in the amount by approximately HK$32.2 million due to related parties as a result of the repayment to the related parties; (ii) the increase in cash and cash equivalents by approximately HK$15.3 million which was generated from our operation for the year ended 31 March 2012; and (iii) the decrease in inventory by approximately HK$8.3 million mainly due to decrease in raw materials which was piled up as at 31 March 2011 in anticipation of the increasing price in forthcoming period.

Our net current assets further increased by approximately HK$44.0 million or 79.9% to approximately HK$99.0 million as at 31 March 2013, primarily due to a net result of (i) the increase in cash and cash equivalents by approximately HK$19.6 million which was generated from our operation for the year ended 31 March 2012; (ii) the increase in the amount due from Mr. Zheng by approximately HK$11.7 million; (iii) the increase in the trade and note receivables by approximately HK$10.0 million which was in line with sales growth in general; (iv) the increase in the inventories by approximately HK$10.4 million which was mainly due to piling up of finished goods, primarily as a result of delay of purchase by some customers in the first quarter of 2013 as compared with that of the corresponding period of 2012; (v) the decrease in the amounts due to related parties by approximately HK$9.3 million as a result of the repayment to the related parties; and (vi) the increase in the trade and notes payables by approximately HK$8.2 million which was in line with sales growth in general.

Our net current assets decreased by approximately HK$22.0 million or 22.2% to approximately HK$77.1 million as at 30 June 2013, primarily due to a net result of (i) the payment of dividend of approximately HK$27.7 million to Mr. Zheng; (ii) decrease in trade and receivables by approximately HK$11.5 million as a result of decrease in sales; (iii) the decrease in amounts due from Mr. Zheng by approximately HK$7.6 million as a result of repayment by Mr. Zheng; (iv) the decrease of trade and notes payables by approximately HK$11.8 million due to the decrease in purchase of raw materials; (v) the full repayment of amounts due to related parties by approximately HK$2.1 million; and (vi) increase in other payables by approximately HK$5.3 million mainly due to increase in the accrual for listing expenses of approximately HK$3.9 million and increase in the accrual for renovation of office building of approximately HK$1.5 million recorded as at 30 June 2013.

Based on the unaudited management accounts of our Group as at 30 September 2013, our net current assets increased by approximately HK$19.2 million or 24.8% to approximately HK$96.2 million as at 30 September 2013, primarily due to a net result of (i) the increase in cash and cash equivalents of approximately HK$22.0 million; (ii) increase in trade and note receivables by approximately HK$17.8 million as a result of increase in sales; and (iii) the decrease in inventories by approximately HK$9.4 million as a result of increase in sales.

TAXATION

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law and accordingly, is exempted from Cayman Islands income tax. Our Company's direct subsidiary in the BVI was incorporated under the International Business Companies Act of the BVI and, accordingly, is exempted from BVI income tax. No provision for Hong Kong profits tax has been made in the combined financial statements of our Group as our Company and our Group did not have assessable profit in Hong Kong during the Track Record Period. The profit of our Group's entity in Hong Kong is mainly derived from dividend income from our subsidiary, which is not subject to Hong Kong profit tax.

The income tax provision of our Group in respect of operations in the PRC through Xinda Packing has been calculated at the applicable tax rate on the estimated assessable profits for the Track Record Period.

On 16 March 2007, the National People's Congress approved the Enterprise Income Tax Law of the PRC (the "**EIT Law**"), which has become effective from 1 January 2008. Under the EIT Law and the Implementation Rules of the EIT Law, the standard tax rate of the PRC entities was 25% during the Relevant Periods.

According to the Notice of the State Council on the Implementation of the Transitional Preferential Policies in respect of Enterprise Income Tax, the corporate income tax rate applicable to the companies established and operated in Shantou Special Economic Zone would gradually increase from 15% to 25% in a transitional period of five years starting from 1 January 2008. The effective applicable income tax rate of our Group's subsidiary in the PRC was 22% for the year ended 31 December 2010.

On 17 November 2011, Xinda Packing was awarded the High and New Technology Enterprise Certificate and with such certificate, our Group was and will continue to be entitled to pay enterprise income tax at the reduced rate of 15% for the calendar years of 2011, 2012 and 2013.

According to the new EIT Law and the Implementation Rules, commencing from 1 January 2008, a withholding tax of 10% would be levied on the immediate holding companies outside the PRC when their PRC subsidiaries declare dividend out of profits earned after 1 January 2008. A lower 5% withholding tax rate may be applied when the immediate holding companies of the PRC subsidiaries are established in Hong Kong and fulfil the requirements under the arrangement between the relevant authorities of the PRC and Hong Kong.

The following table sets out the breakdown of our income tax expense and effective tax rates for the years/periods indicated:

	For the year ended 31 March			For the three months ended 30 June	
	2011	2012	2013	2012	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Current income tax					
– PRC corporate income tax	3,033	5,600	8,965	2,148	1,856
Deferred income tax					
– PRC corporate income tax	(200)	(283)	231	(51)	54
– Withholding income tax for profit to be distributed from the PRC	–	–	2,328	518	453
	2,833	5,317	11,524	2,615	2,363
Effective tax rate	22.7%	15.2%	20.5%	19.2%	22.5%
Effective tax rate (excluding withholding income tax for profit to be distributed from the PRC)	22.7%	15.2%	16.3%	15.4%	18.2%

No income tax was charged on components of other comprehensive income for the year ended 31 March 2011, 2012 and 2013 and the three months ended 30 June 2013.

As shown above, the effective tax rate (excluding withholding income for profit to be distributed from the PRC) for the year ended 31 March 2011 was approximately 22.7% while it dropped to approximately 15.2% for the year ended 31 March 2012 and approximately 16.3% for the year ended 31 March 2013. The movement of the effective tax rate across the years was mainly due to Xinda Packing being awarded the High and New Technology Enterprise Certificate and the applicable income tax rate was 15% for each of the three calendar years of 2011, 2012 and 2013. The applicable tax rate of Xinda Packing was 22% for the calendar year of 2010. The effective tax rate (excluding withholding income tax for the profit to be distributed from the PRC) for the three months ended 30 June 2013 increased to approximately 18.2% was mainly attributable to the non-deductible listing expenses recorded during the period.

The withholding income tax was provided for at the rate of 5% for the profits generated by Xinda Packing for the year ended 31 March 2013 and the three months ended 30 June 2013.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are to satisfy our working capital needs and our capital expenditure needs. Since our establishment, our working capital needs and capital expenditure requirements have been primarily financed through a combination of shareholder's equity, funds from related parties, cash generated from operations and bank borrowing. Our Directors confirmed that we did not experience any difficulty in obtaining financing during the Track Record Period.

In general, our Group maintained high level of cash for the daily transactions and operations. Our Group's cash and bank balances (excluding the balance of restricted cash) were approximately HK$11.7 million, HK$27.0 million, HK$46.6 million and HK$32.6 million as at 31 March 2011, 2012, 2013 and 30 June 2013 respectively, representing about 6.3%, 12.5%, 23.2% and 92.1% of our total cost of sales during the respective year/period, which mean that the cash and bank balances of our Group could support our cost of sales of certain period (2011: approximately 23.1 days; 2012: approximately 45.8 days; 2013: approximately 84.9 days; the three months ended 30 June 2013: approximately 83.8 days) in each of the three years ended 31 March 2013 and the three months ended 30 June 2013 respectively.

As at 31 March 2011, 2012 and 2013 and 30 June 2013, our Group placed cash deposits as restricted cash of approximately HK$53.9 million, HK$52.3 million, HK$49.8 million and HK$46.3 million respectively with a designated bank as guarantee for the issuance of notes payables.

The following table is a condensed summary of our combined statement of cash flows for the periods indicated:

Summary combined statements of cash flows

	For the year ended 31 March			For the three months ended 30 June	
	2011	2012	2013	2012	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Net cash (used in)/generated from operating activities	(7,523)	59,315	38,587	8,154	5,280
Net cash (used in)/generated from investing activities	(22,735)	(7,442)	(10,011)	(9,422)	9,252
Net cash generated from/ (used in) financing activities	30,684	(38,266)	(9,252)	(5,537)	(30,249)
Net increase/(decrease) in cash and cash equivalents	426	13,607	19,324	(6,805)	(15,717)
Cash and cash equivalents at beginning of the year/period	10,394	11,697	27,001	27,001	46,596
Effect of change in exchange rate	877	1,697	271	(379)	1,732
Cash and cash equivalents at end of the year/period	11,697	27,001	46,596	19,817	32,611

Cash flow from operating activities

For the year ended 31 March 2011, our net cash used in operating activities amounted to approximately HK$7.5 million. Our profit before income tax was approximately HK$12.5 million. The negative cash flow adjustments mainly referred to the increase in inventories by approximately HK$22.4 million, which was in turn mainly attributable to the piling up of raw materials close to 31 March 2011.

For the year ended 31 March 2012, our net cash generated from operating activities amounted to approximately HK$59.3 million. Our profit before taxation was approximately HK$35.0 million. The positive cash flow adjustments mainly referred to a net result of (i) the decrease in inventories by approximately HK$7.6 million; (ii) the increase in other payable by approximately HK$5.3 million; (iii) the decrease in prepayment and other receivables by approximately HK$4.1 million; and (iv) the increase in trade and note payables by approximately HK$4.8 million.

For the year ended 31 March 2013, our net cash generated from operating activities amounted to approximately HK$38.6 million. Our profit before taxation was approximately HK$56.3 million. The negative cash flow adjustments reflected primarily (i) the increase in trade and note receivables by approximately HK$10.0 million; (ii) the increase in inventories by approximately HK$10.2 million; offsetting by (iii) the increase in trade and notes payables by approximately HK$8.2 million.

For the three months ended 30 June 2013, our net cash generated from operating activities amounted to approximately HK$5.3 million. Our profit before taxation was approximately HK$10.5 million. The negative cash flow adjustments reflected primarily (i) the decrease of trade and notes payables by approximately HK$11.8 million; (ii) the increase in inventories by approximately HK$1.3 million; and (iii) the decrease in trade and notes receivable by approximately HK$11.5 million.

Cash flow from investing activities

For the year ended 31 March 2011, our net cash used in investing activities amounted to approximately HK$22.7 million and was mainly for (i) increase in deposit of restricted cash of approximately HK$18.8 million as guarantee for the issuance of notes payables; and (ii) purchase of property, plant and equipment of approximately HK$4.8 million.

For the year ended 31 March 2012, our net cash used in investing activities amounted to approximately HK$7.4 million and was mainly for payment for investment in the other financial assets of approximately HK$6.3 million.

For the year ended 31 March 2013, our net cash used in investing activities amounted to approximately HK$10.0 million and was mainly a net result of (i) receipt from the disposal of other financial assets of approximately HK$6.3 million; (ii) decrease in deposit of restricted cash by approximately HK$2.5 million; (iii) net of payment for the purchase of property, plant and equipment of approximately HK$8.7 million; and (iv) increase in amount due from Mr. Zheng by approximately HK$11.7 million.

For the three months ended 30 June 2013, our net cash generated from investing activities amounted to approximately HK$9.3 million and was mainly a net result of (i) the repayment from Mr. Zheng for our advance to him of approximately HK$7.6 million; (ii) the decrease in deposit of restricted cash by approximately HK$3.5 million; and (iii) the payment for renovation of office buildings of approximately HK$2.5 million.

Cash flow from financing activities

For the year ended 31 March 2011, our cash generated from financing activities amounted to approximately HK$30.7 million which was the net result of (i) a borrowing of approximately HK$5.9 million; (ii) repayment of a borrowing of approximately HK$11.4 million; and (iii) the increase in amount due to related parties of approximately HK$36.6 million, which was primarily the advance from Mr. Zheng.

For the year ended 31 March 2012, our cash used in financing activities amounted to approximately HK$38.3 million which mainly referred to (i) the repayment of a borrowing of approximately HK$5.9 million; and (ii) decrease in amounts due to related parties of approximately HK$32.2 million, which was primarily the repayment to Mr. Zheng for the advance as at 31 March 2011.

For the year ended 31 March 2013, our cash used in financing activities amounted to approximately HK$9.3 million, which merely referred to the repayments to Shantou Lejing for its advance.

For the three months ended 30 June 2013, our cash used in financing activities amounted to approximately HK$30.2 million, which represented (i) the payment of dividends to Mr. Zheng of approximately HK$27.7 million; and (ii) repayment to Mr. Zheng Minsheng and Shantou Lejing for their advances of approximately HK$2.1 million in aggregate.

Financial resources

Prior to the completion of the Share Offer, the operations of our Group were financed principally by the shareholder's equity, internally generated funds and borrowings from financial institutions. Upon completion of the Share Offer, our Group expects that our operations will be financed mainly by the net proceeds of the Share Offer, internally generated funds and borrowings from financial institutions, as the case may be.

Directors' opinion on sufficiency of working capital

Taking into account the financial resources available to our Group, including internally generated funds, the estimated net proceeds of the Share Offer and in the absence of unforeseen circumstances, our Directors, after due and careful enquiry, are of the opinion that our Group has sufficient working capital for its present requirements for at least 12 months from the date of this prospectus.

DISTRIBUTABLE RESERVES

Our Company was incorporated in the Cayman Islands on 29 April 2013. As at 30 June 2013, no distributable reserves were available in cash for distribution to our Shareholders.

DIVIDEND POLICY

The payment and the amount of dividends will be at the discretion of our Directors and will depend on our Group's future operations and earnings, capital requirements and surplus, general financial conditions and other factors which our Directors consider to be relevant.

Considering our financial position, we currently intend, in the absence of any circumstances which might reduce the amount of available distributable reserves, whether by losses or otherwise, to distribute to our Shareholders no less than 35% of any net consolidated distributable profit derived during the year ending 31 March 2014 and each year thereafter. We will re-evaluate our dividend policy annually.

Xinda Packing, our subsidiary, has recognised dividend as declared to Mr. Zheng, the then sole shareholder, in the sum of approximately RMB23.0 million (equivalent to approximately HK$29.1 million) on 24 April 2013. After deducting the relevant withholding tax of approximately RMB1.1 million (equivalent to approximately HK$1.4 million), the net amount of approximately RMB21.9 million (equivalent to approximately HK$27.7 million) was paid in May 2013. Our Company declared dividends of (i) RMB19.0 million (equivalent to approximately HK$24.0 million) on 10 October 2013; and (ii) RMB9.5 million (equivalent to approximately HK$12.0 million) on 11 November 2013 to SXD Limited, a company wholly-owned by Mr. Zheng, all of which were settled in the form of cash payment before the Latest Practicable Date. Save for the dividend declared as disclosed above, none of our Company or our Group's subsidiary has declared any dividend up to the Latest Practicable Date.

INDEBTEDNESS

Our outstanding balance of bank borrowings as at 31 March 2011 was approximately HK$5.9 million, which was used for general working capital of our Group. No bank borrowing was recorded as at 31 March 2012 and 2013 and as at 30 June 2013. As at 31 March 2011, our Group's bank borrowings were denominated in RMB and secured by our Group's certain property and plant with carrying value of HK$16.8 million and prepaid operating lease of land use rights with carrying value of HK$5.1 million.

The amounts due from a related party/amounts due to related parties were unsecured, interest-free and repayable on demand, which are cash advances in nature. All of the balances are subsequently settled/repaid up to the Latest Practicable Date.

Below is a summary of our indebtedness as at 31 March 2011, 2012 and 2013, 30 June 2013 and 30 September 2013:

	As at 31 March			As at 30 June	As at 30 September
	2011	**2012**	**2013**	**2013**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank borrowings repayable:					
– within one year	5,936	–	–	–	–
	5,936	–	–	–	–
Amounts due to related parties:					
– Mr. Zheng	32,676	–	–	–	–
– Mr. Zheng Minsheng	237	247	247	–	–
– Shantou Lejing	10,725	11,144	1,892	–	–
	43,638	11,391	2,139	–	–
	49,574	11,391	2,139	–	–

As confirmed by our Directors, our Group had no material defaults in payment of trade and non-trade payables and bank borrowings during the Track Record Period.

Disclaimers

Save as otherwise disclosed above, our Group did not have, at the close of business on 30 September 2013, any debt securities issued and outstanding, or authorised or otherwise created but unissued, or term loans or bank overdrafts, charges or debentures, mortgages, loans, or other similar indebtedness or any finance lease commitments, liabilities under acceptances (other than normal trade bills) or acceptance credits or any guarantees or other material contingent liabilities. Our Directors confirmed that there has not been any material change in the indebtedness and contingent liabilities of our Group since 30 September 2013 and up to the date of this prospectus.

DISCLOSURE REQUIRED UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

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

COMMITMENT

As at 31 March 2011, 2012 and 2013 and 30 June 2013, our Group had the following capital commitments:

	As at 31 March			As at 30 June
	2011	**2012**	**2013**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure in respect of the acquisition of property and equipment contracted for but not provided	409	344	2,306	475
Capital expenditure in respect of the acquisition of property authorised but not contracted for	–	–	1,222	–

CONTINGENT LIABILITIES

As at the Latest Practicable Date, we were not involved in any material legal proceedings, nor were we aware of any pending or potential material legal proceedings involving our Group.

RISK MANAGEMENT

Foreign currency risk

Our Group operates in the PRC with most transactions being settled in RMB, which is the functional currency of most of the companies of our Group, except for certain transactions which are settled in Hong Kong dollar. Our Group currently does not have a foreign currency hedging policy, and manages its foreign currency risk by closely monitoring the movement of the foreign currency rates.

As at 31 March 2011, 2012 and 2013 and 30 June 2013, there are no significant assets and liabilities that were denominated in Hong Kong dollar being held by the PRC group company, and hence there is no significant foreign currency risk with respect to Hong Kong dollar to our Group.

Credit risk

Our Group's maximum exposure to credit risk in relation to financial assets is the carrying amounts of cash and cash equivalents, restricted cash, financial assets at fair value through profit or loss, trade and note receivables, other receivables and amounts due from a related party.

As at 31 March 2011, 2012 and 2013 and 30 June 2013, substantially all our Group's bank deposits are deposited with major financial institutions incorporated in the PRC, which management believes are of high credit quality without significant credit risk. Our Group's bank deposits as at 31 March 2011, 2012 and 2013 and 30 June 2013 were as follows:

	As at 31 March			As at 30 June
	2011	**2012**	**2013**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Big four commercial banks *(Note)*	8,544	17,334	23,682	18,666
Other listed banks	56,962	55,168	66,375	57,611
Other non-listed banks	–	6,279	6,304	2,626
	65,506	78,781	96,361	78,903

Note:

Big four commercial banks include Industrial and Commercial Bank of China, China Construction Bank, Agricultural Bank of China and Bank of China.

Notes receivables represent bank acceptance notes. The issuing banks of these bank acceptance notes are either state-owned banks with investment grade rating or local banks with good reputation. Financial assets at fair value through profit or loss (referring to share of listed companies in the stock markets in the PRC) and other financial assets (referring to the investment with fixed or determinable repayment period, fixed or determinable rate of return and treasury bond of the government of the PRC as the collateral) in other receivables represent financial assets purchased from open market in the PRC. Management believes that these financial institutions are of high credit quality and there is no significant credit risk on our Group's bank deposits and bank acceptance notes.

As at 31 March 2011, 2012 and 2013 and 30 June 2013, approximately 78.7%, 79.5%, 90.9% and 87.8% of our Group's trade receivables were due from our top five largest customers respectively, while approximately 33.2%, 33.2%, 67.4% and 66.8% of our Group's trade receivables are due from our largest customer respectively.

All of our Group's trade receivables, other receivables and amounts due from a related party have no collateral. However, our Group has policies in place to ensure that sales are made to customers with appropriate credit history and our Group performs periodic credit evaluations on our customers. Our Group assesses the credit quality of each customer by taking into account its financial position, past experience and other factors. Credit limit and terms are reviewed on periodic basis, and the finance department is responsible for such monitoring procedures. In determining whether provision for impairment of receivables is required, our Group takes into consideration the future cash flows, aging status and the likelihood of collection. In this regard, our Directors are satisfied that the risks are minimal and adequate provision, if any, has been made in the financial statements after assessing the collectability of individual debts. No impairment of trade receivables and other receivables were recognised during the Track Record Period.

Liquidity risk

To manage the liquidity risk, our Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance our Group's operations and mitigate the effects of fluctuations in cash flows. Our Group expects to fund its future cash flow needs through, amongst others, the net proceeds of the Share Offer, internally generated cash flows from operations and borrowings from financial institutions.

The table below analyses our Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year
	HK$'000
As at 31 March 2011	
Borrowings	6,019
Trade and note payables	78,136
Other payables	3,645
Amounts due to related parties	43,638
	131,438
As at 31 March 2012	
Trade and note payables	82,972
Other payables	8,947
Amounts due to related parties	11,391
	103,310
As at 31 March 2013	
Trade and note payables	91,133
Other payables	10,214
Amounts due to related parties	2,139
	103,486
As at 30 June 2013	
Trade and note payables	79,340
Other payables	15,547
Amounts due to related parties	–
	94,887

Capital management

Our Group's objectives when managing capital are to safeguard our Group's ability to continue as a going concern in order to provide returns for its shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, our Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, or sell assets to reduce debt.

The manufacturing activity of our Group is mainly financed by owner's injected capital, internal resources generated from operation and funds from related parties and bank borrowings. As at 31 March 2011, 2012 and 2013 and 30 June 2013, our Group was in net cash position.

RELATED PARTY TRANSACTIONS

During the Track Record Period, our Group entered into certain related party transactions, details of which are set out in note 30 headed "Related party transactions" to the accountant's report set out in Appendix I to this prospectus. Our Directors confirm that these related party transactions, except for trading of materials with Shantou Lejing for which no profit was gained, were conducted on normal commercial terms.

LATEST DEVELOPMENT

The financial performance of our Group is dependent on, among others, the condition of the cigarette and cigarette-related packaging materials market in the PRC.

Subsequent to the Track Record Period, our Group recorded an unaudited revenue of approximately HK$78 million for the three months ended 30 September 2013, representing an increase of approximately 14.8% as compared with the corresponding period of 2012 and an increase of approximately 52.3% as compared to the three months ended 30 June 2013. This increase was mainly a result of the bounce back of our sales to the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer which was, to the best knowledge of our Directors, postponed their purchases from the first half of 2013 to the second half of the same year. Taking into consideration (i) the discussions between our Company on the one part and the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer on the other part in relation to the effect of postponement of their purchases; (ii) that our Directors are not aware of any indication from the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer that there would be any material adverse change of the plans of their purchases on a year-on-year basis; (iii) that based on the unaudited management accounts, our Group recorded an unaudited revenue of approximately HK$129 million for the six-month period from 1 April 2013 to 30 September 2013, representing only a decrease of approximately 6.9% as compared to the corresponding period of 2012; and (iv) the forecasted growth in the cigarette-related packaging material industry in the PRC with forecasted growth in revenue with CAGR of approximately 2.2% from 2012 to 2017 according to the Ipsos Report, our Company is of the view that the impact of the postponement of purchases by the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer on our sales will be short-term. According to the Ipsos Report and to best knowledge and belief of our Directors, our Directors are not aware there would be any significant cigarette industry reform that would result in material adverse change in the demand for the cigarettes in the PRC.

The total estimated listing expenses (including underwriting commission) in connection with the Share Offer was approximately HK$26.4 million based on the mid-point of the stated range of the Offer Price. For the year ended 31 March 2013, we incurred listing expenses of approximately HK$4.7 million, which was fully charged to the profit and loss accounts of our Group. For the three months ended 30 June 2013, we incurred listing expenses of approximately HK$5.8 million, of which approximately HK$3.1 million was charged to the profit and loss accounts of our Group and approximately HK$2.7 million was capitalised. It is estimated that approximately HK$5.8 million of those expenses will be capitalised after the Listing and the remaining HK$10.1 million of those expenses will be charged to the profit and loss accounts of our Group for the nine months ending 31 March 2014.

Mr. Zheng, our Controlling Shareholder, Mr. Zheng Minsheng and their respective associates have repaid all the amounts due to our Group prior to the Listing.

Our Directors confirm that there has been no material adverse change in the financial or trading position or the prospect of our Group since 30 June 2013 and up to the date of this prospectus.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position or prospects since 30 June 2013 and there has been no event since 30 June 2013, including any shortfall of working capital or deteriorating cash position after the Track Record Period, which would materially affect the information shown in the accountant's report set out in Appendix I to this prospectus up to the date of this prospectus.

NO BUSINESS INTERRUPTION

Our Directors confirm that there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus.

SENSITIVITY ANALYSIS

Our net profit is subject to, amongst others, cost of sales which in turn is affected by, among others, the purchase prices of major raw materials used by our Group. Our Group usually enters into sales contracts/arrangements with our major customers for terms of three years, pursuant to which our Group shall be obliged to supply our products to our customers at the stated price during the term of the sales contracts/arrangements.

The following table illustrates the sensitivity analysis of the respective combined net profit attributable to the owner of our Company for each of the years ended 31 March 2011, 2012 and 2013 and the three months ended 30 June 2013 with reference to 2.5% increase or decrease of average purchase price of base paper, and 12.3% for aluminium foils, assuming all other variables held constant. The movement of average price prices of base paper and aluminium foils for each of the years ended 31 March 2011, 2012 and 2013 and the three months ended 30 June 2013 used in the below analysis represents the maximum range in fluctuation of their respective average purchase prices during the Track Record Period.

	For the year ended 31 March			For the three months ended
	2011	2012	2013	30 June 2013
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*
<u>**Base paper**</u>				
Average price increase/ decrease	+/-2.5%	+/-2.5%	+/-2.5%	+/-2.5%
Approximate decrease/ increase in combined net profit for the year/period attributable to owner of our Company, assuming all other variables held constant	**-/+1.8**	**-/+1.8**	**-/+1.6**	**-/+0.2**
<u>**Aluminium foils**</u>				
Average price increase/ decrease	+/- 12.3%	+/-12.3%	+/-12.3%	+/-12.3%
Approximate decrease/ increase in combined net profit for the year/period attributable to owner of our Company, assuming all other variables held constant	**-/+9.4**	**-/+ 8.5**	**-/+5.6**	**-/+0.8**

SUMMARY OF KEY FINANCIAL RATIOS

	For the year ended 31 March			For the three months ended 30 June	
	2011	2012	2013	2012	2013
Profitability ratios:					
Revenue growth/(decrement) *(Note 1)*	Not applicable	25.3%	5.0%	Not applicable	(27.7%)
Net profit growth/(decrement) *(Note 2)*	Not applicable	208.5%	50.7%	Not applicable	(26.1%)
Gross profit margin *(Note 3)*	13.1%	19.0%	28.2%	22.0%	30.7%
Net profit margin *(Note 4)*	4.5%	11.2%	16.0%	15.6%	15.9%
Return on equity *(Note 5)*	13.5%	28.4%	29.9%	Not applicable	6.1%
Return on total assets *(Note 6)*	4.6%	13.8%	17.0%	Not applicable	3.5%

	As at 31 March			As at 30 June
	2011	2012	2013	2013
Liquidity ratios:				
Current ratio *(Note 7)*	1.2	1.5	1.9	1.8
Quick ratio *(Note 8)*	0.9	1.3	1.6	1.4

	For the years ended 31 March			For the three months ended 30 June	For the three months ended 30 September
	2011	2012	2013	2013	2013
Average trade and note receivables turnover days *(Note 9)*	104	78	79	106	74
Average trade and notes payables turnover days *(Note 10)*	153	137	159	219	155
Average inventories turnover days *(Note 11)*	40	46	52	88	58

	As at 31 March			As at 30 June
	2011	2012	2013	2013
Capital adequacy ratios:				
Gearing ratio *(Note 12)*	0.1	Not applicable	Not applicable	Not applicable
Net cash to equity *(Note 13)*	0.1	0.3	0.3	0.2
Interest coverage *(Note 14)*	26.9	402.3	Not applicable	Not applicable

Notes:

1. Revenue growth represents the growth of our Group's revenue for the relevant year/period as compared with the previous year/period.

2. Net profit growth represents the growth of our Group's net profit for the relevant year/period as compared with the previous year/period.

3. Gross profit margin is derived from dividing gross profit of our Group by its revenue for the relevant year/period and multiplied by 100%.

4. Net profit margin is derived from dividing net profit of our Group by its revenue for the relevant year/period and multiplied by 100%.

5. Return on equity is derived from dividing net profit of our Group for the year/period by the total equity of our Group as at the end of the relevant year/period and multiplied by 100%.

6. Return on total assets is derived from dividing net profit of our Group for the year/period by the total assets of our Group as at the end of the relevant year/period and multiplied by 100%.

7. Current ratio is derived from dividing our Group's current assets by its current liabilities as at the end of the relevant year/period.

8. Quick ratio is derived from dividing our Group's current assets less inventories by its current liabilities as at the end of the relevant year/period.

9. Average trade and note receivables turnover days for each of the years ended 31 March 2011, 2012 and 2013, the three months ended 30 June 2013 and the three months ended 30 September 2013 were calculated based on the average of the trade and note receivables balance (net of specific provision, if any) as at the beginning and ending dates of the relevant year/period divided by the revenue of the respective years/period and multiplied by 365 days/91 days/92 days.

10. Average trade and notes payables turnover days for each of the years ended 31 March 2011, 2012 and 2013, the three months ended 30 June 2013 and the three months ended 30 September 2013 were calculated based on the average of the trade and note payables balance as at the beginning and ending dates of the relevant year/period divided by the cost of sales of the respective years/period and multiplied by 365 days/91 days/92 days.

11. Average inventories turnover days for each of the years ended 31 March 2011, 2012 and 2013, the three months ended 30 June 2013 and the three months ended 30 September 2013 were calculated based on the average of the inventories balance (net of specific provision for inventories, if any) as at the beginning and ending dates of the relevant year divided by the cost of sales of the respective years/period and multiplied by 365 days/91 days/92 days.

12. Gearing ratio is derived from dividing total debt (being the amount of bank borrowings) by the sum of total debt and total equity as at the end of the relevant year/period. Our Group did not have any borrowing as at 31 March 2012 and 2013 and 30 June 2013.

13. Net cash to equity is derived from dividing cash and cash equivalents less total debt (being the amount of bank borrowings) by total equity as at the end of the relevant year/period.

14. Interest coverage is derived from dividing our Group's net profit before interest and tax by its finance costs for the year. Our Group did not have any finance cost for the year ended 31 March 2013 and for the three months ended 30 June 2013.

Explanations on the major fluctuations in the key financial ratios of our Group with reference to the above table are set out as follows:

Profitability ratios

The growth of revenue and net profit during the Track Record Period was mainly attributed to the launch of tipping paper and cigarette trademark labels in the year ended 31 March 2012 and the further growth of sales of tipping paper for the year ended 31 March 2013. The decrease in revenue for the three months ended 30 June 2013 as compared to the corresponding period of 2012 was, to the best knowledge of our Directors, mainly due to the postponement of purchases made by the Guangdong Cigarette Manufacturer and the Shanghai Cigarette Manufacturer from the first half of 2013 to the second half of the same year.

Our gross profit margin and net profit margin had experienced high growth rates during the Track Record Period which was primarily attributable to (i) the launch of tipping paper and cigarette trademark labels which had gross profit margin relatively higher than our existing products; (ii) the reduction of sales of cigarette paper boxes which had low or negative gross profit margin; (iii) improvement of our production efficiency; and (iv) our stringent cost control on production. Return on equity and return on total assets also shared the same trend of our gross profit margin and net profit margin.

Liquidity ratios

Improvement of current ratio and quick ratio across 31 March 2011, 2012 and 2013 were mainly attributable to (i) increase in trade and note receivables which was in line with the increase of sales; (ii) increase in cash and cash equivalents; and (iii) repayment of amounts due to related parties. The decrease of current ratio and quick ratio as at 30 June 2013 was mainly attributable by the decrease in cash and cash equivalents, which was, in turn, due to the payment of dividend of HK$27.7 million to Mr. Zheng.

For the explanation of fluctuation of other liquidity ratios, please refer to the paragraph headed "Major balance sheet items" of this section.

Capital adequacy ratios

The borrowing of approximately HK$5.9 million as at 31 March 2011 was subsequently repaid in the year ended 31 March 2012. We did not have any borrowing as at 31 March 2012 and 2013.

The ratio of net cash to equity improved across the years was mainly due to (i) the cash generated from the business of our Group; and (ii) repayment of borrowing in the year ended 31 March 2012. The decrease of ratio of net cash to equity as at 30 June 2013 was mainly attributable by the decrease in cash and cash equivalents, which was, in turn, due to the payment of dividend of HK$27.7 million to Mr. Zheng.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Share Offer on the net tangible assets of our Group attributable to the equity holders of our Company as of 30 June 2013 as if the Share Offer had taken place on 30 June 2013 assuming the Over-allotment Option is not exercised.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of our Group as at 30 June 2013 or at any future dates following the Share Offer. It is prepared based on the combined net assets of our Group as at 30 June 2013 as set out in the accountant's report of our Group, the text of which is set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the accountant's report.

	Audited combined net tangible assets of our Group attributable to owner of our Company as at 30 June 2013	Estimated net proceeds from the Share Offer	Unaudited pro forma adjusted combined net tangible assets attributable to owner of our Company	Unaudited pro forma adjusted net tangible assets per Share
	(Note 1)	*(Note 2)*		*(Note 3)*
	HK$'000	*HK$'000*	*HK$'000*	*HK$*
Based on an Offer Price of HK$1.18 per Share	132,771	52,474	185,245	0.62
Based on an Offer Price of HK$1.48 per Share	132,771	69,934	202,705	0.68

Notes:

(1) The audited combined net tangible assets attributable to the equity holders of our Company as at 30 June 2013 is extracted from the accountant's report set out in Appendix I to this prospectus, which is based on the audited combined net assets of our Group attributable to the equity holders of our Company as at 30 June 2013 of HK$132,771,000.

(2) The estimated net proceeds from the Share Offer are based on the indicative Offer Price of HK$1.18 and HK$1.48 per Share after deduction of the estimated underwriting fees and other related expenses and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme.

(3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 300,000,000 Shares were in issue assuming that the Share Offer has been completed on 30 June 2013 but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme and any Share which may be issued or repurchased by our Company pursuant to the general mandate to Issue Shares or the general mandate to Repurchase Shares as described in the section headed "Share capital" in this prospectus.

(4) No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to 30 June 2013. In particular, the unaudited pro forma adjusted net tangible assets has not adjusted the special dividends of HK$35,975,000 declared and paid by our Group subsequent to 30 June 2013. Had the dividend been taken into account, the unaudited pro forma adjusted net tangible assets per Share would be HK$0.50 and HK$0.56 based on the Offer Price of HK$1.18 and HK$1.48 per Share respectively.

FUTURE PLANS AND PROSPECTS

We intend to implement those plans as set out under the paragraph headed "Business strategies" under the section headed "Business" of this prospectus.

REASONS FOR THE SHARE OFFER AND USE OF PROCEEDS

The net proceeds from the Share Offer will strengthen our capital base and will provide funding for achieving our business strategies and carrying out its future plans as set out in this section.

Assuming an Offer Price of HK$1.33 per Share (being the mid-point of the stated range of the Offer Price of between HK$1.48 per Share and HK$1.18 per Share), the net proceeds of the Share Offer, after deducting related expenses paid and payable by us, are estimated to be approximately HK$53.4 million. Our Directors presently intend to apply such net proceeds of the Share Offer as follows:

- as to approximately HK$20.6 million, representing approximately 38.5% of the net proceeds from the Share Offer, will be used for upgrade of our existing production base, further expansion of our production capability and increase in the production capacity by, including but not limited to, (a) acquisition of machineries of more advanced technology such as printing press for the production of high-end cigarette paper boxes so as to increase our competitiveness in securing sales orders from the leading cigarette manufacturers in the PRC; and (b) acquisition of laser punching machines for the increase of production capacity for the production of tipping paper;

- as to approximately HK$20.6 million, representing approximately 38.5% of the net proceeds from the Share Offer, will be used for possible strategic acquisition of other market players in the same industry as our Company. As at the Latest Practicable Date, we have not identified any specific acquisition targets or entered into any legally binding agreement or arrangement with respect to such acquisition. In assessing the suitability of the acquisition targets, we would consider factors such as: (i) whether the relevant acquisition target has long-term and good business relationship with our target customers; (ii) the location of its production facilities; (iii) the type of cigarette-related packaging materials it manufactures; (iv) its reputation in the cigarette manufacturing industry in the PRC; (v) its scale of operation; and (vi) its historical financial performance;

- as to approximately HK$5.6 million, representing approximately 10.6% of the net proceeds from the Share Offer, will be used for the research and development activities on aspects of (i) development of re-useable laser film which will help us reduce our production costs in the long run; (ii) the improvement of our inner frame paper with pattern, which requires installation of additional equipment; (iii) the improvement of pump in the equipment for the deposition of aluminium which will increase our efficiency in energy consumption; (iv) the improvement of our waste paper treatment system which requires installation of additional equipment; and (v) the improvement of our monitoring system which requires installation of additional monitoring and adjustment equipment;

- as to approximately HK$2.0 million, representing approximately 3.7% of the net proceeds from the Share Offer, will be used for the sales and marketing activities of our Group to enhance our Group's relationship with its existing customers and explore business opportunities with emphasis on those potential customers producing premium and larger brands, including but not limited to visiting the existing and target customers, providing training to the sales and marketing staff of our Group, proactive participation in the tendering arranged by the existing and potential customers of applicable and, depending our operational requirements, engaging more sales staff and participating in exhibitions of the cigarette-related products industry;

- as to approximately HK$2.0 million, representing approximately 3.7% of the net proceeds from the Share Offer, will be used for the renovation of our existing production facilities and office building. Please refer to the paragraph headed "Production facilities and capacity" under the section headed "Business" for further details; and

- as to approximately HK$2.6 million, representing approximately 5.0% of the net proceeds from the Share Offer, will be used as the general working capital of our Group.

If the Offer Price is fixed at HK$1.48 per Offer Share, being the high-end of the indicative Offer Price range, and assuming the Over-allotment Option is not exercised, the net proceeds of the Share Offer will be approximately HK$62.1 million. Assuming the Over-allotment Option is exercised in full, the net proceeds will be approximately HK$78.3 million.

If the Offer Price is fixed at HK$1.18 per Offer Share, being the low-end of the indicative Offer Price range, and assuming the Over-allotment Option is not exercised at all, the net proceeds of the Share Offer will be approximately HK$44.7 million. Assuming the Over-allotment Option is exercised in full, the net proceeds will be approximately HK$45.1 million.

To the extent that the net proceeds of the Share Offer are either more or less than expected, for instance, in the event that the Offer Price is set at the high-end of the indicative Offer Price range, the Over-allotment Option is exercised or the Offer Price is set at the low-end of the indicative Offer Price range, we will adjust our allocation of the net proceeds for the above purposes on a pro rata basis.

If the Offer Price is fixed at HK$1.33 per Offer Share, being the mid-point of the indicative Offer Price range, the gross proceeds from the sale of the Sale Shares by the Selling Shareholder under the Share Offer are estimated to be HK$20.0 million.

To the extent that the net proceeds of the Share Offer and the issue of new Shares under the Over-allotment Option are not immediately applied for the above purposes, it is the present intention of our Directors that such net proceeds will be placed on short-term deposits with financial institutions.

Our Directors consider that the net proceeds from the Share Offer, together with internally generated funds and the banking facilities available to our Group, will be sufficient to finance the future business development of our Group as described in this prospectus.

THE CORNERSTONE PLACING

On 24 November 2013, as part of the Placing, our Company entered into the cornerstone investor placing agreement with, among others, Sheen Tai Holdings Group Company Limited (the "**Cornerstone Investor**"), which has agreed to subscribe at the Offer Price for such number of Offer Shares which may be purchased with the amount of HK$20,000,000. Assuming an Offer Price of HK$1.48 (being the high-end of the indicative Offer Price range), HK$1.33 (being the mid-point of the indicative Offer Price range) and HK$1.18 (being the low-end of the indicative Offer Price range), the total number of Shares subscribed by the Cornerstone Investor would be approximately 13,512,000 Shares, 15,036,000 Shares and 16,948,000 Shares respectively (rounded down to the nearest whole board lot of 2,000 Shares), representing approximately 4.5%, 5.0% and 5.6% of the issued share capital of our Company immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme) respectively.

The Cornerstone Investor is an Independent Third Party and is not an existing Shareholder. The Cornerstone Investor will not subscribe for any Offer Shares under the Share Offer other than pursuant to the cornerstone investor placing agreement. Immediately following completion of the Share Offer, the Cornerstone Investor will not have any Board representation in our Company, nor will the Cornerstone Investor become a substantial Shareholder of our Company. The Offer Shares to be subscribed by the Cornerstone Investor will not be affected by any re-allocation of the Offer Shares between the Public Offer and the Placing in the event of over-subscription under the Public Offer as described in the section headed "Structure of the Share Offer" of this prospectus. The Offer Shares to be subscribed by the Cornerstone Investor will be counted as part of the public float upon the Listing.

THE CORNERSTONE INVESTOR

The Cornerstone Investor was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 24 February 2012 and its shares are listed on the Main Board of the Stock Exchange with stock code 1335. The principal business of the Cornerstone Investor is manufacture and supply of cigarette packaging materials in the PRC.

CONDITIONS PRECEDENT

The subscription obligation of the Cornerstone Investor is conditional on, inter alia, the Underwriting Agreements having been entered into and having become effective and unconditional and not having been terminated, and the Offer Price having been agreed between our Company (for ourselves and on behalf of the Selling Shareholder) and the Sole Bookrunner (for itself and on behalf of the Underwriter).

RESTRICTIONS ON DISPOSAL BY THE CORNERSTONE INVESTOR

The Cornerstone Investor has agreed that, without the prior written consent of our Company and the Sole Bookrunner, it will not, whether directly or indirectly, at any time during the period of six months following the Listing Date, dispose of any Shares subscribed pursuant to the cornerstone investor placing agreement, save that the Cornerstone Investor may transfer the Shares to its wholly owned subsidiary and such transfer can only be made where the transferee agrees to be subject to, inter alia, the restrictions on disposal imposed on the Cornerstone Investor.

PLACING AND PUBLIC OFFER UNDERWRITER

Sole Bookrunner and Sole Lead Manager

Haitong International Securities Company Limited

Public Offer Underwriter

Haitong International Securities Company Limited

Placing Underwriter

Haitong International Securities Company Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Public Offer Underwriting Agreement

Pursuant to the Public Offer Underwriting Agreement, our Company is offering the Public Offer Shares for subscription, subject to the terms and conditions of this prospectus and the Application Forms relating thereto, at the Offer Price.

Subject to, among other matters, the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein on or before Friday, 6 December 2013 (or such later date as our Company and the Sole Bookrunner (for itself and on behalf of the Underwriter) may agree in writing) and the Offer Price having been determined by our Company and the Sole Bookrunner on Friday, 29 November 2013 or such other date as may be agreed between our Company and the Sole Bookrunner (for itself and on behalf of the Underwriter), but in any event no later than Wednesday, 4 December 2013, the Public Offer Underwriter has agreed to subscribe for or procure subscribers to subscribe for, on the terms and conditions of this prospectus and the Application Forms relating thereto, the Public Offer Shares now being offered for subscription under the Public Offer and which are not taken up under the Public Offer.

Grounds for termination

If, at any time prior to 8:00 a.m. on the Listing Date:

(a) there has come to the notice of the Sole Bookrunner:-

  (i) that any statement, reasonably considered by the Sole Bookrunner to be material, contained in any of this prospectus or the Application Form(s) and other documents regarding the Placing in relation to the Share Offer was when the same was issued, or has become, untrue, incorrect or misleading in any material respects; or

  (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission therefrom reasonably considered by the Sole Bookrunner to be material to the Share Offer; or

(iii) any material breach of any of the obligations imposed upon any party to the Public Offer Underwriting Agreement or the Placing Underwriting Agreement; or

(iv) any material adverse change in the conditions, business affairs, prospects or the financial or trading position of our Group as a whole;

(b) there shall develop, occur, exist or come into effect:-

(i) any event, or series of events, beyond the reasonable control of the parties to the Public Offer Underwriting Agreement (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, civil commotion, acts of war, acts of God, acts of terrorism, riot, public disorder, economic sanctions, outbreak of diseases or epidemics including severe acute respiratory syndrome and avian influenza and such related/mutated forms or interruption or delay in transportation) which has or would have the effect of making any part of the Public Offer Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Share Offer or pursuant to the underwriting thereof; or

(ii) any material adverse change or development involving a prospective change, or any event or series of events likely to result in any material adverse change or development involving a prospective change in local, national, international, financial, economic, political, military, industrial, fiscal, regulatory or market conditions and matters and/or disaster or any monetary or trading settlement systems (including any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange, or a material fluctuation in the exchange rate of Hong Kong dollars against any foreign currency, or any material interruption in securities settlement or clearance service or procedures in Hong Kong); or

(iii) any new law or material change or development involving a prospective change in existing laws or any material change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in Hong Kong or any other jurisdictions relevant to any member of our Group; or

(iv) the imposition of significant economic sanctions, in whatever form, directly or indirectly, by the United States or the European Union (or any member thereof) on Hong Kong, the PRC or any other jurisdictions relevant to any member of our Group; or

(v) any material change or development involving a prospective change occurs in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the PRC or any other jurisdictions relevant to any member of our Group; or

(vi) any material change or development involving a prospective change, or a materialisation of, any of the risks set forth in the section headed "Risk factors" in this prospectus; or

(vii) any litigation or claim of material importance of any third party being threatened or instigated against any member of our Group; or

(viii) a valid demand by any creditor for repayment or payment of any material indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity; or

(ix) any material loss or damage sustained by any member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person); or

(x) a petition is presented for the winding up or liquidation of any member of our Group or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or

(xi) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary of Hong Kong and/or the Hong Kong Monetary Authority or other competent authority) or other jurisdictions relevant to any member of our Group,

which in the sole opinion of the Sole Bookrunner (for itself and on behalf of the Public Offer Underwriter) (1) is or shall have a material adverse effect on the operation, business, financial or prospects of our Group as a whole; or (2) has or shall have a material adverse effect on the success, marketability or pricing of the Share Offer or the level of applications under the Public Offer or the level of interest under the Placing; or (3) makes it inadvisable, inexpedient or impracticable for the Share Offer to proceed.

UNDERTAKINGS TO THE STOCK EXCHANGE PURSUANT TO THE LISTING RULES

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that no further Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except in certain circumstances as prescribed under Rule 10.08 of the Listing Rules.

In accordance with Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders, namely SXD Limited and Mr. Zheng, has undertaken to the Stock Exchange and our Company that except pursuant to the Share Offer, the Capitalisation Issue and the Stock Borrowing Agreement:

(i) he/it will not, at any time commencing on the date by reference to which disclosure of the shareholding of our Controlling Shareholders is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interest or encumbrances in respect of, any of his/its Shares in respect of which he/it is shown by this prospectus to be the beneficial owner; and

(ii) he/it will not, at any time during the period of six months from the date on which the period referred to in paragraph (i) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of his/its Shares referred to in paragraph (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would cease to be our Controlling Shareholder.

Note (2) of Rule 10.07 of the Listing Rules provides that Rule 10.07 does not prevent a Controlling Shareholder from using the Shares owned by him/it as security (including a charge or a pledge) in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan.

Pursuant to Note 3 of Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has further undertaken to the Stock Exchange, our Company and the Sole Bookrunner (for itself and on behalf of the Underwriter) that he/it will, within the period commencing on the date by reference to which disclosure of his/its shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date:

(i) when he/it pledges or charges any Shares or other securities or interests in any securities of our Company beneficially owned by him/it in favour of any authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan, immediately inform us of such pledge or charge together with the number of such Shares or securities of our Company so pledged or charged; and

(ii) when he/it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or securities or interests in any securities of our Company will be disposed of, immediately inform us of such indications.

Our Company agrees and undertakes to the Stock Exchange, the Sponsor and the Sole Bookrunner (for itself and on behalf of the Underwriter) that upon receiving such information in writing from any of our Controlling Shareholders, we shall, as soon as practicable, notify the Stock Exchange, the Sponsor and the Sole Bookrunner (for itself and on behalf of the Underwriter) and make appropriate disclosures in relation to such information by way of an announcement.

UNDERTAKINGS PURSUANT TO THE PUBLIC OFFER UNDERWRITING AGREEMENT

Each of our Controlling Shareholders has further jointly and severally undertaken to and covenanted with our Company, the Sponsor and the Sole Bookrunner (for itself and on behalf of the Underwriter) that:

(i) he/it will not, and will procure that none of his/its associates (as defined in the Listing Rules) or companies controlled by him/it will, during the period commencing from the date of this prospectus and ending on the date falling the expiry of the six-month period from the Listing Date, dispose of, or enter into any agreement to dispose of (including without limitation by the creation of any option, charge or other encumbrance or rights over or in respect of but save pursuant to a pledge or charge as security for a bona fide commercial loan) any of the Shares or any interests therein owned by him/it or in which he/it is, directly or indirectly, interested immediately after the completion of the Share Offer and the Capitalisation Issue (or any other shares or securities of or interest in our Company arising or deriving therefrom) or dispose of, or enter into any agreement to dispose of (including without limitation by the creation of any option, charge or other encumbrance or rights over or in respect of but save pursuant to a pledge or charge as security for a bona fide commercial loan) any shares in any company controlled by him/it which is the beneficial owner of any of such Shares provided that the foregoing restriction shall not apply to any Shares which he/it or any of his/its associates (as defined in the Listing Rules) may acquire following the Listing Date;

(ii) within a further six months commencing on the date of expiry of the six-month period referred to in paragraph (i) above, he/it will not, and will procure that none of his/its associates (as defined in the Listing Rules) or the companies controlled by him/it will, dispose of, or enter into any agreement to dispose of (including without limitation by the creation of any option, charge or other encumbrance or rights over or in respect of but save pursuant to a pledge or charge as security for a bona fide commercial loan) any Shares or any interests therein referred to in paragraph (i) above or dispose of, or enter into any agreement to dispose of (including without limitation by the creation of any option, charge or other encumbrance or rights over or in respect of but save pursuant to a pledge or charge as security for a bona fide commercial loan) any shares in any company controlled by him/it which is the beneficial owner of such Shares if, immediately following such disposal, any of them, either individually or taken together with the others, would cease to be a Controlling Shareholder or cease to hold a controlling interest (that is to say, an interest of at least 30% or such lower percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) in any of the companies controlled by him/it which owns any such Shares;

(iii) in the event of any disposal of Shares or any such interests referred to in paragraph (ii) above after expiry of the six-month period referred to in paragraph (i) above, all reasonable steps will be taken to ensure that such disposal will not create a false or disorderly market in the Shares; and

(iv) he/it will, and will procure that his/its associates (as defined in the Listing Rules) or companies controlled by him/it will, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by him/it or by the registered holder controlled by him/it of any Shares.

Our Company has undertaken to and covenanted with the Sponsor, the Sole Bookrunner, the Sole Lead Manager and the Underwriter that, and each of our executive Directors undertakes and covenants with the Sponsor, the Sole Bookrunner, the Sole Lead Manager and the Underwriter to procure that, without the prior written consent the Sole Bookrunner (for itself and on behalf of the Underwriter) (such consent not to be unreasonably withheld or delayed), our Company will not, save pursuant to the Share Offer, the Capitalisation Issue, the grant of any option under the Share Option Scheme or the exercise of any option to be granted under the Share Option Scheme or any scrip dividend schemes or similar schemes under which profits are capitalised and providing for the allotment and issue of Shares in lieu of the whole or part of a dividend in accordance with the Articles and unless in compliance with the requirements of the Listing Rules, (a) at any time after the Latest Practicable Date up to and including the date falling six months after the Listing Date, issue or agree to issue any shares or securities in our Company or any of its major subsidiaries (as defined in Rule 13.25(2) of the Listing Rules) if such shares or securities of such major subsidiary are not issued to other member of our Group or grant or agree to grant any options, warrants or other rights carrying the rights to subscribe for, or otherwise convert into, or exchange for, any securities of our Company or any of its major subsidiaries (as defined aforesaid) if such options, warrants or rights are not granted by such major subsidiary to other member of our Group; and (b) within a further six months following the six-month period referred to in (a) above, issue or agree to issue any shares or securities in our Company or grant or agree to grant any options, warrants or other rights carrying the rights to subscribe for, or otherwise convert into or exchange for, any shares or securities in our Company so as to result in SXD Limited and Mr. Zheng, either taken individually or taken together, would cease to be a Controlling Shareholder or cease to hold a controlling interest (that is to say, an interest of at least 30% or such lower percentage as may from time to time be specified in the Takeover Code as being the level for triggering a mandatory general offer) in any of the companies controlled by him or it which owns any Shares.

Each of our Company and our executive Directors has undertaken to and covenanted with the Sponsor, the Sole Bookrunner, the Sole Lead Manager and the Underwriter that save with prior written consent of the Sole Bookrunner (for itself and on behalf of the Underwriter) (such consent not to be unreasonably withheld or delayed), no company in our Group will within the period of six months from the Listing Date purchase any securities of our Company.

Placing Underwriting Agreement

In connection with the Placing, it is expected that our Company and SXD Limited will, on or about Friday, 29 November 2013, enter into the Placing Underwriting Agreement with, among other parties, the Sponsor, the Sole Bookrunner, the Sole Lead Manager and the Placing Underwriter. Under the Placing Underwriting Agreement, it is expected that the Placing Underwriter would, subject to certain conditions set out therein, agree to subscribe for or procure subscribers to subscribe for the Placing Shares.

Under the Placing Underwriting Agreement, our Company intends to grant to the Sole Bookrunner, the Over-allotment Option, which is exercisable by the Sole Bookrunner for up to 30 days from the last day for the lodging of applications under the Public Offer, to require our Company to issue up to an aggregate of 11,250,000 additional Shares, representing 15% of the number of Offer Shares initially available under the Share Offer, at the Offer Price to cover over-allocations in the Placing, if any.

It is expected that our Company and the Controlling Shareholders will give undertakings in the Placing Underwriting Agreement similar to those given pursuant to the Public Offer Underwriting Agreement.

Commission

The Public Offer Underwriter will receive a commission of 3% of the aggregate Offer Price of all the Public Offer Shares. The Sponsor will receive financial advisory and documentation fees. Assuming that the Over-allotment Option will not be exercised, the underwriting commission, financial advisory and documentation fee, Stock Exchange listing fees and trading fee, SFC transaction levy, legal and other professional fees together with applicable printing and other expenses relating to the Share Offer are estimated to amount to approximately HK$27.4 million in total (based on an Offer Price of HK$1.33 per Share, being the mid-point of the indicative Offer Price range of between HK$1.48 and HK$1.18 per Share), and will be payable by our Company.

Underwriter's interests in our Company

Save as disclosed under the paragraph headed "Sponsor's interests in our Company" below and as contemplated under the Underwriting Agreements, as at the Latest Practicable Date, the Underwriter was not interested, whether directly or indirectly, in any shares or securities in any member of our Group, nor did it have any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, any shares or securities in any member of our Group.

Sponsor's interests in our Company

Save as pursuant to the Underwriting Agreements, the compliance advisor agreement and as disclosed herein, neither the Sponsor nor any of its associates is interested, directly or indirectly, in any shares or securities in any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, any shares or securities in any member of our Group. No director or employee of any of the Sponsor who is involved in providing advice to our Company has or may, as a result of the Share Offer, have any interest in any class of securities of our Company or any other member of our Group (including options or rights to subscribe for such securities but, for the avoidance of doubt, excluding interests in securities that may be subscribed for by any such director or employee of the Sponsor pursuant to the Public Offer).

None of the Sponsor or any of its associates has accrued any material benefit as a result of the successful outcome of the Share Offer, including by way of example, the repayment of material outstanding indebtedness or success fees, other than the following:

(i) by way of underwriting commission to be paid to the Public Offer Underwriter and the Placing Underwriter pursuant to the Underwriting Agreements;

(ii) the financial advisory and documentation fees to be paid to the Sponsor; and

(iii) certain associates of the Sponsor, whose ordinary business involves the trading of and dealing in securities, may be involved in the trading of and dealings in the securities in our Company. No director or employee of the Sponsor has a directorship in our Company or any other member of our Group.

COMPLIANCE ADVISOR AGREEMENT

Our Company will enter into the compliance advisor agreement with Haitong International Capital Limited ("**Haitong International Capital**"), pursuant to which our Company will appoint Haitong International Capital and Haitong International Capital will act as our compliance advisor with effect from the Listing Date until the day on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date or until the compliance advisor agreement is otherwise terminated pursuant to its terms and conditions. Details of the terms of the compliance advisor agreement are set out under the paragraph headed "Compliance advisor" under the section headed "Directors and senior management" of this prospectus.

PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK$1.48 and is expected to be not less than HK$1.18 per Offer Share. Based on the maximum Offer Price of HK$1.48 per Offer Share, plus 1% brokerage fee, 0.003% SFC transaction levy and 0.005% Stock Exchange trading fee, the total cost payable for one board lot of 2,000 Offer Shares will amount to a total of HK$2,989.84. The Application Forms have tables showing the exact amount payable for multiples of the Offer Shares.

The Offer Price is expected to be fixed by an agreement between our Company (for ourselves and on behalf of the Selling Shareholder) and the Sole Bookrunner (for itself and on behalf of the Underwriter) on Friday, 29 November 2013 or such other date as may be agreed between our Company (for ourselves and on behalf of the Selling Shareholder) and the Sole Bookrunner (for itself and on behalf of the Underwriter), but in any event no later than Wednesday, 4 December 2013.

If, based on the level of interests expressed by prospective professional, institutional and/or other investors during the book-building process, the Sole Bookrunner (for itself and on behalf of the Underwriter, and with the consent of our Company) thinks it appropriate (for instance, if the level of interests is below the indicative Offer Price range), the indicative Offer Price range may be reduced below that as stated in this prospectus at any time prior to the morning of the last day for lodging applications. In such case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Public Offer, cause notice of the reduction of the indicative Offer Price range to be published in The Standard (in English) and the Hong Kong Economic Journal (in Chinese) and to be posted on our Company's website at **www.huaxihds.com.hk** and the Stock Exchange's website at **www.hkexnews.hk**. Such notice will also include any financial information which may change as a result of any such reduction.

If, for whatsoever reason, the Offer Price is not agreed between our Company (for ourselves and on behalf of the Selling Shareholder) and the Sole Bookrunner (for itself and on behalf of the Underwriter) on Friday, 29 November 2013 or such other date as may be agreed between our Company (for ourselves and on behalf of the Selling Shareholder) and the Sole Bookrunner (for itself and on behalf of the Underwriter), but in any event no later than Wednesday, 4 December 2013, the Share Offer will not become unconditional and will lapse immediately. In such event, our Company will issue an announcement to be published in The Standard (in English) and the Hong Kong Economic Journal (in Chinese).

CONDITIONS OF THE SHARE OFFER

Acceptance of your application for the Offer Shares is conditional upon:

1. Listing

The Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus;

2. Underwriting Agreements

Our Company, the Sponsor, the Sole Bookrunner, the Sole Lead Manager and the Underwriter to the Share Offer (if any) entering into the Underwriting Agreements whereby the latter will underwrite the Offer Shares at the Offer Price; and the obligations of the Underwriter under the Underwriting Agreements becoming unconditional and not being terminated before 8:00 a.m. on the Listing Date.

Details of the Underwriting Agreements and their conditions and grounds for termination are set out in the section headed "Underwriting" of this prospectus. If any of these conditions shall not have been fulfilled by 8:00 a.m. on Friday, 6 December 2013 (or such later date as our Company (for ourselves and on behalf of the Selling Shareholder) and the Sole Bookrunner (for itself and on behalf of the Underwriter) may agree in writing), your application money will be returned to you, without interest. The terms on which your money will be returned to you are set out in the paragraph headed "Refund of your application money" on the Application Forms. In the meantime, your money will be held in one or more separate bank accounts with the receiving bank or other licensed bank or banks in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

OFFER MECHANISM

This prospectus is published in connection with the Share Offer, which comprises the Placing and the Public Offer. Initially, 67,500,000 Shares (including the Sale Shares, subject to re-allocation and the Over-allotment Option) are to be offered pursuant to the Placing to professional, institutional and private investors and 7,500,000 Shares (subject to re-allocation) are to be offered to the public in Hong Kong under the Public Offer. References herein to applications, Application Forms, application monies or to the procedure for application relate solely to the Public Offer. The Offer Shares will represent 25% of our Company's enlarged issued share capital immediately after completion of the Share Offer and the Capitalisation Issue.

The Placing is, subject to the agreement between our Company (for ourselves and on behalf of the Selling Shareholder) and the Sole Bookrunner (for itself and on behalf of the Underwriter) on the Final Offer Price, fully underwritten by the Placing Underwriter and the Public Offer is fully underwritten by the Public Offer Underwriter. Information relating to the underwriting arrangements in respect of the Share Offer is set out in the paragraph headed "Underwriting arrangements and expenses" in the section headed "Underwriting" of this prospectus. The Share Offer is sponsored by the Sponsor and managed by the Sole Bookrunner.

Investors may apply for Public Offer Shares under the Public Offer or indicate an interest for Placing Shares under the Placing, but may not do both.

PLACING

Our Company is initially offering, subject to the Over-allotment Option and possible re-allocation on the basis discussed below, 67,500,000 Shares (including the Sale Shares), representing or purchase 90% of the total number of Shares being offered under the Share Offer, for subscription by way of the Placing. Under the Placing, the Placing Underwriter, on behalf of our Company, will conditionally place the Placing Shares with professional, institutional and private investors. Professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of the Placing Shares pursuant to the Placing is based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to buy further Shares and/or hold or sell its Shares after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and its shareholders as a whole. Investors allocated with the Placing Shares cannot apply for the Public Offer Shares under the Public Offer. The Placing is conditional on the fulfillment of all the conditions stated in the paragraph headed "Conditions of the Share Offer" above.

PUBLIC OFFER

Our Company is initially offering 7,500,000 Shares at the Offer Price under the Public Offer, representing 10% of the total number of Shares being offered under the Share Offer for subscription in Hong Kong, subject to re-allocation as mentioned in this section. The Public Offer is managed by the Sole Bookrunner and is, subject to the agreement between our Company (for ourselves and on behalf of the Selling Shareholder) and the Sole Bookrunner (for itself and on behalf of the Underwriter) on the final Offer Price, fully underwritten by the Public Offer Underwriter.

The Public Offer is open to all members of the public in Hong Kong as well as to institutional and professional investors. Applicants for the Public Offer Shares under the Public Offer may not apply for Placing Shares under the Placing. Allocation of Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The Public Offer will be subject to the conditions stated in the paragraph headed "Conditions of the Share Offer" above.

For allocation purposes only, the number of the Public Offer Shares will be divided equally into two pools: pool A and pool B. The Public Offer Shares in pool A will consist of 3,750,000 Shares and will be allocated on an equitable basis to applicants who have applied for the Public Offer Shares in the value of HK$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy) or less. The Public Offer Shares available in pool B will consist of 3,750,000 Shares and will be allocated on an equitable basis to applicants who have applied for Public Offer Shares in the value of more than HK$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy) and up to the total initial value of pool B.

Investors should be aware that the allocation ratios for applications in the two pools, as well as the allocation ratios for applications in the same pool, are likely to be different. Where one of the pools is undersubscribed, the surplus Public Offer Shares will be transferred to satisfy demand in the other pool and be allocated accordingly. Applicants can only receive an allocation of Public Offer Shares from any one pool but not from both pools and can only make applications to either pool A or pool B. Any application made for more than 100% of the Public Offer Shares initially available under pool A or pool B will be rejected. Multiple applications or suspected multiple applications within either pool and between pools will also be rejected.

BASIS OF ALLOCATION OF THE OFFER SHARES

The allocation of Shares between the Public Offer and the Placing is subject to re-allocation which in turn depends on the level of subscription of the Public Offer. The re-allocation will be made on the following basis:

(i) if the number of Public Offer Shares validly applied for under the Public Offer equals or exceeds 112,500,000 Shares (being 15 times of the number of Public Offer Shares initially available for public subscription under the Public Offer) but is less than 375,000,000 Shares (being 50 times of the number of Public Offer Shares initially available for public subscription under the Public Offer), then the number of Shares available for public subscription under the Public Offer will be increased to 22,500,000 Shares, representing 30% of the 75,000,000 Shares available under the Share Offer (assuming the Over-allotment Option will not be exercised);

(ii) if the number of Public Offer Shares validly applied for under the Public Offer equals or exceeds 375,000,000 Shares (being 50 times of the number of Public Offer Shares initially available for public subscription under the Public Offer) but is less than 750,000,000 Shares (being 100 times of the number of Public Offer Shares initially available for public subscription under the Public Offer), then the number of Public Offer Shares available for public subscription under the Public Offer will be increased to 30,000,000 Shares, representing 40% of the 75,000,000 Shares available under the Share Offer (assuming the Over-allotment Option will not be exercised); and

(iii) if the number of Public Offer Shares validly applied for under the Public Offer equals or exceeds 750,000,000 Shares (being 100 times of the number of Public Offer Shares initially available for public subscription under the Public Offer), then the number of Public Offer Shares available for public subscription under the Public Offer will be increased to 37,500,000 Shares, representing 50% of the 75,000,000 Shares available under the Share Offer (assuming the Over-allotment Option will not be exercised). In all cases, the additional Shares reallocated to the Public Offer will be allocated equally between pool A and pool B and the number of Offer Shares allocated to the Placing will be correspondingly reduced.

The Offer Shares to be offered in the Public Offer and the Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Bookrunner. Allocation of the Placing Shares under the Placing will be determined by the Sole Bookrunner and will be based on a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector, and whether or not it is expected that the relevant investor is likely to buy further and/or hold or sell Offer Shares after the Listing. Such allocation may be made to professional, institutional, or corporate investors and is intended to result in a distribution of our Offer Shares on a basis which would lead to the establishment of a solid Shareholder base to the benefit of our Company and our Shareholders as a whole.

OVER-SUBSCRIPTION

Allocation of Public Offer Shares to applicants under the Public Offer will be based solely on the level of valid applications received. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by each applicant. However, this may involve balloting, which would mean that some applicants may be allotted more Shares than others who have applied for the same number of Public Offer Shares and that applicants who are not successful in the ballot may not receive any Public Offer Shares.

OVER-ALLOTMENT OPTION

In connection with the Share Offer, we have granted an Over-allotment Option to the Placing Underwriter, exercisable by the Sole Bookrunner (for itself and on behalf of the Underwriter). Pursuant to the Over-allotment Option, the Sole Bookrunner has the right, exercisable at any time from the Listing Date until the 30th day after the last day for the lodging of applications under the Public Offer, to require our Company to issue the Over-allotment Shares at the Offer Price, representing 15% of the initial Offer Shares to, among other things, cover over-allocations in the Placing and/or the obligations of the Sole Bookrunner to return securities borrowed under the Stock Borrowing Agreement. If the Over-allotment Option is exercised in full, the additional Shares will represent approximately 3.6% of the enlarged issued share capital of our Company immediately following completion of the Share Offer, the Capitalisation Issue and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a press announcement will be made.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to minimise and, if possible, prevent a decline in the market price of the securities below the initial offering price. In Hong Kong, the price at which stabilisation is effected is not permitted to exceed the initial offering price.

In connection with the Share Offer, Haitong International Securities Company Limited (the "**Stabilising Manager**"), its affiliates or any person acting for it, on behalf of the Underwriter, may over-allocate or effect transactions with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail for a limited period commencing from the Listing Date.

Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager, its affiliates or any person acting for it to do this. Such stabilisation, if commenced, will be conducted at the absolute discretion of the Stabilising Manager, its affiliates or any person acting for it and may be discontinued at any time, and must be brought to an end after a limited period. The number of Shares that may be over-allocated will not be greater than the number of Shares which may be allotted and issued upon the exercise of the Over-allotment Option, being 11,250,000 Shares, which represent 15% of the Shares initially available under the Share Offer.

The Stabilising Manager, its affiliates or any person acting for it may take all or any of the following stabilising actions in Hong Kong during the stabilisation period:

(i) purchase, or agree to purchase, any of the Shares or offer or attempt to do so for the sole purpose of preventing or minimising any reduction in the market price of the Shares; and/or

(ii) in connection with any action described in paragraph (i) above:

(A) (1) over-allocate the Shares; or

(2) sell or agree to sell the Shares so as to establish a short position in them, for the sole purpose of preventing or minimising any reduction in the market price of the Shares;

(B) exercise the Over-allotment Option and purchase or subscribe for or agree to purchase or subscribe for the Shares in order to close out any position established under paragraph (ii)(A) above;

(C) sell or agree to sell any of the Shares acquired by it in the course of the stabilising action referred to in paragraph (i) above in order to liquidate any position that has been established by such action; and/or

(D) offer or attempt to do anything as described in paragraph (ii)(A)(2), (ii)(B) or (ii)(C) above.

The Stabilising Manager, its affiliates or any person acting for it, may, in connection with the stabilising action, maintain a long position in the Shares, and there is no certainty as to the extent to which and the time period for which it will maintain such position. You should be warned of the possible impact of any liquidation of the long position by the Stabilising Manager, its affiliates or any person acting for it, which may include a decline in the market price of the Shares.

Stabilisation cannot be used to support the price of the Shares for longer than the stabilisation period, which begins on the day on which dealings in the Shares commence on the Stock Exchange and ends on the 30th day after the last day for the lodging of applications under the Public Offer. The stabilisation period is expected to expire on Sunday, 29 December 2013. After this date, when no further stabilising action may be taken, demand for the Shares, and therefore their market price, could fall.

Any stabilising action taken by the Stabilising Manager, its affiliates or any person acting for it, may not necessarily result in the market price of the Shares staying at or above the Offer Price either during or after the stabilisation period. Stabilisation bids or market purchases effected in the course of the stabilisation action may be made at any price at or below the Offer Price and can therefore be done at a price below the price investors have paid in acquiring the Shares.

All stabilising actions will be taken in accordance with the laws, rules and regulations in place in Hong Kong on stabilisation.

STOCK BORROWING ARRANGEMENT

In connection with the Share Offer, the Sole Bookrunner (for itself and on behalf of the Underwriter) may over-allocate up to but not more than 11,250,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means. In particular, for the purpose of covering such over-allocations, the Sole Bookrunner may borrow up to 11,250,000 Shares from SXD Limited, equivalent to the maximum number of Shares to be issued on a full exercise of the Over-allotment Option, under the Stock Borrowing Agreement.

A summary of the stock borrowing arrangement is set out as follows:

- the Stock Borrowing Agreement will only be effected by the Sole Bookrunner for settlement of over-allocation in connection with the Placing;
- the maximum number of Shares to be borrowed from SXD Limited by the Sole Bookrunner will be limited to the maximum number of Shares which may be issued upon full exercise of the Over-allotment Option which is 11,250,000 Shares;
- the same number of Shares so borrowed must be returned to SXD Limited or its nominee(s), as the case may be, on or before the third business day following the earlier of (i) the last day on which the Shares may be issued by our Company pursuant to the Over-allotment Option or (ii) the day on which the Over-allotment Option is exercised in full;
- the Stock Borrowing Agreement will be effected in compliance with all applicable laws, rules and regulatory requirements; and
- no payment or other benefit will be made to SXD Limited by the Sole Bookrunner under the stock borrowing arrangement.

1. HOW TO APPLY

If you apply for Public Offer Shares, then you may not apply for or indicate an interest for Placing Shares.

To apply for Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** Service at www.eipo.com.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Lead Manager, the White Form eIPO Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC (other than qualified domestic institutional investors).

If you apply online through the **White Form eIPO** Service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Lead Manager may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** Service for the Public Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Public Offer Shares if you:

- are an existing beneficial owner of Shares in our Company and/or any of its subsidiaries;
- are a director of our Company and/or any of its subsidiaries;
- are a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Share Offer;
- are an associate (as defined in the Listing Rules) of any of the above; or
- have been allocated or have applied for or indicated an interest in any Offer Shares under the Placing.

3. APPLYING FOR PUBLIC OFFER SHARES

Which Application Channel to Use

For Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.eipo.com.hk.

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 26 November 2013 until 12:00 noon on Friday, 29 November 2013 from:

(i) the following office of the Sole Bookrunner:

Haitong International Securities Company Limited
22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

(ii) any of the following branches of Standard Chartered Bank (Hong Kong) Limited, the receiving bank for the Public Offer:

	Branch Name	Address
Hong Kong Island	Des Voeux Road Branch	Standard Chartered Bank Building, 4-4A, Des Voeux Road Central, Central
	Causeway Bay Branch	G/F, Yee Wah Mansion, 38-40A Yee Wo Street, Causeway Bay
	Hennessy Road Branch	399 Hennessy Road, Wanchai
	North Point Centre Branch	Shop G, G/F, North Point Centre, 284 King's Road, North Point
Kowloon	San Po Kong Branch	Shop A, G/F, Perfect Industrial Building, 31 Tai Yau Street, San Po Kong
	Kwun Tong Branch	G/F, 414 Kwun Tong Road, Kowloon
	Tsimshatsui Branch	G/F, 8A-10 Granville Road, Tsimshatsui
	Lok Fu Shopping Centre Branch	Shop G201, G/F, Lok Fu Shopping Centre
New Territories	Tsuen Wan Branch	Shop C, G/F & 1/F, Jade Plaza, 298 Sha Tsui Road, Tsuen Wan
	Tuen Mun Town Plaza Branch	Shop No. G047-G052, Tuen Mun Town Plaza Phase I, Tuen Mun
	Tai Po Branch	G/F, Shop No. 2, 23 & 25 Kwong Fuk Road, Tai Po Market, Tai Po
	Metroplaza Branch	Shop No. 175-176, Level 1, Metroplaza, 223 Hing Fong Road, Kwai Chung

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 26 November 2013 until 12:00 noon on Friday, 29 November 2013 from the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Horsford Nominees Limited – Huaxi Holdings Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

Tuesday, 26 November 2013, 9:00 a.m. – 5:00 p.m.

Wednesday, 27 November 2013, 9:00 a.m. – 5:00 p.m.

Thursday, 28 November 2013, 9:00 a.m. – 5:00 p.m.

Friday, 29 November 2013, 9:00 a.m. – 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, 29 November 2013, the last application day or such later time as described in "Effect of bad weather on the opening of the applications lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** Service, among other things, you:

(i) undertake to execute all relevant documents and instruct and authorise our Company, the Sponsor, the Sole Bookrunner and/or the Sole Lead Manager (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles;

(ii) agree to comply with the Companies Ordinance and the Articles;

(iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;

(iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

(v) confirm that you are aware of the restrictions on the Share Offer in this prospectus;

(vi) agree that none of our Company, the Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriter, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);

(vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing nor participated in the Placing;

(viii) agree to disclose to our Company, our Hong Kong Share Registrar, receiving bank, the Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriter and/or their respective advisors and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sponsor, the Sole Bookrunner, the Sole Lead Manager and the Underwriter nor any of their respective officers or advisors will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

(x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xi) agree that your application will be governed by the laws of Hong Kong;

(xii) represent, warrant and undertake that (i) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(xiii) warrant that the information you have provided is true and accurate;

(xiv) agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;

(xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;

(xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(xvii) understand that our Company, the Sponsor, the Sole Bookrunner and the Sole Lead Manager will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;

(xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or through the **White Form eIPO** Service by you or by any one as your agent or by any other person; and

(xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC; and (ii) you have due authority to sign the Application Form or give electronic application instructions on behalf of that other person as their agent.

Additional Instructions for Yellow Application Form

You may refer to the Yellow Application Form for details.

5. APPLYING THROUGH WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in "Who can apply" section, may apply through the **White Form eIPO** Service for the Offer Shares to be allotted and registered in their own names through the designated website at www.eipo.com.hk.

Detailed instructions for application through the **White Form eIPO** Service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the White Form eIPO Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** Service.

Time for Submitting Applications under the White Form eIPO Service

You may submit your application to the White Form eIPO Service Provider at www.eipo.com.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Tuesday, 26 November 2013 until 11:30 a.m. on Friday, 29 November 2013 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 29 November 2013 or such later time under the "Effects of bad weather on the opening of the applications lists" in this section.

No Multiple Applications

If you apply by means of **White Form eIPO** Service, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **White Form eIPO** Service to make an application for Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **White Form eIPO** Service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** Service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies Ordinance (as applied by Section 342E of the Companies Ordinance).

Environmental Protection

The obvious advantage of **White Form eIPO** Service is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated White Form eIPO Service Provider, will contribute HK$2 for each "Huaxi Holdings Company Limited" **White Form eIPO** Service application submitted via *www.eipo.com.hk* to support the funding of "Source of DongJiang – Hong Kong Forest" project initiated by Friends of Earth (HK).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give electronic application instructions to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these electronic application instructions through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System https://ip.ccass.com (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input electronic application instructions for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
2/F, Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Lead Manager and our Hong Kong Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given electronic application instructions to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

- agree to accept the Public Offer Shares applied for or any lesser number allocated;

- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing;

- (if the electronic application instructions are given for your benefit) declare that only one set of electronic application instructions has been given for your benefit;

- (if you are an agent for another person) declare that you have only given one set of electronic application instructions for the other person's benefit and are duly authorised to give those instructions as their agent;

- confirm that you understand that our Company, our Directors, the Sponsor, the Sole Bookrunner and the Sole Lead Manager will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;

- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

- agree that none of our Company, the Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriter, their respective directors, officers, employees, partners, agents, advisors or any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

- agree to disclose your personal data to our Company, our Hong Kong Share Registrar, receiving bank, the Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriter and their respective advisors and agents;

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with our Company and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your electronic application instructions can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Public Offer results;

- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving electronic application instructions to apply for Public Offer Shares;

- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of our Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Companies Ordinance and the Articles; and

- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving electronic application instructions to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;

- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions for a minimum of 2,000 Public Offer Shares. Instructions for more than 2,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

Tuesday, 26 November 2013, 9:00 a.m. – 8:30 p.m.(1)

Wednesday, 27 November 2013, 8:00 a.m. – 8:30 p.m.(1)

Thursday, 28 November 2013, 8:00 a.m. – 8:30 p.m.(1)

Friday, 29 November 2013, 8:00 a.m.(1) – 12:00 noon

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input electronic application instructions from 9:00 a.m. on Tuesday, 26 November 2013 until 12:00 noon on Friday, 29 November 2013 (24 hours daily, except on the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon on Friday, 29 November 2013, the last application day or such later time as described in "Effect of Bad Weather on the Opening of the Application Lists" in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any electronic application instructions to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies Ordinance (as applied by Section 342E of the Companies Ordinance).

Personal Data

The section of the Application Form headed "Personal Data" applies to any personal data held by our Company, the Hong Kong Share Registrar, the receiving bank, the Sole Lead Manager, the Underwriter and any of their respective advisors and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Public Offer Shares through the **White Form eIPO** Service is also only a facility provided by the White Form eIPO Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Bookrunner, the Sponsor, the Sole Lead Manager and the Underwriter take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** Service will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of electronic application instructions, they should either (i) submit a **WHITE** or **YELLOW** Application Form; or (ii) go to HKSCC's Customer Service Centre to complete an input request form for electronic application instructions before 12:00 noon on Friday, 29 November 2013.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or through **White Form eIPO** Service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on electronic application instructions). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange. "Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** Service in respect of a minimum of 2,000 Public Offer Shares. Each application or electronic application instruction in respect of more than 2,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at www.eipo.com.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed "Structure of the Share Offer – Pricing and Allocation".

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warming signal number 8 or above; or
- a "black" rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 29 November 2013. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, 29 November 2013 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed "Expected Timetable", an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Thursday, 5 December 2013 in The Standard (in English) and the Hong Kong Economic Journal (in Chinese) on our Company's website at www.huaxihds.com.hk and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at www.huaxihds.com.hk and the Stock Exchange's website at www.hkexnews.hk by no later than Thursday, 5 December 2013;
- from the designated results of allocations website at www.iporesults.com.hk with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Thursday, 5 December 2013 to 12:00 midnight on Wednesday, 11 December 2013;

- by telephone enquiry line by calling (852) 2862 8669 between 9:00 a.m. and 10:00 p.m. from Thursday, 5 December 2013 to Sunday, 8 December 2013;

- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, 5 December 2013 to Saturday, 7 December 2013 at all the receiving bank branches and sub-branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are contained in the section headed "Structure of the Share Offer".

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Public Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving electronic application instructions to HKSCC or through the **White Form eIPO** Service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies Ordinance (as applied by Section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Sole Lead Manager, the White Form eIPO Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Public Offer Shares is void:

The allotment of Public Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Public Offer Shares and Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your electronic application instructions through the **White Form eIPO** Service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Sole Lead Manager believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Public Offer Shares initially offered under the Public Offer.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK$1.48 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offer are not fulfilled in accordance with "Structure of the Share Offer – Conditions of the Public Offer" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Thursday, 5 December 2013.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by electronic application instructions to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and

- refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Thursday, 5 December 2013. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid from 8:00 a.m. on Friday, 6 December 2013 provided that the Share Offer has become unconditional and the right of termination described in the "Underwriting" section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

*(i) If you apply using a **WHITE** Application Form*

If you apply for 1,000,000 or more Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 5 December 2013 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Thursday, 5 December 2013, by ordinary post and at your own risk.

*(ii) If you apply using a **YELLOW** Application Form*

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Thursday, 5 December 2013, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Thursday, 5 December 2013, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- If you apply through a designated CCASS participant (other than a CCASS investor participant)

  For Public Offer shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer shares allotted to you with that CCASS participant.

- If you are applying as a CCASS investor participant

  Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in "Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 5 December 2013 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

*(iii) If you apply through the **White Form eIPO** Service*

If you apply for 1,000,000 Public Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 5 December 2013, or such other date as notified by our Company in the newspapers as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Thursday, 5 December 2013 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Public Offer Shares

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, 5 December 2013, or, on any other date determined by HKSCC or HKSCC Nominees.

- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Public Offer in the manner specified in "Publication of Results" above on Thursday, 5 December 2013. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 5 December 2013 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give electronic application instructions on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 5 December 2013. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, 5 December 2013.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report received from our Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to our Directors and to the Sponsor pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

pwc 羅兵咸永道

26 November 2013

The Directors
Huaxi Holdings Company Limited

Haitong International Capital Limited

Dear Sirs,

We report on the financial information of Huaxi Holdings Company Limited (the "**Company**") and its subsidiaries (together, the "**Group**") which comprises the combined balance sheets as at 31 March 2011, 2012 and 2013 and 30 June 2013, and the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for each of the years ended 31 March 2011, 2012, 2013 and the three months ended 30 June 2013 (the "**Relevant Periods**"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company and is set out in Sections I to IV below for inclusion in Appendix I to the prospectus of the Company dated 26 November 2013 (the "**Prospectus**") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the Cayman Islands on 29 April 2013 as an exempted company with limited liability under the Companies Law of the Cayman Islands. Pursuant to a group reorganisation as described in Note 1.2 of Section II headed ''Reorganisation'' below, which was completed on 5 September 2013, the Company became the holding company of the subsidiaries now comprising the Group (the "**Reorganisation**").

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 1.2 of Section II below. All of these companies are private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company.

No audited financial statements have been prepared by the Company as it is newly incorporated and has not involved in any significant business transactions since its date of incorporation, other than the Reorganisation.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

The audited financial statements of the other companies now comprising the Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their places of incorporation. The details of the statutory auditors of these companies are set out in Note 1.2 of Section II below.

The directors of the Company have prepared the combined financial statements of the Company and its subsidiaries now comprising the Group for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") (the "**Underlying Financial Statements**"). The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with HKFRSs. We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (the "**HKSAs**") issued by the HKICPA pursuant to separate terms of engagement with the Company.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon, and on the basis set out in Note 1.3 of Section II below.

Directors' Responsibility for the Financial Information

The directors of the Company are responsible for the preparation of the financial information that give a true and fair view in accordance with the basis of presentation set out in Note 1.3 of Section II below and in accordance with HKFRSs, and for such internal control as the directors determine is necessary to enable the preparation of the financial information that are free from material misstatement, whether due to fraud or error.

Reporting Accountant's Responsibility

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

Opinion

In our opinion, the financial information gives, for the purpose of this report and presented on the basis set out in Note 1.3 of Section II below, a true and fair view of the combined state of affairs of the Group as at 31 March 2011, 2012 and 2013 and 30 June 2013 and of the Group's combined results and cash flows for the Relevant Periods then ended.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information set out in Sections I to IV below included in Appendix I to the Prospectus which comprises the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for the three months ended 30 June 2012 and a summary of significant accounting policies and other explanatory information (the "**Stub Period Comparative Financial Information**").

The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of presentation set out in Note 1.3 of Section II below and the accounting policies set out in Note 2 of Section II below.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of the Stub Period Comparative Financial Information consists of making inquiries, 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 HKSAs 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.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report and presented on the basis set out in Note 1.3 of Section II below, has not been prepared, in all material respects, in accordance with the accounting policies set out in Note 2 of Section II below.

I. FINANCIAL INFORMATION

The following is the financial information of the Group prepared by the directors of the Company as at 31 March 2011, 2012 and 2013 and 30 June 2013 and for each of the years ended 31 March 2011, 2012, 2013 and the three months ended 30 June 2012 and 2013 (the "**Financial Information**"), presented on the basis set out in Note 1.3 below:

(a) Combined statements of comprehensive income

	Note	Year ended 31 March			Three months ended 30 June	
		2011	2012	2013	2012	2013
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Revenue	6	212,143	265,821	278,983	70,709	51,121
Cost of sales	7	(184,437)	(215,401)	(200,439)	(55,134)	(35,404)
Gross profit		27,706	50,420	78,544	15,575	15,717
Distribution costs	7	(2,508)	(3,340)	(3,722)	(803)	(599)
Administrative expenses	7	(13,021)	(13,623)	(20,760)	(1,608)	(5,224)
Other (losses)/gains – net	9	(95)	(65)	(80)	3	(93)
Operating profit		12,082	33,392	53,982	13,167	9,801
Finance income		824	1,696	2,280	479	713
Finance costs		(449)	(83)	–	–	–
Finance income – net	10	375	1,613	2,280	479	713
Profit before income tax		12,457	35,005	56,262	13,646	10,514
Income tax expense	11	(2,833)	(5,317)	(11,524)	(2,615)	(2,363)
Profit for the year/period attributable to owner of the Company		9,624	29,688	44,738	11,031	8,151
Other comprehensive income						
Item that will not be reclassified to profit or loss:						
Currency translation differences		2,802	3,381	485	(623)	2,451
Other comprehensive income for the year/period		2,802	3,381	485	(623)	2,451
Total comprehensive income for the year/period attributable to owner of the Company		12,426	33,069	45,223	10,408	10,602
Earnings per share						
– Basic and diluted	12	N/A	N/A	N/A	N/A	N/A
Dividends	13	–	–	27,655	–	35,975

(b) Combined balance sheets

	Note	As at 31 March 2011 HK$'000	As at 31 March 2012 HK$'000	As at 31 March 2013 HK$'000	As at 30 June 2013 HK$'000
ASSETS					
Non-current assets					
Property, plant and equipment	14	41,715	41,182	45,536	49,441
Prepaid operating lease	15	7,017	7,125	6,983	7,037
Prepayment for acquisition of property, plant and equipment		279	409	–	–
Deferred tax assets	23	519	827	601	556
		49,530	49,543	53,120	57,034
Current assets					
Inventories	16	31,316	23,045	33,464	34,644
Trade and notes receivable	17	57,874	55,489	65,488	53,950
Prepayments and other receivables	18	4,755	6,938	875	3,877
Amount due from a related party	30(d)	–	1,509	13,195	5,638
Financial assets at fair value through profit or loss		–	–	635	596
Restricted cash	19	53,857	52,267	49,810	46,326
Cash and cash equivalents	20	11,697	27,001	46,596	32,611
		159,499	166,249	210,063	177,642
Total assets		209,029	215,792	263,183	234,676
EQUITY					
Capital and reserves attributable to owner of the Company					
Combined capital	21	35,000	35,000	35,000	35,000
Reserves	22	36,532	69,601	114,824	97,771
Total equity		71,532	104,601	149,824	132,771

	Note	As at 31 March 2011 HK$'000	As at 31 March 2012 HK$'000	As at 31 March 2013 HK$'000	As at 30 June 2013 HK$'000
LIABILITIES					
Non-current liabilities					
Deferred tax liabilities	*23*	–	–	2,328	1,341
Current liabilities					
Trade and notes payable	*24*	78,136	82,972	91,133	79,340
Other payables	*25*	3,645	8,947	10,214	15,547
Amounts due to related parties	*30(d)*	43,638	11,391	2,139	–
Borrowings	*26*	5,936	–	–	–
Current income tax liabilities		6,142	7,881	7,545	5,677
		137,497	111,191	111,031	100,564
Total liabilities		137,497	111,191	113,359	101,905
Total equity and liabilities		209,029	215,792	263,183	234,676
Net current assets		22,002	55,058	99,032	77,078
Total assets less current liabilities		71,532	104,601	152,152	134,112

(c) Combined statements of changes in equity

	Attributable to owner of the Company						
		Reserves					
	Combined capital	Statutory reserves	Exchange reserves	Other reserves	Retained earnings	Total reserves	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 21)	*(Note 22)*					
Balance at 1 April 2010	35,000	331	4,581	274	18,920	24,106	59,106
Comprehensive income							
– Profit for the year	–	–	–	–	9,624	9,624	9,624
– Other comprehensive income	–	–	2,802	–	–	2,802	2,802
Total comprehensive income	–	–	2,802	–	9,624	12,426	12,426
Transfer to statutory reserves	–	664	–	–	(664)	–	–
Balance at 31 March 2011	35,000	995	7,383	274	27,880	36,532	71,532
Balance at 1 April 2011	35,000	995	7,383	274	27,880	36,532	71,532
Comprehensive income							
– Profit for the year	–	–	–	–	29,688	29,688	29,688
– Other comprehensive income	–	–	3,381	–	–	3,381	3,381
Total comprehensive income	–	–	3,381	–	29,688	33,069	33,069
Transfer to statutory reserves	–	2,050	–	–	(2,050)	–	–
Balance at 31 March 2012	35,000	3,045	10,764	274	55,518	69,601	104,601
Balance at 1 April 2012	35,000	3,045	10,764	274	55,518	69,601	104,601
Comprehensive income							
– Profit for the year	–	–	–	–	44,738	44,738	44,738
– Other comprehensive income	–	–	485	–	–	485	485
Total comprehensive income	–	–	485	–	44,738	45,223	45,223
Transfer to statutory reserves	–	5,262	–	–	(5,262)	–	–
Balance at 31 March 2013	35,000	8,307	11,249	274	94,994	114,824	149,824

	Attributable to owner of the Company						
		Reserves					
	Combined capital HK$'000 (Note 21)	Statutory reserves HK$'000 (Note 22)	Exchange reserves HK$'000	Other reserves HK$'000	Retained earnings HK$'000	Total reserves HK$'000	Total HK$'000
Balance at 1 April 2013	35,000	8,307	11,249	274	94,994	114,824	149,824
Comprehensive income							
– Profit for the period	–	–	–	–	8,151	8,151	8,151
– Other comprehensive income	–	–	2,451	–	–	2,451	2,451
Total comprehensive income	–	–	2,451	–	8,151	10,602	10,602
Transactions with owner							
– Dividends to owner	–	–	–	–	(27,655)	(27,655)	(27,655)
Balance at 30 June 2013	35,000	8,307	13,700	274	75,490	97,771	132,771
Unaudited:							
Balance at 1 April 2012	35,000	3,045	10,764	274	55,518	69,601	104,601
Comprehensive income							
– Profit for the period	–	–	–	–	11,031	11,031	11,031
– Other comprehensive income	–	–	(623)	–	–	(623)	(623)
Total comprehensive income	–	–	(623)	–	11,031	10,408	10,408
Balance at 30 June 2012	35,000	3,045	10,141	274	66,549	80,009	115,009

(d) Combined statements of cash flows

	Note	Year ended 31 March 2011 HK$'000	2012 HK$'000	2013 HK$'000	Three months ended 30 June 2012 HK$'000 (Unaudited)	2013 HK$'000
Cash flows from operating activities						
Cash (used in)/generated from operations	27	(5,828)	63,444	47,920	9,999	10,535
PRC enterprise income tax paid		(1,695)	(4,129)	(9,333)	(1,845)	(5,255)
Net cash (used in)/generated from operating activities		(7,523)	59,315	38,587	8,154	5,280
Cash flows from investing activities						
Purchases of property, plant and equipment		(4,788)	(2,927)	(8,694)	(1,583)	(2,502)
Purchase of other financial assets		–	(6,292)	–	–	–
Disposal of other financial assets		–	–	6,292	159	–
Purchase of financial assets at fair value through profit or loss		–	–	(949)	(319)	–
Disposal of financial assets at fair value through profit or loss		–	–	289	–	–
(Increase)/decrease in amount due from a related party		–	(1,509)	(11,686)	(9,677)	7,557
(Increase)/decrease in restricted cash		(18,771)	1,590	2,457	1,519	3,484
Interest income		824	1,696	2,280	479	713
Net cash (used in)/generated from investing activities		(22,735)	(7,442)	(10,011)	(9,422)	9,252
Cash flows from financing activities						
Proceed from borrowings		5,936	–	–	–	–
Repayments of borrowings		(11,374)	(5,936)	–	–	–
Interest paid		(449)	(83)	–	–	–
Prepayment of initial public offering ("IPO") cost		–	–	–	–	(455)
Increase/(decrease) in amounts due to related parties		36,571	(32,247)	(9,252)	(5,537)	(2,139)
Dividends paid	13	–	–	–	–	(27,655)
Net cash generated from/(used in) financing activities		30,684	(38,266)	(9,252)	(5,537)	(30,249)
Net increase/(decrease) in cash and cash equivalents		426	13,607	19,324	(6,805)	(15,717)
Cash and cash equivalents at beginning of the year/period		10,394	11,697	27,001	27,001	46,596
Effect of change in exchange rate		877	1,697	271	(379)	1,732
Cash and cash equivalents at end of the year/period	20	11,697	27,001	46,596	19,817	32,611

II. NOTES TO THE FINANCIAL INFORMATION

1. General information, reorganisation and basis of presentation

1.1 General information

Huaxi Holdings Company Limited was incorporated in the Cayman Islands on 29 April 2013 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is the offices of Appleby Trust (Cayman) Ltd., Clifton House, P.O. Box 1350, 75 Fort Street, Grand Cayman, KY1-1108, Cayman Islands. The Company is an investment holding company and its subsidiaries are principally engaged in manufacturing and sales of cigarette packing materials (the "**Listing Business**") in the People's Republic of China ("**PRC**"). The controlling shareholder of the Listing Business is Mr. Zheng Andy Yi Sheng (the "**Controlling Shareholder**").

The Financial Information is presented in thousands of Hong Kong dollar ("**HK$**"), unless otherwise stated.

1.2 Reorganisation

Prior to the Reorganisation, the Listing Business was carried out by Xin Da (Hong Kong) Investment Trading Company ("**Xin Da (HK)**"), an unlimited liability company in Hong Kong and Shantou Xinda Colour Printing & Packing Material Co., Ltd. ("**Xinda Packing**"), a wholly-foreign owned limited liability company incorporated in the PRC. In preparation for the initial public offering and listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Listing**"), the Group underwent the Reorganisation to establish the Company as the ultimate holding company of the Listing Business. Details of the Reorganisation are set out below:

(a) On 3 April 2013, SXD Limited was incorporated in British Virgin Islands ("**BVI**") by Mr. Zheng Andy Yi Sheng.

(b) On 29 April 2013, the Company was incorporated in Cayman Islands with an authorised share capital of 38,000,000 ordinary shares of HK$0.01 each. One ordinary share with par value of HK$0.01 each were allocated and issued to SXD Limited.

(c) On 21 May 2013, Xinda Capital Limited was incorporated in BVI as a wholly-owned subsidiary of the Company.

(d) On 13 June 2013, Xin Da (Hong Kong) Investment Trading Company Limited was incorporated in Hong Kong as a wholly-owned subsidiary of Xinda Capital Limited.

(e) On 18 July 2013, Xin Da (Hong Kong) Investment Trading Company Limited completed its acquisition of the entire equity interest of Xinda Packing at a consideration of HK$35 million from Xin Da (HK). Since then, Xinda Packing has become a wholly-owned subsidiary of the Company.

(f) On 5 September 2013, Xin Da (HK) transferred all of its business to Xin Da (Hong Kong) Investment Trading Company Limited at a nominal consideration HK$1.

Upon completion of the Reorganisation, the Company has become the holding company of the other companies comprising the Group.

Upon completion of the Reorganisation and as of the date at this report, the Company had direct and indirect interests in the following subsidiaries:

Name of company	Place and date of incorporation/ establishment	Registered and paid-up capital	Equity interest held	Principal activities and place of operation	Note
Directly held					
Xinda Capital Limited	BVI/21 May 2013	US$50,000	100%	Investment holding, BVI	(a)
Indirectly held					
Xin Da (Hong Kong) Investment Trading Company Limited	Hong Kong/ 13 June 2013	HK$1	100%	Investment holding, Hong Kong	(a)
Shantou Xinda Colour Printing & Packing Material Co, Ltd.	PRC/ 14 May 1992	HK$35,000,000	100%	Design, printing and sale of cigarette packages, the PRC	(b)

(a) No audited financial statements were issued for these companies as they are either newly incorporated or not required to issue audited financial statements under the statutory requirement of their respective places of incorporation.

(b) The statutory financial statements of this company for the years ended 31 December 2010, 2011 and 2012 were prepared in accordance with Accounting Policies for Business Enterprises and Accounting Systems for Business Enterprises applicable to the enterprises in the PRC and were audited by 汕頭市斯威會計師事務所有限公司, certified public accountants in the PRC.

1.3 Basis of presentation

Immediately prior to and after the Reorganisation, the Listing Business, which is mainly conducted through Xin Da (HK) and Xinda Packing, was held by the Controlling Shareholder. Pursuant to the Reorganisation, Xinda Packing and the business of Xin Da (HK) were transferred to and held by the Group. As the Company has not been involved in any other business prior to the Reorganisation and the Reorganisation is merely a reorganisation of the Listing Business with no change in management and ultimate owner of such business, the combined financial information of the companies now comprising the Group is presented using the carrying values of the Listing Business under the Controlling Shareholder for all periods presented, or since the respective dates of incorporation/establishment of the combining entities, or since the date when the combining companies first came under the control of the Controlling Shareholder, whichever is earlier. For the purpose of this report, the Financial Information of the Group has been prepared on a basis in accordance with the principles of the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The Company has adopted a year end date of 31 March. The Financial Information has been prepared based on the statutory audited financial statements or management accounts of the group companies made up to 31 March.

2. Summary of significant accounting policies

2.1 Basis of preparation

The Financial Information has been prepared in accordance with HKFRSs which has been prepared under the historical cost convention, as modified by the financial assets at fair value through profit or loss which are carried at fair values.

The preparation of Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 4.

Up to the date of issuance of this report, the HKICPA has issued the following new standards, amendments and interpretation which are not yet effective for accounting periods beginning 1 April 2013 and have not been early adopted:

		Effective for annual periods beginning on or after
Amendment to HKAS 32	Financial instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment Entities	1 January 2014
HKAS 36 (Amendment)	Recoverable amount disclosures for non-financial assets	1 January 2014
HKAS 39 (Amendment)	Novation of derivatives	1 January 2014
HK(IFRIC)-Int 21	Levies	1 January 2014
HKFRS 9	Financial Instruments	1 January 2015
Amendments to HKFRS 7 and HKFRS 9	Mandatory Effective Date of HKFRS 9 and Transition Disclosures	1 January 2015

Management is in the process of making an assessment of the impact of the above new standards and amendments to standards and considered on a preliminary basis that these new standards and amendment to standards will not result in any substantial changes to the Group's existing accounting policies and presentation of the financial information.

2.2 Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

De-facto control may arise from circumstances where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

Subsidiaries are fully combined from the date on which control is transferred to the Group. They are de-combined from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("**CODM**"). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the directors of the Company.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the Financial Information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). This Financial Information is presented in Hong

Kong dollar, which is the Group's presentation currency. The functional currency of the Company is RMB. The functional currency of Xin Da (HK) is Hong Kong dollar; while the functional currency of all other group companies is RMB.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation when items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the combined statements of comprehensive income within "other (losses)/gains – net".

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Monetary assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Non-monetary items are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transactions;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

2.5 Prepaid operating lease

Prepaid operating lease is stated at cost less accumulated amortisation and impairment losses. Cost mainly represents consideration paid for the rights to use the land from the date the respective rights were granted. Amortisation of prepaid operating lease is calculated on a straight-line over the period of the rights of 50 years.

2.6 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and any impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the combined statements of comprehensive income during the Relevant Periods in which they are incurred. Depreciation on property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Plant and buildings	3-20 years
Machinery	5-10 years
Office equipment	3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other (losses)/gains – net" in combined statements of comprehensive income.

Assets under construction represent buildings under construction, and are stated at cost. Costs include construction and acquisition costs. No provision for depreciation is made on assets under construction until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

2.7 Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

2.8.1 Classification

The Group classifies its financial assets in the following categories: fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets.

The Group's loans and receivables comprise "trade and notes receivable", "prepayments and other receivables", "amount due from a related party", "restricted cash" and "cash and cash equivalents" (Note 2.13) in the combined balance sheets.

2.8.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the combined statements of comprehensive income within "other (losses)/gains – net" in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit or loss as part of other income when the Group's right to receive payments is established.

2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the combined balance sheets when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.10 Impairment of financial assets

Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "**loss event**") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of fair value of an instrument using an observable market price.

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 recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the profit or loss.

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable distribution costs.

2.12 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.13 Cash and cash equivalents

In the combined statements of cash flows, cash and cash equivalents includes cash in hand and deposits held at call with banks. Bank deposits which are restricted to use are included in "restricted cash". Restricted cash are excluded from cash and cash equivalents included in the combined statements of cash flows.

2.14 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the report period.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

General and specific 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.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.16 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Information. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.17 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Retirement benefits

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the PRC government.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred.

(c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

2.18 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.19 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

2.20 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

(a) Sales of goods

Sales of goods are recognised when a group entity has delivered products to the customer; the customer has accepted the products and collectability of the related receivables is reasonably assured.

(b) Income from processing services

Income from processing services is recognised when the services are rendered.

(c) Interest income

Interest income is recognised using the effective interest method.

2.21 Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

2.22 Dividend distribution

Dividend distribution to the owner of the companies comprising the Group is recognised in Group's Financial Information in the period in which the dividends are approved by Company's shareholder or directors, where appropriate.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the financial department under policies approved by the Board of Directors.

3.1.1 Market risk

(a) Foreign exchange risk

The Group's operates in the PRC with most transactions being settled in Renminbi ("**RMB**"), which is the functional currency of most of the group companies, except for certain transactions which are settled in HK$. The Group currently does not have a foreign currency hedging policy, and manages its foreign currency risk by closely monitor the movement of the foreign currency rates.

As at 31 March 2011, 2012 and 2013 and 30 June 2013, the Group's PRC subsidiary had no HK$ denominated assets and liabilities and accordingly, no significant foreign currency risk existed.

(b) Cash flow and fair value interest rate risk

Other than deposits held in banks and certain other receivables and borrowings which are interest bearing, the Group does not have other significant interest bearing assets and liabilities.

The annual interest rates of the Group's deposits held in banks throughout the Relevant Periods ranged from 0.4% to 2.8%, 0.5% to 3.3%, 0.35% to 2.8% and 0.35% to 2.8%, respectively. The weighted average annual interest rates of other interest bearing receivables throughout the Relevant Periods were nil, 3.79%, 3.28% and nil, respectively. Any change in interest rates is not considered to have significant impact to the Group.

Borrowings borrowed at variable rates expose the Group to cash flow interest-rate risk. The Group currently does not use any interest rate swaps to hedge its exposure to interest rate risk.

For the year ended 31 March 2011, if interest rate on borrowings had been 1% higher/lower with all other variables held constant, the Group's profit for the year would have been approximately HK$50,000 lower/higher respectively. The Group did not have any borrowing as at the years ended 31 March 2012, 2013 and the three months ended 30 June 2013.

(c) Price risk

The Group is exposed to equity securities price risk because of certain investments held by the Group are classified on the combined balance sheets at fair value. The Group is not exposed to significant commodity price risk. Also, the Group has not entered into any long term contracts with the suppliers and the Group can usually pass on any material fluctuations in the raw materials prices to its customers. To manage its price risk arising from investments in equity securities, investment limits have been set by the Group.

The Group's investments in equity of other entities that are publicly traded on stock exchange markets in the PRC, which are not material to the Group. Management believes that there is no material equity securities price risk.

3.1.2 Credit risk

The Group's maximum exposure to credit risk in relation to financial assets is the carrying amounts of cash and cash equivalents, restricted cash, financial assets at fair value through profit or loss, trade and notes receivable, other receivables and amount due from a related party.

As at 31 March 2011, 2012 and 2013 and 30 June 2013, substantially all the Group's bank deposits are deposited with major financial institutions incorporated in the PRC, which management believes are of high credit quality without significant credit risk. The Group's bank deposits as at 31 March 2011, 2012 and 2013 and 30 June 2013 are as follows:

		As at 31 March		**As at 30 June**
	2011	**2012**	**2013**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Big four commercial banks *(i)*	8,544	17,334	23,682	18,666
Other listed banks	56,962	55,168	66,375	57,611
Other non-listed banks	–	6,279	6,304	2,626
	65,506	78,781	96,361	78,903

Note:

(i) Big four commercial banks include Industrial and Commercial Bank of China, China Construction Bank, Agricultural Bank of China and Bank of China.

Notes receivable represent bank acceptance notes. The issuing banks of these bank acceptance notes are either state-owned banks with investment grade rating or local banks with good reputation. Financial assets at fair value through profit or loss and interest bearing other receivables represent financial instruments purchased from financial institutions in the PRC. Management believes these financial institutions are of high credit quality and there is no significant credit risk on the Group's bank deposits, bank acceptance notes and financial instruments.

As at 31 March 2011, 2012 and 2013 and 30 June 2013, approximately 78.7%, 79.5%, 90.9% and 87.8% of the Group's trade receivables were due from the top five largest customers, while approximately 33.2%, 33.2%, 67.4% and 66.8% of the Group's trade receivables were due from the largest customer.

All of the Group's trade receivables, other receivables and amount due from a related party have no collateral. However, the Group has policies in place to ensure that sales are made to customers with appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group assesses the credit quality of each customer by taking into account its financial position, past experience and other factors. Credit limit are reviewed on periodic basis, and the finance department is responsible for such monitoring procedures. In determining whether provision for impairment of receivables is required, the Group takes into consideration the future cash flows, ageing status and the likelihood of collection. In this regards, the directors of the Company are satisfied that the risks are minimal and adequate provision, if any, has been made in the Financial Information after assessing the collectability of individual debts. No impairment of trade receivables and other receivables were recognised during the Relevant Periods. Further quantitative disclosures in respect of trade receivables, other receivables and amount due from a related party are set out in Note 17, 18 and 30(d).

3.1.3 Liquidity risk

To manage the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group expects to fund its future cash flow needs through internally generated cash flows from operations and borrowings from financial institutions.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year
	HK$'000
As at 31 March 2011	
Borrowings	6,019
Trade and notes payable	78,136
Other payables	3,645
Amounts due to related parties	43,638
	131,438
As at 31 March 2012	
Trade and notes payable	82,972
Other payables	8,947
Amounts due to related parties	11,391
	103,310
As at 31 March 2013	
Trade and notes payable	91,133
Other payables	10,214
Amounts due to related parties	2,139
	103,486
As at 30 June 2013	
Trade and notes payable	79,340
Other payables	15,547
Amounts due to related parties	–
	94,887

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net borrowings divided by total capital. Net borrowings are calculated as borrowings less cash and cash equivalents. Total capital is calculated as "total equity" as shown in the Financial Information plus net borrowings.

No gearing ratio is presented as the Group has net cash surplus after borrowings as at 31 March 2011, 2012 and 2013 and 30 June 2013.

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets that are measured at fair value at 31 March 2013 and 30 June 2013. No assets and liabilities were measured at fair value at 31 March 2011 and 2012. No liabilities were measured at fair value at 31 March 2013 and 30 June 2013.

	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 March 2013				
Assets				
– Financial assets at fair value through profit or loss	635	–	–	635
As at 30 June 2013				
Assets				
– Financial assets at fair value through profit or loss	596	–	–	596

The carrying amounts of the Group's financial assets include cash and cash equivalents, restricted cash, trade and notes receivable, other receivables and amount due from a related party and financial liabilities including trade and note payables, other payables, amounts due to related parties and borrowings. Their carrying values approximated their fair values due to their short maturities. The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair value.

The fair value of financial assets at fair value through profit or loss is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets at fair value through profit or loss of the Group is the current bid price.

4. Critical accounting estimates and judgments

Estimates and judgments used in preparing this Financial Information are evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have a significant effect on the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Income taxes and deferred taxation

The Group is subject to income taxes in the PRC. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the year in which such determination is made.

(b) Estimated impairment of property, plant and equipment

The Group tests annually whether property, plant and equipment with an indication of impairment have suffered any impairment. It is reasonably possible that outcomes based on current experience within the next financial year would be significantly different, which will result in a significant impact on the carrying amount of property, plant and equipment.

(c) Estimated impairment of inventories

The Group estimates the net realisable value of inventories. Net realisable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes. Even if the Group has made stock provision for the expected impairment at its best estimate, there is a possibility that changes in market conditions will alter the result.

(d) Estimated impairment of receivables

The Group records impairment of receivables based on an assessment made by management on the recoverability of trade and other receivables. Provisions are applied where events or changes in circumstances indicate that the balances may not be collectible. Impairment assessment requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact both the carrying value of trade and other receivables and the impairment charge in the period in which such estimate has been changed.

5. Segment information

Management has determined the operating segments based on the reports reviewed by CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the directors of the Company.

The Group is principally engaged in the manufacture and sales of packing materials for cigarette in the PRC. Management reviews the operating results of the business as one segment to make decisions about resources to be allocated. Therefore, the Board of Directors of the Company regards that there is only one segment which is used to make strategic decisions.

The major operating entity of the Group is domiciled in the PRC. Accordingly, majority of the Group's revenue are derived in the PRC.

As at 31 March 2011, 2012, 2013 and 30 June 2013, all of the non-current assets were located in the PRC.

6. Revenue

Revenue of the Group for the Relevant Periods are as follow:

	Year ended 31 March			Three months ended 30 June	
	2011	**2012**	**2013**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Sales of cigarette packaging and other products	211,504	265,170	278,728	70,709	51,121
Income from processing services	639	651	255	–	–
	212,143	265,821	278,983	70,709	51,121

The main products of the Group are packaging materials for cigarette, which accounted for 99.7%, 99.8%,99.9%, 100.0% and 100.0% of the Group's turnover for the years ended 31 March 2011, 2012, 2013 and the three months ended 30 June 2012 and 2013, respectively.

During the Relevant Periods, approximately 80.8%, 81.4% and 78.3%, 75.0% and 76.3% of the Group's sales were made to the three customers below. These revenues are attributable to the sales of cigarette packaging and other products segment.

	Year ended 31 March			Three months ended 30 June	
	2011	**2012**	**2013**	**2012** (Unaudited)	**2013**
Customer A	47.3%	56.8%	57.0%	53.8%	59.8%
Customer B	22.8%	19.7%	21.3%	21.2%	16.5%
Customer C	10.7%	4.9%	–	–	–
	80.8%	81.4%	78.3%	75.0%	76.3%

No other customers individually accounted for more than 10% of the Group's revenue during the Relevant Periods. Nearly all of the Group's sales are carried out by its subsidiary in the PRC during the Relevant Periods.

7. Expenses by nature

	Year ended 31 March			Three months ended 30 June	
	2011	**2012**	**2013**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Cost of inventories sold	179,028	205,558	191,690	50,580	31,669
Provision for/(reversal of) impairment of inventories	295	661	(198)	109	147
Depreciation *(Note 14)*	4,320	4,920	4,910	1,058	1,413
Amortisation of prepaid operating lease *(Note 15)*	157	164	167	42	42
Staff costs (including directors' emoluments)	7,331	10,535	11,943	3,002	2,719
Utilities	3,175	3,941	4,171	1,092	784
Transportation	2,078	2,877	3,166	726	459
Expenses related to initial public offering	–	–	4,653	–	3,145
Travelling expenses	1,093	522	823	131	160
Business tax and other taxes	1,146	1,869	2,166	460	464
Entertainment expenses	257	359	353	113	49
Office expenses	642	755	457	55	128
Auditors' remuneration	15	16	42	4	11
Other expenses	429	187	578	173	37
Total cost of sales, distribution costs and administrative expenses	199,966	232,364	224,921	57,545	41,227

Research and development expenses during the Relevant Periods, which mainly included materials consumed and related staff costs, are presented as below:

	Year ended 31 March			Three months ended 30 June	
	2011	**2012**	**2013**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Research and development expenses	6,768	6,731	8,743	–	654

No research and development expenses had been capitalised for the years ended 31 March 2011, 2012 and 2013 and the three months ended 30 June 2012 and 2013.

8. Staff costs (including directors' emoluments)

	Year ended 31 March			Three months ended 30 June	
	2011	**2012**	**2013**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Salaries, wages, bonuses, welfare and other benefits	6,482	9,414	10,665	2,664	2,454
Contributions to pension plans *(Note (c))*	849	1,121	1,278	338	265
	7,331	10,535	11,943	3,002	2,719

(a) Directors' emoluments

The emoluments of individual director of the Company paid/payable by companies comprising the Group during the Relevant Periods are presented as below:

(i) For the year ended 31 March 2011

Name of directors	Fees	Salaries and allowances	Discretionary bonus	Pension	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Zheng Andy Yi Sheng	–	56	–	4	60
Mr. Zheng Minsheng	–	56	–	4	60
Mr. Ma Wenming *	–	–	–	–	–
Mr. Lau Kwok Hung *	–	–	–	–	–
Mr. Fok Po Tin *	–	–	–	–	–
	–	112	–	8	120

(ii) For the year ended 31 March 2012

Name of directors	Fees	Salaries and allowances	Discretionary bonus	Pension	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Zheng Andy Yi Sheng	–	76	–	5	81
Mr. Zheng Minsheng	–	76	–	5	81
Mr. Ma Wenming *	–	–	–	–	–
Mr. Lau Kwok Hung *	–	–	–	–	–
Mr. Fok Po Tin *	–	–	–	–	–
	–	152	–	10	162

(iii) For the year ended 31 March 2013

Name of directors	Fees	Salaries and allowances	Discretionary bonus	Pension	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Zheng Andy Yi Sheng	–	98	–	7	105
Mr. Zheng Minsheng	–	98	–	7	105
Mr. Ma Wenming *	–	–	–	–	–
Mr. Lau Kwok Hung *	–	–	–	–	–
Mr. Fok Po Tin *	–	–	–	–	–
	–	196	–	14	210

(iv) For the three months ended 30 June 2013

Name of directors	Fees	Salaries and allowances	Discretionary bonus	Pension	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Zheng Andy Yi Sheng	–	25	–	3	28
Mr. Zheng Minsheng	–	25	–	3	28
Mr. Ma Wenming *	–	–	–	–	–
Mr. Lau Kwok Hung *	–	–	–	–	–
Mr. Fok Po Tin *	–	–	–	–	–
	–	50	–	6	56

(v) For the three months ended 30 June 2012 (Unaudited)

Name of directors	Fees	Salaries and allowances	Discretionary bonus	Pension	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Zheng Andy Yi Sheng	–	21	–	1	22
Mr. Zheng Minsheng	–	21	–	1	22
Mr. Ma Wenming *	–	–	–	–	–
Mr. Lau Kwok Hung *	–	–	–	–	–
Mr. Fok Po Tin *	–	–	–	–	–
	–	42	–	2	44

During the Relevant Periods, none of the directors of the Company waived their emoluments nor has agreed to waive their emoluments for the Relevant Periods.

* Mr. Ma Wenming, Mr. Lau Kwok Hung and Mr. Fok Po Tin were appointed as non-executive directors of the Company on 24 July 2013. They had not received and were not entitled to receive any emoluments during the Relevant Periods.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the Relevant Periods included 2 directors, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 3 individuals during the Relevant Periods are as follows:

	Year ended 31 March			Three months ended 30 June	
	2011	2012	2013	2012	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Basic salaries, housing allowances, other allowances and other benefits	143	193	217	56	72
Contributions to pension plans	13	17	20	5	6
	156	210	237	61	78

The emoluments of these remaining individuals of the Group fell within the following bands:

	Year ended 31 March 2011	2012	2013	Three months ended 30 June 2012 (Unaudited)	2013
Emolument bands					
Nil to HK$1,000,000	3	3	3	3	3

No other directors of the Company received any emoluments in respect of services to the Company and the Group during the Relevant Periods.

During the Relevant Periods, no emolument was paid by the Group to any of the above directors or the five highest paid individuals as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

(c) Contributions to pension plans

Employees in the Group's PRC subsidiary are required to participate in a defined contribution retirement scheme administrated and operated by the local municipal government. The Group's PRC subsidiary contributes funds which are calculated at 15% of the average employee salary, as agreed by local municipal government to the scheme as retirement benefits of the employees for the Relevant Periods.

9. Other (losses)/gains – net

	Year ended 31 March 2011	2012	2013	Three months ended 30 June 2012	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Foreign exchange (losses)/gains – net	(95)	(65)	(55)	15	(46)
Disposal and fair value losses of financial assets at fair value through profit or loss	–	–	(25)	(12)	(47)
	(95)	(65)	(80)	3	(93)

10. Finance income – net

	Year ended 31 March			Three months ended 30 June	
	2011	2012	2013	2012	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Finance income					
– Interest income derived from bank deposits	824	1,477	1,746	436	713
– Interest income derived from other financial assets	–	219	534	43	–
	824	1,696	2,280	479	713
Finance costs					
– Interest expense on borrowings	(449)	(83)	–	–	–
	375	1,613	2,280	479	713

11. Income tax expense

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and accordingly, is exempted from Cayman Islands income tax. The Company's direct subsidiary in the British Virgin Islands was incorporated under the International Business Companies Act of the British Virgin Islands and, accordingly, is exempted from British Virgin Islands income tax.

No provision for Hong Kong profits tax was provided as the Company and the Group did not have assessable profit in Hong Kong for the Relevant Periods. The profit of the group entity in Hong Kong is mainly derived from dividend income from subsidiary, which is not subject to Hong Kong profits tax.

The income tax provision of the Group in respect of its operations in mainland China has been calculated at the applicable tax rate on the estimated assessable profits for the Relevant Periods.

On 16 March 2007, the National People's Congress approved the Enterprise Income Tax Law of the PRC (the "**EIT Law**"), which is effective from 1 January 2008. Under the EIT Law and the Implementation Rules of the EIT Law, the standard tax rate of the PRC entities was 25% during the Relevant Periods.

According to the Notice of the State Council on the Implementation of the Transitional Preferential Policies in respect of Enterprise Income Tax, the corporate income tax rate applicable to the companies established and operated in Shantou Special Economic Zone would gradually increase from 15% to 25% in a transitional period of five years starting from 1 January 2008. The effective applicable income tax rate of the Group's subsidiary in the PRC was 22% for year ended 31 December 2010.

On 17 November 2011, the Group's subsidiary in the PRC was awarded High-Tech Enterprise Confirmation Certificate which is effective for three years commencing on 17 November 2011. The applicable income tax rate is 15% for the years ended 31 December 2011 and 2012, and the year ending 31 December 2013.

According to the EIT Law and the Implementation Rules, starting from 1 January 2008, a withholding tax of 10% will be levied on the immediate holding companies outside the PRC when their PRC subsidiaries declare dividend out of profits earned after 1 January 2008. A lower 5% withholding tax rate may be applied when the immediate holding companies of the PRC subsidiaries are established in Hong Kong and fulfill requirements under the Arrangement between the relevant authorities of the Mainland and the Hong Kong.

	Year ended 31 March			Three months ended 30 June	
	2011	**2012**	**2013**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Current income tax					
– PRC corporate income tax	3,033	5,600	8,965	2,148	1,856
Deferred income tax					
– PRC corporate income tax	(200)	(283)	231	(51)	54
– Withholding income tax for profit to be distributed from the PRC	–	–	2,328	518	453
	2,833	5,317	11,524	2,615	2,363

No income tax charges relating to components of other comprehensive income existed for the years ended 31 March 2011, 2012 and 2013 and the three months ended 30 June 2012 and 2013.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profit/loss of the combined entities as follows:

	Year ended 31 March			Three months ended 30 June	
	2011	**2012**	**2013**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Profit before income tax	12,457	35,005	56,262	13,646	10,514
Calculated at applicable corporate income tax rate	2,523	5,250	8,371	2,047	1,557
Effect of expenses not deductible for income tax	532	67	825	50	353
Effect of tax credit	(222)	–	–	–	–
	2,833	5,317	9,196	2,097	1,910
Withholding income tax for profit to be distributed from the subsidiary in the PRC	–	–	2,328	518	453
	2,833	5,317	11,524	2,615	2,363

12. Earnings per share

No earnings per share information is presented as its inclusion, for the purpose of this Financial Information, is not considered meaningful due to the Reorganisation and the preparation of the results for each of the years ended 31 March 2011, 2012, 2013 and the three months ended 30 June 2012 and 2013 on a combined basis as disclosed in Note 1.3 above.

13. Dividends

On 24 April 2013, Xinda Packing declared a final dividend of RMB23,017,000 (equivalent to HK$29,095,000) in respect of its profit for the year ended 31 March 2013 to its then shareholder. After deducting the relevant withholding tax of RMB1,145,000 (equivalent to HK$1,440,000), the net amount of RMB21,872,000 (equivalent to HK$27,655,000) was paid in May 2013.

On 10 October 2013 and 11 November 2013, the Company declared special dividends of RMB19,000,000 (equivalent to approximately HK$23,975,000) and RMB9,500,000 (equivalent to approximately HK$12,000,000), respectively, to its shareholder.

The rates for dividend and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this report.

14. Property, plant and equipment

	Plant and buildings	Machinery	Office equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2010				
Cost	25,301	25,268	1,392	51,961
Accumulated depreciation	(5,215)	(6,754)	(340)	(12,309)
Net book amount	20,086	18,514	1,052	39,652
Year ended 31 March 2011				
Opening net book amount	20,086	18,514	1,052	39,652
Exchange differences	865	837	43	1,745
Additions	1,391	3,242	5	4,638
Depreciation	(2,134)	(2,073)	(113)	(4,320)
Closing net book amount	20,208	20,520	987	41,715
At 31 March 2011				
Cost	27,831	29,688	1,458	58,977
Accumulated depreciation	(7,623)	(9,168)	(471)	(17,262)
Net book amount	20,208	20,520	987	41,715
Year ended 31 March 2012				
Opening net book amount	20,208	20,520	987	41,715
Exchange differences	745	806	39	1,590
Additions	–	2,663	134	2,797
Depreciation	(2,342)	(2,463)	(115)	(4,920)
Closing net book amount	18,611	21,526	1,045	41,182
At 31 March 2012				
Cost	28,920	33,564	1,652	64,136
Accumulated depreciation	(10,309)	(12,038)	(607)	(22,954)
Net book amount	18,611	21,526	1,045	41,182

	Plant and buildings HK$'000	Machinery HK$'000	Office equipment HK$'000	Total HK$'000
Year ended 31 March 2013				
Opening net book amount	18,611	21,526	1,045	41,182
Exchange differences	71	86	4	161
Additions	3,522	5,581	–	9,103
Depreciation	(2,022)	(2,803)	(85)	(4,910)
Closing net book amount	20,182	24,390	964	45,536
At 31 March 2013				
Cost	32,555	39,281	1,658	73,494
Accumulated depreciation	(12,373)	(14,891)	(694)	(27,958)
Net book amount	20,182	24,390	964	45,536
Three months ended 30 June 2013				
Opening net book amount	20,182	24,390	964	45,536
Exchange differences	307	331	13	651
Additions	4,624	–	43	4,667
Depreciation	(596)	(795)	(22)	(1,413)
Closing net book amount	24,517	23,926	998	49,441
At 30 June 2013				
Cost	37,662	39,823	1,724	79,209
Accumulated depreciation	(13,145)	(15,897)	(726)	(29,768)
Net book amount	24,517	23,926	998	49,441
Unaudited:				
Three months ended 30 June 2012				
Opening net book amount	18,611	21,526	1,045	41,182
Exchange differences	(105)	(120)	(5)	(230)
Additions	–	453	–	453
Depreciation	(378)	(659)	(21)	(1,058)
Closing net book amount	18,128	21,200	1,019	40,347
At 30 June 2012				
Cost	28,755	33,827	1,643	64,225
Accumulated depreciation	(10,627)	(12,627)	(624)	(23,878)
Net book amount	18,128	21,200	1,019	40,347

As at 31 March 2011, buildings with net book value totaling HK$16,799,000 were pledged as collateral for the Group's borrowings (Note 26). No property, plant and equipment were pledged as collateral as at 31 March 2012, 2013 and 30 June 2013.

Depreciation of the property, plant and equipment has been charged to profit or loss as follows:

	Year ended 31 March			Three months ended 30 June	
	2011	**2012**	**2013**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Cost of sales	2,215	2,920	3,155	863	1,000
Administrative expenses	2,105	2,000	1,755	195	413
	4,320	4,920	4,910	1,058	1,413

During the Relevant Periods, all buildings were located in the PRC.

15. Prepaid operating lease

The balance represented prepaid operating lease payments for two pieces of land located in the PRC for a lease term of 50 years in the PRC. The movements are as follows:

	Year ended 31 March			Three months ended 30 June	
	2011	**2012**	**2013**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
At beginning of the year/period					
Cost	7,705	8,042	8,357	8,357	8,387
Accumulated amortisation	(828)	(1,025)	(1,232)	(1,232)	(1,404)
Net book amount	6,877	7,017	7,125	7,125	6,983
For the year/period					
Opening net book amount	6,877	7,017	7,125	7,125	6,983
Exchange differences	297	272	25	(40)	96
Amortisation charges	(157)	(164)	(167)	(42)	(42)
Closing net book amount	7,017	7,125	6,983	7,043	7,037
At end of the year/period					
Cost	8,042	8,357	8,387	8,310	8,504
Accumulated amortisation	(1,025)	(1,232)	(1,404)	(1,267)	(1,467)
Net book amount	7,017	7,125	6,983	7,043	7,037
Prepaid operating lease is outside Hong Kong, held on leases of:					
– Between 10 to 50 years	7,017	7,125	6,983	7,043	7,037

Prepaid operating lease comprises cost of acquiring the rights to use certain lands, which are all located in the PRC for self-use buildings over fixed periods.

Amortisation of the Group's prepaid operating lease has been charged to profit or loss as follows:

	Year ended 31 March			Three months ended 30 June	
	2011	2012	2013	2012	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Cost of sales	29	31	31	8	8
Administrative expenses	128	133	136	34	34
	157	164	167	42	42

As at 31 March 2011, prepaid operating lease with net book value totaling HK$5,141,000 were pledged as collateral for the Group's borrowings (Note 26). No prepaid operating lease were pledged as collateral as at 31 March 2012, 2013 and 30 June 2013.

16. Inventories

	As at 31 March			As at 30 June
	2011	2012	2013	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials	24,559	20,374	14,608	13,305
Finished goods	7,052	3,627	19,614	22,244
	31,611	24,001	34,222	35,549
Less: provision for impairment	(295)	(956)	(758)	(905)
	31,316	23,045	33,464	34,644

Movements in provision for impairment of inventories are as follows:

	Year ended 31 March			Three months ended 30 June
	2011	2012	2013	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At beginning of the year/period	–	295	956	758
– Provision for/(reversal of) impairment of inventories	295	661	(198)	147
At end of the year/period	295	956	758	905

17. Trade and note receivables

	As at 31 March			As at 30 June
	2011	2012	2013	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	52,531	51,418	65,488	53,950
Notes receivable – bank acceptance notes	5,343	4,071	–	–
	57,874	55,489	65,488	53,950

(a) Ageing analysis of trade receivables based on invoice date at respective balance sheet dates are as follows:

	As at 31 March			As at 30 June
	2011	**2012**	**2013**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Less than 30 days	41,866	43,346	40,971	36,117
31 days to 60 days	6,475	7,521	20,470	12,814
61 days to 90 days	4,190	–	2,298	2,825
91 days to 180 days	–	551	1,749	2,049
Over 180 days	–	–	–	145
	52,531	51,418	65,488	53,950

The Group's sales are usually made on credit terms of 60 to 90 days. As at 31 March 2011, 2012 and 2013 and 30 June 2013, trade and notes receivable were all within due date and no provision was made.

(b) The carrying amounts of the Group trade and notes receivable are denominated in the following currencies:

	As at 31 March			As at 30 June
	2011	**2012**	**2013**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
RMB	57,808	55,077	64,241	53,121
HK$	66	412	1,247	829
	57,874	55,489	65,488	53,950

(c) As at 31 March 2011, 2012 and 2013 and 30 June 2013, the Group's maximum exposure to credit risk was the carrying value of each class of trade and notes receivable mentioned above. The Group does not hold any collateral as security.

(d) As at 31 March 2011 and 2012, notes receivable of approximately HK$5,343,000 and HK$4,071,000 were pledged as a guarantee for the Group's notes payable. No notes receivable were pledged as at 31 March 2013 and 30 June 2013.

18. Prepayments and other receivables

	As at 31 March			As at 30 June
	2011	**2012**	**2013**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Advance to suppliers	1,858	613	835	711
Deferred IPO cost	–	–	–	2,710
Other financial assets	–	6,292	–	–
Other receivables	2,897	33	40	456
	4,755	6,938	875	3,877

(a) As at 31 March 2011, 2012 and 2013 and 30 June 2013, the Group's maximum exposure to credit risk was the carrying value of each class of prepayments and other receivables mentioned above. The Group does not hold any collateral as security. During the Relevant Periods, other receivables mainly represented bidding deposits which were settled during the subsequent periods.

(b) Other financial assets comprised certain non-derivative wealth management products with fixed or determinable payment term of less than 14 days from a financial institution in the PRC.

19. Restricted cash

	As at 31 March			As at 30 June
	2011	**2012**	**2013**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Denominated in:				
– RMB	53,857	52,267	49,810	46,326

As at 31 March 2011, 2012 and 2013 and 30 June 2013, the Group placed cash deposits of approximately HK$53,857,000, HK$52,267,000, HK$49,810,000 and HK$46,326,000 with designated banks as collateral for the Group's notes payable.

20. Cash and cash equivalents

	As at 31 March			As at 30 June
	2011	**2012**	**2013**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash at bank and on hand:				
– Denominated in RMB	11,365	26,568	46,102	24,495
– Denominated in US$	331	407	336	335
– Denominated in HK$	1	26	158	7,781
	11,697	27,001	46,596	32,611

The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulation of foreign exchange control promulgated by the PRC government.

21. Combined capital

Combined capital as at each balance sheet date represents the combined capital of the companies now comprising the Group after elimination of inter-company investments.

22. Statutory reserves

In accordance with relevant rules and regulations in the PRC, all the PRC companies that operated exclusively with foreign capitals are required to transfer not less than 10% of their profit after taxation calculated under PRC accounting standards and regulations to the reserve fund, until the accumulated total of the fund reaches 50% of their registered capital. The statutory reserve fund can only be used, upon approval by the relevant authority, to offset previous years' losses or to increase the capital of respective companies. The appropriation to the enterprise expansion fund is solely determined by the board of directors of the PRC companies. The enterprise expansion fund can only be used to increase capital of respective companies or to expand their production operations upon approval by the relevant authority.

23. Deferred income tax

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	As at 31 March			As at 30 June
	2011	**2012**	**2013**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deferred income tax assets				
– to be recovered after more than 12 months	503	803	487	555
– to be recovered within 12 months	16	24	114	1
	519	827	601	556
Deferred tax liabilities:				
– to be recovered within 12 months	–	–	(2,328)	(1,341)
Deferred income tax assets/(liabilities) – net	519	827	(1,727)	(785)

The gross movements on the deferred income tax assets/(liabilities) are as follows:

	Year ended 31 March			Three months ended 30 June	
	2011	**2012**	**2013**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
At beginning of the year/period	302	519	827	827	(1,727)
Exchange differences	17	25	5	(5)	9
Tax credited/(charged) to the combined income statement	200	283	(2,559)	(467)	(507)
Withholding tax paid relating to the remittance of dividends	–	–	–	–	1,440
At end of the year/period	519	827	(1,727)	355	(785)

The movement in deferred income tax assets and liabilities during the Relevant Periods, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

	Temporary difference on depreciation *HK$'000*	**Temporary difference on accrued housing fund** *HK$'000*	**Temporary difference on inventory provision** *HK$'000*	**Total** *HK$'000*
At 1 April 2010	270	32	–	302
Exchange differences	15	2	–	17
Tax credited to the combined income statement	143	13	44	200
At 31 March 2011	428	47	44	519
Exchange differences	20	2	3	25
Tax credited to the combined income statement	160	27	96	283
At 31 March 2012	608	76	143	827
Exchange differences	2	1	2	5
Tax (charged)/credited to the combined income statement	(236)	36	(31)	(231)
At 31 March 2013	374	113	114	601
Exchange differences	7	–	2	9
Tax credited/(charged) to the combined income statement	39	(113)	20	(54)
At 30 June 2013	420	–	136	556
Unaudited:				
At 1 April 2012	608	76	143	827
Exchange differences	(3)	(2)	–	(5)
Tax credited to the combined income statement	26	9	16	51
At 30 June 2012	631	83	159	873

Deferred income tax liabilities

	Recognised for the withholding tax
	HK$'000
At 1 April 2010, 2011 and 2012	–
Tax charged to the combined income statement	2,328
At 31 March 2013	2,328
Tax charged to the combined income statement	453
Withholding tax paid in related to the remittance of dividends	(1,440)
At 30 June 2013	1,341
Unaudited:	
At 1 April 2012	–
Tax charged to the combined income statement	518
At 30 June 2012	518

As at 31 March 2011, 2012 and 2013 and 30 June 2013, the Group has unrecognised deferred income tax liabilities of HK$1,451,000, HK$2,918,000, HK$2,918,000 and HK$2,918,000, respectively, that would otherwise be payable as withholding tax in respect of the undistributed profits of a PRC subsidiary. No provision has been made in respect of such withholding tax as the Directors have confirmed that such profits will not be distributed out of the PRC in the foreseeable future. Unremitted earnings in this respect amounted to approximately HK$29,016,000, HK$58,351,000, HK$58,351,000 and HK$58,351,000 as at 31 March 2011, 2012 and 2013 and 30 June 2013, respectively.

24. Trade and notes payable

	As at 31 March			As at 30 June
	2011	**2012**	**2013**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables *(Note (a))*	18,304	25,928	40,761	33,402
Notes payable				
– bank acceptance notes	59,832	57,044	50,372	45,938
	78,136	82,972	91,133	79,340

(a) As at 31 March 2011, 2012 and 2013 and 30 June 2013, ageing analysis of trade payables based on invoice date is as follows:

	As at 31 March			As at 30 June
	2011	**2012**	**2013**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Less than 90 days	16,821	23,594	34,393	24,747
90 to 180 days	1,327	2,168	4,465	8,382
Over 180 days	156	166	1,903	273
	18,304	25,928	40,761	33,402

As at 31 March 2011, 2012 and 2013 and 30 June 2013, the ageing of all notes payable were within 6 months.

The Group's trade payables were interest-free and denominated in RMB as at 31 March 2011, 2012 and 2013 and 30 June 2013.

25. Other payables

	As at 31 March			As at 30 June
	2011	**2012**	**2013**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Accrual for staff costs and allowances	3,118	3,996	4,733	4,059
Other tax payables	129	3,958	3,008	3,699
Other accruals	398	993	2,473	7,789
	3,645	8,947	10,214	15,547

The carrying amounts of the Group other payables are denominated in the following currencies:

	As at 31 March			As at 30 June
	2011	**2012**	**2013**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
RMB	3,645	8,947	9,624	11,099
HK$	–	–	590	4,448
	3,645	8,947	10,214	15,547

The fair value of these balance approximate their carrying amounts at each of the reporting dates.

26. Borrowings

	As at 31 March			As at 30 June
	2011	**2012**	**2013**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current				
Bank borrowings – secured *(Note (a))*	5,936	–	–	–

(a) As at 31 March 2011, the Group's borrowings were denominated in RMB and secured by certain property and plant and prepaid operating lease of the Group.

The effective interest rates were as follows:

	As at 31 March 2011
Bank borrowings	6.06%

The carrying amounts of bank borrowings approximates its fair value.

27. Cash (used in)/generated from operations

Reconciliation of profit for the year/period to net cash (used in)/generated from operations

	Year ended 31 March			Three months ended 30 June	
	2011	**2012**	**2013**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Profit before income tax	12,457	35,005	56,262	13,646	10,514
Adjustments for:					
– Depreciation	4,320	4,920	4,910	1,058	1,413
– Amortisation of prepaid operating lease	157	164	167	42	42
– Provision for/(reversal of) impairment of inventories	295	661	(198)	109	147
– Finance income – net	(375)	(1,613)	(2,280)	(479)	(713)
– Other losses/(gains) – net	95	65	80	(3)	93
Changes in working capital:					
– Inventories	(22,418)	7,610	(10,221)	(551)	(1,327)
– Trade and notes receivable	5,316	2,385	(9,999)	(1,702)	11,538
– Prepayments and other receivables	(3,707)	4,109	(229)	411	(292)
– Trade and note payables	1,479	4,836	8,161	(1,144)	(11,793)
– Other payables	(3,447)	5,302	1,267	(1,388)	913
Cash (used in)/generated from operations	(5,828)	63,444	47,920	9,999	10,535

28. Contingencies

As at 31 March 2011, 2012 and 2013 and 30 June 2013, the Group had no material contingencies.

29. Capital commitments

As at 31 March 2011, 2012 and 2013 and 30 June 2013, the Group had the following capital commitments:

	As at 31 March			As at 30 June
	2011	**2012**	**2013**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure in respect of the acquisition of property and equipment contracted for but not provided	409	344	2,306	475
Capital expenditure in respect of the acquisition of property authorised but not contracted for	–	–	1,222	–

30. Related party transactions

(a) Name and relationship with related parties

Name	**Relationship**
Mr. Zheng Andy Yi Sheng	Controlling Shareholder
Mr. Zheng Minsheng	Director and brother of Mr. Zheng Andy Yi Sheng
Shantou Lejing Trading Investment Co., Ltd	Company owned by Mr. Zheng Minsheng

(b) Significant transactions with related parties – Discontinuing

During the years ended 31 March 2011, 2012 and 2013 and the three months ended 30 June 2012 and 2013, the Group had the following significant transactions with a related party:

	Year ended 31 March			Three months ended 30 June	
	2011	**2012**	**2013**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Sales of goods and income from processing services – Shantou Lejing Trading Investment Co., Ltd	675	719	–	–	–

In the opinion of the directors, this transaction was carried out on terms agreed with the related party in the ordinary course of business.

(c) Key management compensations

Key management compensations for the years ended 31 March 2011, 2012 and 2013 and the three months ended 30 June 2012 and 2013 are set out below.

	Year ended 31 March			Three months ended 30 June	
	2011	**2012**	**2013**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Salaries and other employee benefits	287	385	484	106	134
Pension costs	25	32	40	9	10
	312	417	524	115	144

(d) Balances with related parties

As at 31 December 2011, 2012 and 2013 and 30 June 2013, the Group had the following material balances with related parties:

	As at 31 March			As at 30 June
	2011	**2012**	**2013**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amount due from a related party *(Note (i))*:				
– Mr. Zheng Andy Yi Sheng	–	1,509	13,195	5,638
Amounts due to related parties *(Note (i))*:				
– Mr. Zheng Andy Yi Sheng	32,676	–	–	–
– Mr. Zheng Minsheng	237	247	247	–
– Shantou Lejing Trading Investment Co., Ltd	10,725	11,144	1,892	–
	43,638	11,391	2,139	–

(i) The amounts due from/to related parties are unsecured, interest-free and repayable on demand, which are cash advances in nature.

Particulars of amount due from Mr. Zheng Andy Yi Sheng, who is a director of the Company disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	Year ended 31 March			Three months ended 30 June
	2011	**2012**	**2013**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Maximum amount outstanding for the year/period	–	1,509	13,195	13,195

Subsequent to 30 June 2013, the above balances with the related party were fully settled.

31. Subsequent events

Save as disclosed elsewhere in this report, the following significant event took place subsequent to 30 June 2013:

(i) by a shareholder's resolution dated 14 November 2013, the Group has conditionally adopted a share option scheme under which employees of the Group including executive directors and other eligible participants may be granted options to subscribe for shares of the Company.

(ii) by a shareholder's resolution dated 14 November 2013 and conditional on the share premium account of the Company being credited as a result of issue of new shares pursuant to the proposed offering of the Company's shares, the Company will issue additional 239,999,999 shares, credited as fully paid, to the existing shareholder of the Company.

(iii) on 10 October 2013 and 11 November 2013, the Company declared special dividends of RMB19,000,000 (equivalent to approximately HK$23,975,000) and RMB9,500,000 (equivalent to approximately HK$12,000,000), respectively, to its shareholder.

III. FINANCIAL INFORMATION OF THE COMPANY

The Company was incorporated on 29 April 2013 in the Cayman Islands with an authorised share capital of 38,000,000 ordinary shares of HK$0.01 each and has not entered into any significant business transaction other than the Reorganisation. As at 30 June 2013, the Company had an amount due from the holding company of HK$0.01 and an issued share capital of HK$0.01.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2013 and up to the date of this report. Saved as disclosed in this report, no dividend or distribution has been declared or made by the Company or any of the other companies comprising the Group in respect of any period subsequent to 30 June 2013.

Yours faithfully,
PricewaterhouseCoopers
Certified public accountants
Hong Kong

The following information does not form part of the accountant's report prepared by PricewaterhouseCoopers, Certified Public Accountants, the Reporting Accountant of the Company, as set forth in Appendix I to this prospectus, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section entitled "Financial Information" in this prospectus and the accountant's report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Share Offer on the net tangible assets of our Group attributable to owner of the Company as at 30 June 2013 as if the Share Offer had taken place on 30 June 2013 assuming the Over-allotment Option is not exercised.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of our Group as at 30 June 2013 or at any future dates following the Share Offer. It is prepared based on the combined net assets of our Group as at 30 June 2013 as set out in the accountant's report of our Group, the text of which is set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the accountant's report.

	Audited combined net tangible assets of our Group attributable to owner of the Company as at 30 June 2013 *(Note 1)* *HK$'000*	**Estimated net proceeds from the Share Offer** *(Note 2)* *HK$'000*	**Unaudited pro forma adjusted combined net tangible assets attributable to owner of the Company** *HK$'000*	**Unaudited pro forma adjusted net tangible assets per Share** *(Note 3)* *HK$*
Based on an Offer Price of HK$1.18 per Share	132,771	52,474	185,245	0.62
Based on an Offer Price of HK$1.48 per Share	132,771	69,934	202,705	0.68

Notes:

(1) The audited combined net tangible assets attributable to owner of the Company as at 30 June 2013 is extracted from the accountant's report set out in Appendix I to this prospectus, which is based on the audited combined net assets of our Group attributable to owner of the Company as at 30 June 2013 of HK$132,771,000.

(2) The estimated net proceeds from the Share Offer are based on the indicative Offer Price of HK$1.18 and HK$1.48 per Share after deduction of the estimated underwriting fees and other related expenses and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme.

(3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 300,000,000 Shares were in issue assuming that the Share Offer has been completed on 30 June 2013 but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme and any Share which may be issued or repurchased by the Company pursuant to the general mandate to Issue Shares or the general mandate to Repurchase Shares as described in the section headed "Share Capital" in this prospectus.

(4) No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to 30 June 2013. In particular, the unaudited pro forma adjusted net tangible assets has not adjusted the special dividends of HK$35,975,000 declared and paid by our Group subsequent to 30 June 2013. Had the dividend been taken into account, the unaudited pro forma adjusted net tangible assets per Share would be HK$0.50 and HK$0.56 based on the Offer Price of HK$1.18 and HK$1.48 per Share, respectively.

B. REPORT FROM THE REPORTING ACCOUNTANT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION INCLUDED IN A PROSPECTUS

TO THE DIRECTORS OF HUAXI HOLDINGS COMPANY LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Huaxi Holdings Company Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at 30 June 2013 and related notes (the "**Unaudited Pro Forma Financial Information**") as set out on pages II-1 to II-2 of the Company's prospectus dated 26 November 2013, in connection with the proposed initial public offering of the shares of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed initial public offering on the Group's financial position as of 30 June 2013 as if the proposed initial public offering had taken place at 30 June 2013. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial information for the period ended 30 June 2013, on which an accountant's report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant comply with ethical requirements and plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering at 30 June 2013 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

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

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 26 November 2013

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 29 April 2013 under the 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 14 November 2013. 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 to receive a certificate for his shares. No shares shall be issued to bearer.

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 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 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 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 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

(ee) 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 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 summarised 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 Companies Law, the Company is required to maintain at its registered office a register of directors, alternate 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, including a change of the name of 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 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 authorised 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 authorised and subject to any conditions prescribed by law.

Reduction of share capital – subject to the 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 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 14 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 deemed to have been duly authorised without further evidence of the facts and 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 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 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 summarised 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 summarised financial statements instead of the full financial statements. The summarised 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 21 days before the general meeting to those shareholders that have consented and elected to receive the summarised 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 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 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 recognise 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 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 monies 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 monies 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 authorised 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 it shall not preclude the use of the two-way form. 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 monies 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 annum as the Board may prescribe.

(q) Inspection of corporate records

Members of the Company have no general right under the 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 summarised 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 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 three months period (being the three 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 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 29 April 2013 subject to the 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 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 authorised share capital.

(b) Share capital

In accordance with the Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. The 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 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 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 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 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 authorised 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 authorised 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 authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. Nonetheless, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares without the manner and terms of purchase first being authorised 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 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 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 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 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 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 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 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 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.

If the Company keeps its books of account at any place other than at its registered office or at any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

(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 (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

(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 (2011 Revision).

The undertaking for the Company is for a period of twenty years from 14 May 2013.

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 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 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 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. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

(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 of, 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 (ii) 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 authorised 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 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 advisor 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 Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI to this prospectus. 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.

The following part introduces the principal PRC laws and regulations governing the operations of Xinda Packing.

REGULATIONS RELATING TO THE CATALOGUE OF INDUSTRIES FOR GUIDING FOREIGN INVESTMENT IN THE PRC AND THE WHOLLY FOREIGN-OWNED ENTERPRISE LAW OF THE PRC

Pursuant to applicable PRC regulations on foreign-funded enterprises, capital contributions from a foreign holding company to its PRC subsidiaries, which are regarded as foreign-funded enterprises, may only be made when the approval of the Ministry of Commerce (the "**MOFCOM**") or its local commerce department is obtained. Before approving such capital contributions, the MOFCOM or its local commerce department will examine the business scope of each foreign-funded enterprise under review, ensuring it complies with the Catalogue of Industries for Guiding Foreign Investment (外商投資產業指導目錄). According to this Catalogue, industries for foreign investment are classified into three categories: "Encouraged Industries for Foreign Investment", "Restricted Industries for Foreign Investment" and "Prohibited Industries for Foreign Investment". Those industries which do not fall into any of these categories are referred to "Permitted Industries for Foreign Investment".

The first version of the foresaid Catalogue was promulgated on 11 March 2002 and enforced on 1 April 2002 by the State Development Planning Commission (nowadays known as the National Development and Reform Commission), the State Economic and Trade Commission and the Ministry of Foreign Trade and Economic Cooperation (nowadays consolidated as the MOFCOM). Since then, it was revised on 30 November 2004 and enforced on 1 January 2005 by the National Development and Reform Commission and the MOFCOM (the "**2004 Industrial Guidance Catalogue**"), then revised on 31 October 2007 and enforced on 1 December 2007 (the "**2007 Industrial Guidance Catalogue**") and later revised on 24 December 2011 and enforced on 30 January 2012 (the "**2011 Industrial Guidance Catalogue**"). According to both the 2007 Industrial Guidance Catalogue and the 2011 Industrial Guidance Catalogue, the industry of our PRC subsidiary does not fall into the "Restricted Industries for Foreign Investment" or "Prohibited Industries for Foreign Investment" category.

The Wholly Foreign-Owned Enterprise Law of the PRC (《中華人民共和國外資企業法》), or the WFOE Law, was issued on 12 April 1986 and revised on 31 October 2000. In accordance with the WFOE Law, a wholly foreign-owned enterprise, or WFOE, must apply for approval of its establishment from the relevant foreign trade and economic cooperation authority or other competent authorities which handle the examination and approval of any subsequent division, merger or other important changes to the WFOE. The above establishment of and changes to the WFOE must also be registered with the relevant administration of industry and commerce. Foreign investors in a WFOE may remit abroad profit lawfully earned from the WFOE and other lawful income and funds obtained following liquidation of the WFOE.

LAWS AND REGULATIONS RELATING TO THE PRINTING INDUSTRY IN THE PRC

General regulations

The main regulatory authorities of the PRC Government for the administration of printing product are the General Administration of Press and Publication (the "**GAPP**", nowadays consolidated as the State Administration of Press Publication Radio Film and Television) and its local departments and the local administrative department of industry and commerce. Pursuant to the Regulations on the Administration of Printing Industry (《印刷業管理條例》) promulgated by the State Council on 2 August 2001, to establish an enterprise engaged in printing industry, the applicant shall apply to the administrative department of publishing of the provincial level government where the enterprise is located. The applicant that is approved after examination may obtain the license for printing operations. And then, the applicant can apply for registration to the administrative department of industry and commerce, and gain the business license. The foresaid license for printing operations shall not be leased, lent or transferred by any means.

The Interim Provisions on the Qualifications of Printing Operations (《印刷業經營者資格條件暫行規定》) issued by the GAPP on 9 November 2001, specifies the qualifications required for the enterprises engaged in printing operations. According to this regulation, printing operators must satisfy such qualification requirements in order to obtain an approval for their establishment and a license for printing operations from the press and publication administration.

In accordance with the Interim Provisions on the Qualifications of Printing Operations, in order to obtain a license for printing operations, applicants are required to: (i) submit the name of the enterprise and its articles of association; (ii) have specific scope of business; (iii) have production and business premises that can meet the needs of its scope of business, and necessary capital, equipment and other production and business conditions as well; (iv) have organisations and personnel necessary for the business scope; and (v) have sound operation management and finance control system, and sound quality control system.

Foreign investment in printing industry

Under the Interim Provisions on the Establishment of Foreign-funded Printing Enterprise (《設立外商投資企業印刷企業暫行規定》), which jointly promulgated by the GAAP and the Ministry of Foreign Trade and Economic Cooperation (nowadays consolidated as the MOFCOM) on 29 January 2002 and its supplemental provisions, to establish foreign-funded printing enterprises, in the form of Chinese-foreign equity or contractual joint ventures ("**Joint Ventures**") or wholly foreign owned enterprises ("**WFOEs**"), the applicant shall apply for the approvals of both the GAPP and the MOFCOM. The Joint Ventures can engage in the printing business for printing products used for publications, printing products for packaging and decoration and other printed matters, but the WFOEs are only allowed to engage in the printing business for printing of products used for packaging and decoration.

According to Circular of the Ministry of Commerce on Entrusting the Administrative Departments of Commerce at the Provincial Level to Examine and Administer the Foreign-funded Printing Enterprises (《商務部關於委託省級商務主管部門審核管理外商投資印刷企業的通知》) issued on 22 January 2006 and enforced on 31 March 2006, the MOFCOM has delegated the authority in approving the establishment of Joint ventures and WFOEs to its local commerce departments at the provincial level.

Tobacco Monopoly Law of the PRC

Pursuant to the Tobacco Monopoly Law of the PRC (《中華人民共和國煙草專賣法》) promulgated by the National People's Congress Standing Committee (the "**NPCSC**") on 29 June 1991 which became effective on 1 January 1992 and revised on 27 August 2009, "tobacco monopoly commodities" refers to cigarettes, cigars, cut tobacco, re-dried leaf tobacco, leaf tobacco, cigarette paper, filter rods, cigarette filter tow, cigarette manufacturing equipment. "Tobacco products" refers to cigarettes, cigars, cut tobacco and re-dried leaf tobacco.

As the cigarette-related packaging materials are neither "tobacco monopoly commodities" nor "tobacco products", the cigarette packaging material industry is not governed by the Tobacco Monopoly Law of the PRC.

LAWS AND REGULATIONS RELATING TO QUALITY AND SAFETY OF PRODUCTS

The Product Quality Law of the PRC (《中華人民共和國產品質量法》) (the "**Product Quality Law**") was adopted by the NPCSC on 22 February 1993 and enforced on 1 September 1993, then revised on 8 July 2000 and enforced on 1 September 2000. Applicable to all production and marketing activities in China, the Product Quality Law was formulated to reinforce the supervision and regulation of product quality, improve the quality of products, as well as to clarify the liabilities for product quality, protect consumers and maintain social and economic order.

The State Council established a supervising department for conducting nationwide supervision over product quality, with local authorities performing this duty at the local level. Products offered for sale must meet the relevant quality and safety standards. Enterprises shall not produce or sale counterfeit products in any fashion, including forging brand labels or giving false information about the manufacturer of a product. Violations of state or industrial standards for health safety and any other related violations may result in civil liabilities and penalties, such as compensation for damages, fines, suspension or shutdown of business, as well as confiscation of products illegally produced for sale and the sales proceeds of such products. The responsible individual or enterprise will undertake criminal liabilities for serious violation. Manufacturers whose products cause personal or property damages due to their latent defects are liable for such damages.

LAWS AND REGULATIONS RELATING TO PRODUCTION SAFETY

The Production Safety Law of the PRC (《中華人民共和國安全生產法》) ("**Production Safety Law**") was initially promulgated by the NPCSC on 29 June 2002 and enforced on 1 November 2002 and revised on 27 August 2009. The Production Safety Law provides safety standards for any production or business operation in order to prevent and reduce safety accidents, defend the safety of life and property of the masses. The State Administration of Work Safety established by the State Council is the main regulator of the nationwide supervision and administration of the Production Safety Law. Local government authorities at the county level and above are responsible for supervision and administration of production safety within their respective local jurisdiction.

Enterprises are required to set up and maintain appropriate equipment, monitor the safety of production procedures, assign designated personnel, conduct workplace safety training and undertake all other measures required by the law to ensure the safety of employees and the general public. Any responsible individual or enterprise that fails to perform its duty to meet the safety production standards may be ordered to rectify the violation within a prescribed period and/or pay a fine. Failure to rectify within the prescribed period may result in suspension or shutdown of the business. Serious violations that result in any production safety accident may impose criminal liabilities to the responsible individuals.

LAWS AND REGULATIONS RELATING TO LABOUR PROTECTION AND SOCIAL SECURITY

According to the Labor Law of the PRC (《中華人民共和國勞動法》), which became effective on 1 January 1995, workers are entitles to fair employment, choice of occupation, labor remuneration, leave, a safe workplace, a sanitation system, social insurance and welfare and certain other rights. Enterprises and institutions shall establish and perfect its system of work place safety and sanitation, strictly abide by State rules and standards on work place safety and sanitation and educate laborers on work place safety and sanitation.

The Labor Contract Law of the PRC (《中華人民共和國勞動合同法》) enforced on 1 January 2008, then revised on 28 December 2012 and enforced on 1 July 2013 and its implementation rules emphasise the conclusion of employment contracts in written form and imposes severe liabilities for non-compliance. If the employer fails to conclude a written employment contract with an employee for one month to one year after the actual commencement of work, the employer must pay the employee double salary from the day after one month of the actual commencement of work to the day before the conclusion of employment contract. If the employer fails to conclude a written employment contract with an employee for more than one year after the actual commencement of work, an unfixed-term contract is deemed to have been concluded. Enterprises and institutions are prohibited from forcing employees to work beyond the time limit and the employers shall pay employees for overtime work in accordance with national regulations.

The PRC has established a social security system providing people with basic pension insurance, unemployment insurance, medical insurance, maternity insurance, work injury insurance, and housing funding by a series of laws and regulations, such as the Social Insurance Law (《社會保險法》), the Provisional Regulations on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》), the Regulations on Work Injury Insurance (《工傷保險條例》), the Regulations on Unemployment Insurance

(《失業保險條例》), the Decision of the State Council on Establishing a Unified Basic Pension Insurance System for Enterprise Employees (《國務院關於建立統一的企業職工基本養老保險制度的決定》), the Decision of the State Council on Improving Basic Pension Insurance System for Enterprise Employees (《國務院關於完善企業職工基本養老保險制度的決定》) the Regulations on the Administration of Housing Accumulation on Funds (《住房公積金管理條例》). Pursuant to the Social Insurance Law, pension insurance, medical insurance and unemployment insurance contributions must be paid by both employers and employees, while work injury insurance and maternity insurance contributions must be paid solely by employers. An employer must declare and make social insurance contributions in full and on time. The social insurance contributions payable by employees must be withheld and paid by employers on behalf of the employees. Pursuant to the Regulations on the Administration of Housing Accumulation on Funds effective on 3 April 1999, as revised on 24 March 2002, enterprises must register with the local housing fund account with an entrusted bank. Employers are also required to make adequate contributions of no less than 5% of each employee's average monthly salary in the previous year to the housing fund for their employees on a timely basis. Any employer who fails to pay its social insurance premiums or withhold the employee's portion may be ordered by the PRC Ministry of Human Resources and Social Security or other relevant authorities to make such payments within a prescribed period, and may undertake relevant liabilities.

LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

The Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), which became effective on 26 December 1989, provides that units causing environmental pollution and other public nuisances shall adopt effective measures to avoid and control the pollution and damage caused to the environment. Pollution prevention facilities in construction projects shall be designed, built and put into operation together with the main part of the project. Construction projects can only be put into operation after the environmental protection authority has examined and approved the pollution prevention facilities. Enterprises and institutions discharging pollutants shall report to and register with the relevant authorities in accordance with the provisions of the environmental protection authority under the State Council.

The Law of the PRC on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the Implementation Rules of the Law of the PRC on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法實施細則》), the Law of the PRC on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》), the Law of the PRC on Prevention and Control of Pollution from Environmental Noise (《中華人民共和國環境噪聲污染防治法》) and the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》) govern the prevention, control, supervision and management of the discharge of air pollution, waste water, noise and the disposal of solid waste.

LAWS AND REGULATIONS RELATING TO IMPORT OR EXPORT OF PRODUCTS

The Foreign Trade Law of the PRC (《中華人民共和國對外貿易法》), which was promulgated on 12 May 1994 and enforced on 1 July 1994, then revised on 6 April 2004 and enforced on 1 July 2004, and the Measures for the Archival Filing and Registration of Foreign Trade Business Operators (《對外貿易經營者備案登記辦法》), which was promulgated by the MOFCOM on 25 June 2004 and enforced on 1 July 2004, required that foreign trade operators who engage in the import or export of goods or technologies must register with the MOFCOM or another institution authorised by the MOFCOM. In addition, if a company imports or exports good as a consignee or a consignor, it must register with local Customs authority and obtain the PRC Customs Declaration Registration Certificate for Consignors and Consignees, according to the Provisions of the Customs of the PRC for the Administration of Registration of Declaration Entities (《中華人民共和國對報關單位註冊登記管理規定》) promulgated by the General Administration of Customs on 31 March 2005 and effective on 1 June 2005.

Pursuant to the Law on Inspection of Import and Export Commodity of the PRC (《中華人民共和國進出口商品檢驗法》) which was promulgated by the NPCSC on 21 February 1989 and enforced on 1 August 1989, then revised on 28 April 2002 and enforced on 1 October 2002, and its implementation regulations which was passed by the State Council on 31 August 2005 and became effective on 1 December 2005, the AQSIQ oversees the inspections of all import and export commodities of the PRC, while the local authorities perform within their jurisdiction. Such inspections cover quality, quantity, weight and packaging and requirements for safety, hygiene, health, environmental protection and anti-fraud protection, among others, and are governed by inspection standards under the law.

LAWS AND REGULATIONS RELATING TO FOREIGN EXCHANGE

Under the Regulations of the PRC on the Management of Foreign Exchanges (《中華人民共和國外匯管理條例》) which promulgated on 29 January 1996 and enforced on 1 April 1996, then revised on 14 January 1997 and later revised on 5 August 2008 and various other regulations issued by the State Administration of Foreign Exchange (the "**SAFE**") and other relevant PRC government authorities, the Renminbi is convertible into other currencies for the purpose of current account items, such as trade related receipts and payments and the payment interest and dividend. The conversion of Renminbi into other currencies and remittance of the converted foreign currency outside the PRC for the purpose of capital account items, such as direct equity investments, loans and repatriation of investment, requires the prior approval from the SAFE or its local department. Payments for transactions that take place within the PRC must be made in Renminbi. Unless otherwise approved, PRC companies may repatriate foreign currency payments received from abroad or retain the same abroad. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks subject to a cap set by the SAFE or its local department. Foreign exchange proceeds under the current accounts may be either retained or sold to a financial institution engaging in settlement and sale of foreign exchange pursuant to relevant rules and regulations of the State. For foreign exchange proceeds under the capital accounts, approval from the SAFE is required for its retention or sale to a financial institution engaging in settlement and sale of foreign exchange, except where such approval is not required under the rules and regulations of the State.

LAWS AND REGULATIONS RELATING TO TAXATION

Enterprise Income Tax

Prior to the enactment of the Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) (the "**EIT Law**") and the Implementation Rules which became effective on 1 January 2008, our PRC subsidiary was generally subject to a 33% corporate income tax. Under the EIT Law, effective from 1 January 2008, a unified enterprise income tax rate is set at 25% for both domestic enterprises and foreign-invested enterprises. The EIT Law and the Implementation Rules provide certain relieves to enterprises that were established prior to 16 March 2007, including (1) continuously enjoying the preferential income tax rate during a five-year transition period if such enterprises are entitled to preferential income tax rate before the effectiveness of the Enterprise Income Tax Law; (2) continuously enjoying the preferential income tax rate until its expiry if such enterprises are entitled to tax holidays for a fixed period under the relevant laws and regulations. However, according to Notice of the State Council on the Implementation of the Transitional Preferential Policies in respect of Enterprise Income Tax (《國務院關於實施企業所得稅過渡優惠政策的通知》), the preferential tax rate enjoyed by foreign-invested and domestic enterprises established prior to the promulgation of the EIT Law pursuant to the then-current tax laws and administrative regulations will be granted a transitional period. An enterprise subject to an applicable enterprise income tax rate lower than 25% before the EIT Law became effective will have its tax rate gradually increased to the statutory tax rate within a transitional period of five years from the effective date of the EIT Law. As of 1 January 2008, enterprises that previously enjoyed the two-year EIT exemption followed by three years at 50% of the standard EIT rate or the five-year EIT exemption followed by five years at 50% of the standard EIT rate tax holidays and other preferential treatment in the form of tax deductions and exemptions within specified periods may, after the implementation of the EIT Law, continue to enjoy the relevant preferential treatments for the time period prescribed in the former tax law and other regulations until the expiration of the said time period.

According to the EIT Law and the Implementation Rules, PRC-resident enterprises are levied a withholding tax of 10% on dividends to their non-PRC-resident corporate investors for profits earned since 1 January 2008. However, under the Arrangement between the Mainland and the Hong Kong SAR for the Avoidance of Double Taxation and Tax Evasion on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), a qualified Hong Kong company is liable for withholding tax at a rate of 5% for dividend income derived from the PRC if the Hong Kong company is a "beneficial owner" and holds at least a 25% equity interest in the PRC company directly.

However, under the EIT Law and the Implementation Rules, enterprises established under the laws of foreign jurisdictions but whose "de facto management body" is located in the PRC are treated as "resident enterprises" for PRC tax purposes, and will be subject to PRC income tax on their worldwide income. Under the implementation regulations of the EIT Law, "de facto management body" is defined as bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise.

According to the EIT Law and the Implementing Regulations, certain qualifying high-technology enterprises may still benefit from a preferential tax rate of 15% if they satisfy certain conditions, including owning their core intellectual properties and their products or services falling into the scope of certain State-supported high-tech industries specified by the government, and obtain a "high-technology enterprise" certificate in accordance with the relevant regulations, including the Administrative Measures for Determination of High-technology Enterprises (《高新技術企業認定管理辦法》) promulgated by the Ministry of Science and Technology, the Ministry of Finance and the State Administration of Taxation on 14 April 2008 and enforced on 1 January 2008.

Value-added Tax

The Value-added Tax (the "**VAT**") of foreign-funded enterprises is governed by the Provisional Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例》), which became effective on 1 January 1994, and was amended on 10 November 2008. The amendment came into effect on 1 January 2009. Under the provisional regulations, VAT is payable on the sale or import of goods and the provision of processing, repair and labor replacement services in the PRC. The VAT rate is generally levied at 17%, however, a tax rate of 13% is applicable to the sale or import of certain categories of necessities.

LAWS AND REGULATIONS RELATING TO COMMERCIAL BRIBERY

According to the Amendment (VIII) to the Criminal Law of the PRC (中華人民共和國刑法第八修正案), which came into effect on 1 May 2011, whoever gives any property to a staff member of a company, an enterprise or any other entity for any improper benefit shall be sentenced to imprisonment of not more than 3 years or criminal detention if the amount of property is relatively large; or be sentenced to imprisonment of not less than 3 years but not more than 10 years and a fine if the amount of property is huge. Whoever gives any property to a functionary of a foreign country or an official of an international public organisation for any improper commercial benefit shall be punished according to the aforesaid provision.

The Anti-Unfair Competition Law of the PRC (中華人民共和國反不正當競爭法) came into effect on 1 December 1993. This law is drawn up in order to safeguard the healthy development of the socialist market economy, encourage and protect fair market competition, prohibit unfair competition, safeguard the legal rights and interests of managers. Under this law, managers shall not use money or properties or the other methods to bribe to others in order to sell or purchase commodities. It shall be guilty of giving bribe if managers give a secret commission to the other organisations or individuals without the normal accounting records. It shall be guilty of taking bribe, if the organisations or individuals accept the secret discount without normal accounting records. Manager bribe by giving money or properties or using any other method in order to sell or purchase the commodities and violate the Criminal Law, shall be investigated in accordance with the Criminal Law; if the acts as first mentioned do not violate the Criminal Law, the supervisor may fine an amount from more than 10,000 to less than RMB200,000 according to the facts, and confiscate the illegal income.

According to the Tentative Regulations of the State Administration for Industry and Commerce on Prohibition of Commercial Bribery (國家工商行政管理局關於禁止商業賄賂行為的暫行規定), which became effective on 15 November 1996, any entity or individual shall not offer or accept bribes when purchasing or selling commodities. A business operator giving any off-book discount or kick-back shall be regarded as offering a bribe, and any counterparty's accepting any off-book discount or kick-back shall be regarded as accepting a bribe. Any business operator purchases or sells commodities through offering or accepting bribes shall be imposed a fine for no less than RMB10,000 and no more than RMB200,000 and all the illegal gains shall be confiscated. If such behavior violates the Criminal Law, the case shall be moved to judicial department for crime investigation.

The Tendering and Bidding Law of the PRC (中華人民共和國招投標法), which became effective on 1 January 2000, forbids bidders to offer bribes to the tenderers or members of the bid assessment committees for winning. If a bidder resorts to the manner of offering bribes to the tenderer or members of the bid assessment committee to win the bid, his winning of the bid shall be void and invalid, the said bidder shall be imposed a fine exceeding 0.5% and not exceeding 1% of the sum of the winning project, the person-in-charge directly responsible and other persons directly responsible of the bidder shall be imposed a fine exceeding 5% and not exceeding 10% of the fine imposed on the bidder; the illegal gains therefrom, if any, shall be confiscated of concurrently; if the circumstance is serious, his qualifications to take part in bidding of projects subject to tender shall be cancelled for one to two years and the cancellation shall be announced or even his business license shall be revoked by the administrative department for industry and commerce; and if a crime is constituted, criminal responsibility shall be demanded for according to law. If any loss is caused to other persons, the said bidder shall be liable therefor according to law.

According to "Interim Provisions on Anticorruption Supervision in Biddings of Tobacco Industry (煙草行業招標採購活動廉政監督工作暫行規定)", promulgated by the State Tobacco Monopoly Administration on 1 April 2008, supervisions on bidding and purchasing activities shall be enhanced. The bidding and purchasing activities shall be proceeded fairly and transparently. If any individual working in tobacco industry privately contacts with any bidder and accepts any money or property from such bidder, or attends any dinner or any other activity organised by potential bidders, suppliers or purchasing agents, and therefore caused severe consequence or economical loss, such individual shall be subject to sanctions imposed by the disciplinary committees of the enterprises. In the case of any suspected violation of the criminal law, the enterprise may transfer the violator to the relevant department for handling.

According to "The State Tobacco Monopoly Administration Concerning Further Strictly Regulate the Businesses Operating Behavior of Cigarette (國家煙草專賣局關於進一步嚴格規範工商企業捲煙經營行為的意見)", promulgated on 9 May 2012, tobacco commercial enterprise is strictly prohibited to accept money, ask for any property from the cigarette industrial enterprise in any name, for any reason. The relevant staff are not allowed to accept bonuses, subsidies and other properties which issued by the tobacco industry enterprise in any names. No cigarette industrial enterprise may give money or gift to any tobacco commercial enterprise and relevant staff under any name, for any reason; No cigarette industrial enterprise may accept and ask for money and gift from any tobacco commercial enterprise.

A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation

(a) Our Company was incorporated in the Cayman Islands as an exempted limited liability company under the Companies Law on 29 April 2013. Our Company has established our principal place of business in Hong Kong at Units 6-7, 19th Floor, High Block, Cosco Tower, Grand Millennium Plaza, 183 Queen's Road Central and 33 Wing Lok Street, Hong Kong and has been registered as a non-Hong Kong company under Part XI of the Companies Ordinance. Mr. Yu Wing Cheung of Flat C, 16th Floor, Lee Cheong Building, 218-220 Wanchai Road, Hong Kong has been appointed as our agent for acceptance of service of process and notices on our Company in Hong Kong.

(b) As our Company was incorporated in the Cayman Islands, our corporate structure, the Memorandum and the Articles are subject to the relevant laws of the Cayman Islands. A summary of the relevant provisions of the Memorandum, the Articles and certain aspects of the Cayman Islands company law is set out in Appendix III to this prospectus.

2. Changes in share capital of our Company

The authorised share capital of our Company as at the date of incorporation was HK$380,000 divided into 38,000,000 Shares of par value of HK$0.01 each. The following sets out the changes in our share capital since the date of our incorporation:

(a) On 29 April 2013, one Share was allotted and issued, credited as fully paid at par, to an Independent Third Party as the initial subscriber, which was then transferred to SXD Limited at par value on the same day; and

(b) On 14 November 2013, the authorised share capital of our Company was increased from HK$380,000 divided into 38,000,000 Shares to HK$20,000,000 divided into 2,000,000,000 Shares by the creation of additional 1,962,000,000 new Shares pursuant to a written resolution passed by our sole Shareholder as referred to in the paragraph headed "Written resolutions of our sole Shareholder" in this appendix.

The authorised share capital of our Company is HK$20,000,000 divided into 2,000,000,000 Shares. Assuming that the Share Offer becomes unconditional, the Shares under the Capitalisation Issue are issued and the Over-allotment Option has been fully exercised, immediately following completion of the Share Offer and the Capitalisation Issue but without taking into account any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme, the issued share capital of our Company will be HK$3,112,500 divided into 311,250,000 Shares fully paid or credited as fully paid, and 1,688,750,000 Shares will remain unissued.

Other than the Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme, our Directors do not have any present intention to issue any Shares out of the authorised but unissued share capital of our Company.

3. Changes in share capital of our subsidiaries

Our subsidiaries are referred to in the accountant's report as set out in Appendix I to this prospectus. The following alterations in the share capital (or registered capital, as the case may be) of our subsidiaries have taken place within the two years immediately preceding the date of this prospectus.

(a) Xinda Capital Limited

Xinda Capital Limited was incorporated in the BVI on 21 May 2013. Such company is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US$1.

(b) Xin Da (HK) Limited

Xin Da (HK) Limited was incorporated in Hong Kong on 13 June 2013. The authorised share capital of such company is HK$100,000 divided into 10,000,000 shares of HK$0.01 each.

(c) Xinda Packing

On 18 July 2013, the entire equity interest in Xinda Packing was transferred from XDHK to Xin Da (HK) Limited for a consideration of HK$35 million, which is based on the registered capital of Xinda Packing, as part of the Reorganisation.

Save as disclosed in this prospectus, there had been no other alteration in the share capital (or registered capital, as the case may be) of our subsidiaries within the two years immediately preceding the date of this prospectus.

4. Written resolutions of our sole Shareholder

Under the written resolutions of our sole Shareholder passed on 14 November 2013:

(a) the authorised share capital of our Company was increased from HK$380,000 divided into 38,000,000 Shares to HK$20,000,000 divided into 2,000,000,000 Shares by the creation of additional 1,962,000,000 new Shares which shall, when issued and paid, rank pari passu in all respects with the existing issued Shares (other than participation in the Capitalisation Issue);

(b) conditional upon the conditions stated in the paragraph headed "Conditions of the Share Offer" in the section headed "Structure of the Share Offer" in this prospectus being fulfilled or waived:

(i) the Share Offer on the terms and conditions of this prospectus and the Application Forms at the Offer Price was approved and our Directors were authorised to allot and issue such number of new Shares forming part of the Offer Shares and to approve the transfer of the Sale Shares;

(ii) conditional further on the Listing Committee of the Stock Exchange granting the listing of, and the permission to deal in, such number of Shares which may be allotted and issued upon the exercise in full of the options which may be granted under the Share Option Scheme, the rules of the Share Option Scheme were approved and adopted, and our Directors or any committee of our Board were authorised, at their sole discretion, to make such further changes to the Share Option Scheme as requested by the Stock Exchange and which they may consider necessary, desirable or expedient in connection with the grant of options to subscribe for the Shares under the Share Option Scheme up to the limits as referred to in the Share Option Scheme and to allot, issue and deal with the Shares under the exercise of any options which may be granted under the Share Option Scheme and to take all such action as they may consider necessary, desirable or expedient to implement the Share Option Scheme;

(iii) subject to the share premium account of our Company being credited as a result of the Share Offer, our Directors were authorised to allot and issue a total of 239,999,999 Shares, credited as fully paid at par, to our Shareholder whose name appears on the register of members of our Company in proportion to its shareholding at 5:00 p.m. on 14 November 2013 (or such other time as our Directors may direct) by way of capitalisation of a sum of HK$2,399,999.99 standing to the credit of the share premium account of our Company, and that the Shares to be allotted and issued, as nearly as possible, without involving fractions, and such Shares to rank pari passu in all respects with the then existing issued Shares;

(iv) a general unconditional mandate was granted to our Directors to exercise all powers of our Company to allot, issue and deal with the Shares and to make or grant offers, agreements or options (including any warrants, bonds, notes and debentures conferring any rights to subscribe for or otherwise receive the Shares) which might require the Shares to be allotted and issued or dealt with subject to the requirement that the aggregate nominal value of the Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued, other than under (i) a Rights Issue (as defined below); (ii) any scrip dividend scheme or similar arrangement providing for the allotment and issue of the

Shares in lieu of the whole or part of a dividend on the Shares in accordance with the Articles; (iii) any specific authority granted by our Shareholders in general meeting; or (iv) the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, shall not exceed 20% of the aggregate nominal value of the Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue;

(v) a general unconditional mandate was granted to our Directors to exercise all powers of our Company to purchase on the Stock Exchange or on any other stock exchange on which the securities of our Company might be listed and which was recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as would represent up to 10% of the aggregate nominal value of the Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue, excluding any Shares which may be issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme;

(vi) the general unconditional mandate as mentioned in paragraph 4(b)(iv) above was extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by our Directors under such general mandate of an amount representing the aggregate nominal value of the Shares purchased by our Company under the mandate to repurchase Shares as referred to in paragraph 4(b)(v) above; and

(c) the Memorandum and the Articles were approved and adopted with immediate effect.

For the purpose of paragraph 4(b)(iv) above, "**Rights Issue**" means an offer of Shares or issue of options, warrants or other securities giving the right to subscribe for the Shares open for a period fixed by our Directors to our Shareholders whose names appear on the register of members of our Company (and, where appropriate, to holders of other securities of our Company entitled to the offer) on a fixed record date in proportion to their then holdings of such Shares (or, where appropriate, such other securities) (subject in all cases to such exclusions or other arrangements as our Directors may consider necessary, desirable or expedient (but in compliance with the relevant Listing Rules) in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to our Company).

Each of the general mandates referred to in paragraphs 4(b)(iv) and 4(b)(v) above will remain in effect until the earliest of (i) the conclusion of our Company's next annual general meeting; (ii) the expiration of the period within which our Company's next annual general meeting is required by the Articles or any applicable laws of the Cayman Islands to be held; and (iii) when varied or revoked by an ordinary resolution of our Shareholders in general meeting.

5. Reorganisation

In preparation for the Share Offer, we undertake the Reorganisation to rationalise the business and structure of our Group, details of which are set out in the paragraph headed "Reorganisation" in the section headed "History, Reorganisation and Corporate Structure" of this prospectus.

6. Repurchase of our own securities

This paragraph includes information relating to the repurchase of Shares, including information required by the Stock Exchange to be included in this prospectus concerning such repurchase.

(a) Relevant legal and regulatory requirements

The Listing Rules permit our Shareholders to grant to our Directors the general mandate to repurchase Shares which are listed on the Stock Exchange. The general mandate to repurchase Shares is required to be given by way of an ordinary resolution passed by our Shareholders in general meeting.

(b) Shareholders' approval

All proposed repurchases of Shares (which must be fully paid up) must be approved in advance by ordinary resolutions of our Shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

On 14 November 2013, our Directors were granted the general mandate to repurchase up to 10% of the aggregate nominal value of the Share in issue immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme) on the Stock Exchange or on any other stock exchange on which our securities may be listed and which was recognised by the SFC and the Stock Exchange for this purpose. The general mandate to repurchase Shares will expire at the earliest of (i) the conclusion of our Company's next annual general meeting, (ii) the expiration of the period within which our Company's next annual general meeting is required by the Articles or any applicable laws of the Cayman Islands to be held; or (iii) when varied or revoked by an ordinary resolution of our Shareholders in general meeting (the "**Relevant Period**").

(c) Source of funds

Repurchase of Shares listed on the Stock Exchange must be funded out of funds legally available for the purpose in accordance with the Memorandum, the Articles and the applicable laws of the Cayman Islands. We may not repurchase Shares on the Stock Exchange for consideration other than cash or for settlement otherwise than in accordance with the Listing Rules. Subject to the foregoing, we may make repurchases out of our profit or share premium or out of the proceeds of a fresh issue of the Shares for the purpose of the repurchase. Any amount of premium payable on the purchase over the par value of our Shares to be repurchased must be out of profits of our Company or out of our Company's share premium account. Subject to the Companies Law, repurchase may also be made out of capital.

(d) Reasons for repurchases

Our Directors believe that it is in our and our Shareholders' best interests for our Directors to have general authority to execute repurchases of Shares in the market. The repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net assets per Share and/or earnings per Share and will only be made where our Directors believe that the repurchases will benefit us and our Shareholders.

(e) Funding of repurchases

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with the Memorandum, the Articles, the Listing Rules, the Companies Law and other applicable laws of the Cayman Islands. On the basis of the current financial position of our Company as disclosed in this prospectus and taking into account the current working capital position of our Company, our Directors believe that, if the general mandate to repurchase Shares were to be exercised in full, it might have a material adverse effect on our working capital and/or the gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the general mandate to repurchase Shares to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

(f) Share capital

The exercise in full of the current general mandate to repurchase Shares, on the basis of 300,000,000 Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), could accordingly result in up to 30,000,000 Shares being repurchased by us during the Relevant Period.

(g) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to us.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they shall exercise the general mandate to repurchase Shares in accordance with the Listing Rules and the laws of the Cayman Islands.

If, as a result of any repurchase of our Shares, a Shareholder's proportionate interest in our voting rights is increased, the increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences of repurchases which would arise under the Takeovers Code.

No connected person of our Company has notified us that he or she or it has a present intention to sell his or her or its Shares to us, or has undertaken not to do so, if the general mandate to repurchase Shares is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this prospectus which are or may be material:

(a) the agreement for the transfer of the equity interest in Shantou Xinda Colour Printing & Packing Material Co. Ltd. (關於汕頭市信達彩印包裝材料有限公司之股權轉讓協議) dated 18 June 2013 entered into between XDHK and Xin Da (HK) Limited in relation to the transfer of the entire equity interest in Xinda Packing from XDHK to Xin Da (HK) Limited for a consideration of HK$35 million;

(b) the agreement for the transfer of the business carried on by Mr. Zheng under XDHK dated 25 July 2013 entered into between Mr. Zheng and Xin Da (HK) Limited in relation to the transfer of the business carried on by Mr. Zheng under XDHK from Mr. Zheng to Xin Da (HK) Limited for a consideration of HK$1;

(c) the Deed of Indemnity dated 14 November 2013 executed by our Controlling Shareholders in favour of our Company (for ourselves and as trustee for each of our subsidiaries from time to time) regarding certain indemnities as more particularly set out in the paragraph headed "Tax and other indemnity" in this appendix;

(d) the Deed of Non-competition dated 14 November 2013 executed by our Controlling Shareholders and Mr. Zheng Minsheng in favour of our Company (for ourselves and as trustee for each of our subsidiaries from time to time) regarding the non-competition undertakings as more particularly set out in the paragraph headed "Deed of Non-competition" in the section headed "Relationship with Controlling Shareholders" of this prospectus;

(e) the cornerstone investor placing agreement dated 24 November 2013 entered into between our Company, Sheen Tai Holdings Group Company Limited and the Sole Bookrunner pursuant to which Sheen Tai Holdings Group Company Limited agreed to subscribe for such number of Offer Shares (rounded down to the nearest board lot) as may be purchased with HK$20,000,000 at the Offer Price; and

(f) the Public Offer Underwriting Agreement dated 25 November 2013 entered into between our Company, our executive Directors, the Selling Shareholder, the Sponsor, the Sole Lead Manager and the Public Offer Underwriter in relation to the underwriting of the Public Offer Shares by the Public Offer Underwriter as further described in the section headed "Underwriting" of this prospectus.

2. Intellectual property rights

(a) Trademark

As at the Latest Practicable Date, we had applied for registration of the following trademark:

	Trademark	Applicant	Place of registration	Date of application	Class	Application number
A		Xinda Capital Limited	Hong Kong	8 July 2013	16 *(Note)*	302663569
B						

Note:

Class	Specification of goods and/or services
16	Paper, cardboard and goods made from these materials, not included in other classes; printed matter; bookbinding material; photographs; stationery; adhesives for stationery or household purposes; artists' materials; paint brushes; typewriters and office requisites (except furniture); instructional and teaching material (except apparatus); plastic materials for packaging (not included in other classes); printers' type; printing blocks

(b) Patents

As at the Latest Practicable Date, we had obtained the following patent:

Patent	Registered owner	Place of registration	Expiry date	Patent number
Production method of laser inner frame paper for cigarette packaging (香煙包裝使用的激光全息鐳射內襯紙的生產方法)	Xinda Packing	PRC	13 December 2030	ZL201010597104.7

As at the Latest Practicable Date, we had entered into a use of patent permission contract (專利實施許可合同) for use of the following patent:

Patent	Registered owner	Place of registration	Expiry date	Patent number
Double-sided printing facilities and technical know-how (雙面印刷設備和雙面印刷工藝) *(Note)*	The Patent Owner	PRC	17 June 2025	ZL200510035437.X

Note: On 15 January 2010, we entered into a use of patent permission contract (專利實施許可合同) with the Patent Owner, pursuant to which the Patent Owner agreed that our Group may use the patent owned by him in respect of double-sided printing facilities and technical know-how (雙面印刷設備和雙面印刷工藝) exclusively for nil consideration during the period between 15 January 2010 and 25 February 2015.

(c) Domain name

As at the Latest Practicable Date, we had registered the following domain name:

Domain name	Registrant	Expiry date
huaxihds.com.hk	Xin Da (HK) Limited	28 June 2014

C. FURTHER INFORMATION ABOUT OUR DIRECTORS, SUBSTANTIAL SHAREHOLDERS AND EXPERTS

1. Interest and/or short positions of our Directors in the equity or debt securities of our Company and our associated corporations

Immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), the interests of our Directors and chief executives of our Company in the equity or debt securities of our Company or any associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO), or which will be required, under section 352 of the SFO, to be entered in the register referred to in that section, or under the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to our Company and the Stock Exchange, in each case, once the Shares are listed on the Stock Exchange will be as follows:

Name of Director	Nature of interest	Number of Shares *(Note 1)*	Percentage of interests in our Company immediately following completion of the Share Offer and the Capitalisation Issue
Mr. Zheng	Interest in controlled corporation	225,000,000 *(L)* *(Note 2)*	75

Notes:

1. The letter "L" denotes the Director's long position in the Shares.

2. These 225,000,000 Shares are held by SXD Limited, which in turn is wholly owned by Mr. Zheng. As such, Mr. Zheng is deemed under the SFO to be interested in these 225,000,000 Shares held by SXD Limited upon the Listing. Of these 225,000,000 Shares, 11,250,000 Shares may be subject to the stock borrowing arrangement to be effected pursuant to the Stock Borrowing Agreement.

2. Interest and/or short positions discloseable under the SFO and our substantial Shareholders

So far as our Directors are aware, immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), the following persons (not being a Director or chief executive of our Company) will have an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any of our subsidiaries:

Name of entity	Company concerned	Nature of interest	Number of Shares *(Note 1)*	Percentage of interests in our Company immediately following completion of the Share Offer and the Capitalisation Issue
SXD Limited	Our Company	Beneficial interest	225,000,000 *(L)* *(Note 2)*	75
Chen Annie Ni	Our Company	Interest of spouse	225,000,000 *(L)* *(Note 3)*	75

Notes:

1. The letter "L" denotes the entity's long position in the Shares.

2. Of these 225,000,000 Shares, 11,250,000 Shares may be subject to the stock borrowing arrangement to be effected pursuant to the Stock Borrowing Agreement.

3. Ms. Chen Annie Ni, the spouse of Mr. Zheng, is deemed under the SFO to be interested in these 225,000,000 Shares in which Mr. Zheng is deemed to be interested upon the Listing.

3. Particulars of service agreements

(a) Executive Directors

Each of our executive Directors has entered into a service agreement with our Company under which they agreed to act as our executive Directors for an initial term of three years commencing from the Listing Date. Either party has the right to give not less than three months' written notice to terminate the service agreement.

Each of our executive Directors is entitled to receive remuneration (inclusive of salary), discretionary bonus and benefits in kind. The aggregate annual salary of our executive Directors is RMB120,000.

(b) Independent non-executive Directors

Each of our independent non-executive Directors has entered into an appointment letter with our Company under which they agreed to act as our independent non-executive Directors for an initial term of three years commencing from the Listing Date. The aggregate annual fees payable to our independent non-executive Directors is HK$300,000.

(c) Remuneration of Directors

(i) The aggregate of the remuneration paid and benefits in kind granted to our Directors by any member of our Group in respect of the year ended 31 March 2013 was approximately HK$196,000.

(ii) The aggregate remuneration payable to, and benefits in kind receivable by, our Directors by any member of our Group in respect of the year ending 31 March 2014 under the arrangements in force at the date of this prospectus are estimated to be approximately HK$196,000.

Save as disclosed in this prospectus, none of our Directors has or is proposed to have a service agreement with any member of our Group other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

4. Fees or commissions received

Save as disclosed in this prospectus, none of our Directors nor any of the persons whose names are listed in the paragraph headed "Qualification of experts" in this appendix had received any commissions, discounts, agency fee, brokerages or other special terms in connection with the issue or sale of any capital of our Company or any of our subsidiaries from our Company within the two years immediately preceding the date of this prospectus.

D. SHARE OPTION SCHEME

The followings are the principal terms of the Share Option Scheme conditionally adopted under the written resolutions of our sole Shareholder passed on 14 November 2013:

1. Conditions

(a) The Share Option Scheme is conditional upon:

(i) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in such number of Shares representing the General Scheme Limit (as defined in paragraph 7(b)) to be allotted and issued by our Company pursuant to the exercise of options in accordance with the terms and conditions of the Share Option Scheme; and

(ii) the passing of the necessary resolution to approve and adopt the Share Option Scheme in general meeting or by way of written resolution of our Shareholder(s).

(b) If the conditions referred to in paragraph 1(a) are not satisfied on or before the date falling 30 days after the date of this prospectus, the Share Option Scheme shall forthwith determine and no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme.

(c) Reference in paragraph 1(a)(i) to the Listing Committee of the Stock Exchange formally granting the listing and permission referred to therein shall include any such listing and permission which are granted subject to the fulfilment of any condition precedent or condition subsequent.

2. Purpose, duration and administration

(a) The purpose of the Share Option Scheme is to enable our Group to grant options to the Eligible Participants (as defined in paragraph 3(a) below) as incentives or rewards for their contribution to our Group.

(b) The Share Option Scheme shall be subject to the administration of our Directors whose decision on all matters arising in relation to the Share Option Scheme or their interpretation or effect shall (save for the grant of options referred to in paragraph 3(b) which shall be approved in the manner referred to therein and save as otherwise provided herein) be final and binding on all persons who may be affected thereby.

(c) Subject to paragraphs 1 and 13, the Share Option Scheme shall be valid and effective until the close of business of our Company on the date which falls ten years (the "**Termination Date**") after the date on which the Share Option Scheme is adopted upon fulfilment of the condition (the "**Adoption Date**"), after which period no further options may be issued but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options granted or exercised prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

(d) An Eligible Participant who accepts the offer in accordance with the terms of the Share Option Scheme or (where the context so permits and as referred to in paragraph 5(d)(i)) his personal representative (the "**Grantee**") shall ensure that the acceptance of an offer, the holding and exercise of his option in accordance with the Share Option Scheme, the allotment and issue of Shares to him upon the exercise of his option and the holding of such Shares are valid and comply with all laws, legislation and regulations including all applicable exchange control, fiscal and other laws to which he is subject. Our Directors may, as a condition precedent of making an offer and allotting Shares upon an exercise of an option, require an Eligible Participant or a Grantee (as the case may be) to produce such evidence as it may reasonably require for such purpose.

3. Grant of options

(a) Subject to paragraph 3(b), our Directors shall, in accordance with the provisions of the Share Option Scheme and the Listing Rules, be entitled but shall not be bound at any time within a period of ten years commencing from the Adoption Date to make an offer to any person belonging to the following classes of participants (the "**Eligible Participants**") to subscribe, and no person other than the Eligible Participant named in such offer may subscribe, for such number of Shares (being a board lot for dealings in the Shares on the Stock Exchange or an integral multiple thereof) at such price per Share at which a Grantee may subscribe for the Shares on the exercise of an option, as determined in accordance with paragraph 4 (the "**Subscription Price**"), as our Directors shall, subject to paragraph 4, determine:

(i) any employee (whether full time or part time, including any executive director but excluding any non-executive director) of our Company, any subsidiary or any entity in which any member of our Group holds any equity interest (the "**Invested Entity**");

(ii) any non-executive directors (including independent non-executive directors) of our Company, any subsidiary or any Invested Entity;

(iii) any supplier of goods or services to any member of our Group or any Invested Entity;

(iv) any customer of any member of our Group or any Invested Entity;

(v) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;

(vi) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;

(vii) any advisor (professional or otherwise) or consultant to any area of business or business development of any member of our Group or any Invested Entity; and

(viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of our Group, and, for the purposes of the Share Option Scheme, the offer may be made to any company wholly owned by one or more Eligible Participants.

For the avoidance of doubt, the grant of any options by our Company for the subscription of Shares or other securities of our Group to any person who falls within any of the above classes of Eligible Participants shall not, by itself, unless our Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

(b) Without prejudice to paragraph 7(d) below, the making of an offer to any Director, chief executive or substantial Shareholder of our Company, or any of their respective associates must be approved by our independent non-executive Directors (excluding any independent non-executive Director who or whose associate is the proposed Grantee of an option).

(c) The eligibility of any of the Eligible Participants to an offer shall be determined by our Directors from time to time on the basis of our Directors' opinion as to his contribution to the development and growth of our Group.

(d) An offer shall be made to an Eligible Participant in writing (and unless so made shall be invalid) in such form as our Directors may from time to time determine, either generally or on a case-by-case basis, specifying the number of Shares under the option and the "**Option Period**" (which means, in respect of any particular option, a period (which may not expire later than ten years from the offer date of that option) to be determined and notified by our Directors to the Grantee thereof and, in the absence of such determination, from the offer date to the earlier of (i) the date on which such option lapses under the provisions of paragraph 6; and (ii) ten years from the offer date of that option) in respect of which the offer is made and further requiring the Eligible Participant to undertake to hold the option on the terms on which it is to be granted and to be bound by the provisions of the Share Option Scheme and shall remain open for acceptance by the Eligible Participant concerned (and by no other person) for a period of up to 21 days from the offer date.

(e) An offer shall state, in addition to the matters specified in paragraph 3(d), the following:

(i) the name, address and position of the Eligible Participant;

(ii) the number of Shares under the option in respect of which the offer is made and the Subscription Price for such Shares;

(iii) the Option Period in respect of which the Offer is made or, as the case may be, the Option Period in respect of separate parcels of Shares under the option comprised in the offer;

(iv) the last date by which the offer must be accepted (which may not be later than 21 days from the offer date);

(v) the procedure for acceptance;

(vi) the performance target(s) (if any) that must be attained by the Eligible Participant before any option can be exercised;

(vii) such other terms and conditions of the offer as may be imposed by our Directors as are not inconsistent with the Share Option Scheme; and

(viii) a statement requiring the Eligible Participant to undertake to hold the option on the terms on which it is to be granted and to be bound by the provisions of the Share Option Scheme including, without limitation, the conditions specified in, inter alia, paragraphs 2(d) and 5(a).

(f) An offer shall have been accepted by an Eligible Participant in respect of all Shares under the option which are offered to such Eligible Participant when the duplicate letter comprising acceptance of the offer duly signed by the Eligible Participant together with a remittance in favour of our Company of HK$1 by way of consideration for the grant thereof is received by our Company within such time as may be specified in the offer (which shall not be later than 21 days from the offer date). Such remittance shall in no circumstances be refundable.

(g) Any offer may be accepted by an Eligible Participant in respect of less than the number of Shares under the option which are offered provided that it is accepted in respect of a board lot for dealings in the Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate letter comprising acceptance of the offer duly signed by such Eligible Participant and received by our Company together with a remittance in favour of our Company of HK$1 by way of consideration for the grant thereof within such time as may be specified in the offer (which shall not be later than 21 days from the offer date). Such remittance shall in no circumstances be refundable.

(h) Upon an offer being accepted by an Eligible Participant in whole or in part in accordance with paragraph 3(f) or 3(g), an option in respect of the number of Shares in respect of which the offer was so accepted will be deemed to have been granted by our Company to such Eligible Participant on the offer date. To the extent that the offer is not accepted within the time specified in the offer in the manner indicated in paragraph 3(f) or 3(g), it will be deemed to have been irrevocably declined.

(i) The Option Period of an option may not end later than ten years after the Offer Date of that Option.

(j) Options will not be listed or dealt in on the Stock Exchange.

(k) For so long as the Shares are listed on the Stock Exchange:

(i) our Company may not grant any options after inside information has come to our knowledge until we have announced the information. In particular, we may not grant any option during the period commencing one month immediately before the earlier of:

(aa) the date of the board meeting (as such date is first notified to the Stock Exchange under the Listing Rules) for approving our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and

(bb) the deadline for our Company to announce our results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules),

and ending on the date of the results announcement, no offer may be made; and

(ii) our Directors may not make any offer to an Eligible Participant who is a Director during the periods or times in which our Directors are prohibited from dealing in Shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

4. Subscription Price

The Subscription Price in respect of any option shall, subject to any adjustments made pursuant to paragraph 8, be at the discretion of our Directors, provided that it shall not be less than the highest of:

(a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the offer date;

(b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and

(c) the nominal value of the Share,

except that for the purpose of calculating the Subscription Price under paragraph 4(b) above for an option offered within five business days of the Listing Date, the price at which the Shares are to be offered for subscription under the Share Offer shall be used as the closing price for any business day falling within the period before the Listing Date.

5. Exercise of options

(a) An option shall be personal to the Grantee and shall not be transferable or assignable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest whatsoever in favour of any third party over or in relation to any option or enter into any agreement so to do. Any breach of the foregoing by a Grantee shall entitle our Company to cancel any option granted to such Grantee to the extent not already exercised.

(b) Unless otherwise determined by our Directors and stated in the offer to a Grantee, a Grantee is not required to hold an option for any minimum period nor achieve any performance targets before the exercise of an option granted to him.

(c) Subject to, inter alia, paragraph 2(d) and the fulfilment of all terms and conditions set out in the offer, including the attainment of any performance targets stated therein (if any), an option shall be exercisable in whole or in part in the circumstances and in the manner as set out in paragraphs 5(d) and 5(e) by giving notice in writing to our Company stating that the option is thereby exercised and the number of Shares in respect of which it is so exercised (which, except where the number of Shares in respect of which the option remains unexercised is less than one board lot or where the option is exercised in full, must be for a board lot for dealings in Shares on the Stock Exchange or an integral multiple thereof). Each such notice must be accompanied by a remittance for the full amount of the Subscription Price for Shares in respect of which the notice is given. Within 21 days (seven days in the case of an exercise pursuant to paragraph 5(d)(iii)) after receipt of the notice and, where appropriate, receipt of the certificate of the auditors or the independent financial advisors pursuant to paragraph 8, our Company shall accordingly allot and issue the relevant number of Shares to the Grantee (or, in the event of an exercise of option by a personal representative pursuant to paragraph 5(d)(i), to the estate of the Grantee) fully paid and issue to the Grantee (or his estate in the event of an exercise by his personal representative as aforesaid) a share certificate for every board lot of Shares so allotted and issued and a share certificate for the balance (if any) of the Shares so allotted and issued which do not constitute a board lot.

(d) Subject as hereinafter provided, an option may (and may only) be exercised by the Grantee at any time or times during the Option Period provided that:

(i) if the Grantee is an Eligible Employee and in the event of his ceasing to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s) or, as appropriate, the Grantee may exercise the option (to the extent not already exercised) in whole or in part in accordance with the provisions of paragraph 5(c) within a period of 12 months following the date of cessation of employment which date shall be the last day on which the Grantee was at work with our Company or the relevant subsidiary or the Invested Entity whether salary is paid in lieu of notice or not, or such longer period as our Directors may determine or, if any of the events referred to in paragraph 5(d)(iii) or 5(d)(iv) occur during such period, exercise the option pursuant to paragraph 5(d)(iii) or 5(d)(iv) respectively;

(ii) if the Grantee is an Eligible Employee and in the event of his ceasing to be an Eligible Employee for any reason other than his death, ill-health or retirement in accordance with his contract of employment or the termination of his employment on one or more of the grounds specified in paragraph 6(a)(iv) before exercising the option in full, the option (to the extent not already exercised) shall lapse on the date of cessation or termination and not be exercisable unless our Directors otherwise determine in which event the Grantee may exercise the option (to the extent not already exercised) in whole or in part in accordance with the provisions of paragraph 5(c) within such period as our Directors may determine following the date of such cessation or termination or, if any of the events referred to in paragraph 5(d)(iii) or 5(d)(iv) occur during such period, exercise the option pursuant to paragraph 5(d)(iii) or 5(d)(iv) respectively. The date of cessation or termination as aforesaid shall be the last day on which the Grantee was actually at work with our Company or the relevant subsidiary or the Invested Entity whether salary is paid in lieu of notice or not;

(iii) if a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all our Shareholders, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the Grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, our Shareholders. If such offer becomes or is declared unconditional or such scheme of arrangement is formally proposed to our Shareholders, the Grantee shall, notwithstanding any other terms on which his options were granted, be entitled to exercise the option (to the extent not already exercised) to its full extent or to the extent specified in the Grantee's notice to our Company in accordance with the provisions of paragraph 5(c) at any time thereafter and up to the close of such offer (or any revised offer) or the record date for entitlements under scheme of arrangement, as the case may be;

(iv) in the event of a resolution being proposed for the voluntary winding-up of our Company during the Option Period, the Grantee may, subject to the provisions of all applicable laws, by notice in writing to our Company at any time not less than two business days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of paragraph 5(c) and our Company shall allot and issue to the Grantee the Shares in respect of which such Grantee has exercised his option not less than one day before the date on which such resolution is to be considered and/or passed whereupon he shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of our Company available in liquidation pari passu with the holders of the Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up; and

(v) if the Grantee is a company wholly owned by one or more Eligible Participants:

(aa) the provisions of paragraphs 5(d)(i), 5(d)(ii), 6(a)(iv) and 6(a)(v) shall apply to the Grantee and to the options granted to such Grantee, mutatis mutandis, as if such options had been granted to the relevant Eligible Participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in paragraphs 5(d)(i), 5(d)(ii), 6(a)(iv) and 6(a)(v) shall occur with respect to the relevant Eligible Participant; and

(bb) the options granted to the Grantee shall lapse and determine on the date the Grantee ceases to be wholly owned by the relevant Eligible Participant provided that our Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

(e) Shares to be allotted and issued 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 then existing fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members (the "**Exercise Date**") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the Grantee has been duly entered on the register of members of our Company as the holder thereof.

6. Early termination of the Option Period

(a) The Option Period in respect of any option shall automatically terminate and that option (to the extent not already exercised) shall lapse on the earliest of:

(i) the expiry of the Option Period;

(ii) the expiry of any of the periods referred to in paragraph 5(d);

(iii) the date of commencement of the winding-up of our Company;

(iv) in respect of a Grantee who is an Eligible Employee, the date on which the Grantee ceases to be an Eligible Employee by reason of a termination of his employment on the grounds that he has been guilty of persistent or serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of our Directors does not bring the Grantee or our Group or the Invested Entity into disrepute);

(v) in respect of a Grantee other than an Eligible Employee, the date on which our Directors shall at their absolute discretion determine that (aa) (1) such Grantee or his associate has committed any breach of any contract entered into between such Grantee or his associate on the one part and our Group or any Invested Entity on the other part; or (2) such Grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (3) such Grantee could no longer make any contribution to the growth and development of our Group by reason of the cessation of its relations with our Group or by any other reason whatsoever; and (bb) the Option shall lapse as a result of any event specified in sub-paragraph (1), (2) or (3) above; and

(vi) the date on which our Directors shall exercise our Company's right to cancel the option by reason of a breach of paragraph 5(a) by the Grantee in respect of that or any other option.

(b) A resolution of our Directors to the effect that the employment of a Grantee has been terminated on one or more of the grounds specified in paragraph 6(a)(iv) or that any event referred to in paragraph 6(a)(v)(aa) has occurred shall be conclusive and binding on all persons who may be affected thereby.

(c) Transfer of employment of a Grantee who is an Eligible Employee from one member of our Group to another member of our Group shall not be considered a cessation of employment. It shall not be considered a cessation of employment if a Grantee who is an Eligible Employee is placed on such leave of absence which is considered by the directors of the relevant member of our Group not to be a cessation of employment of the Grantee.

7. Maximum number of Shares available for subscription

(a) The maximum number of Shares which may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes adopted by our Group shall not exceed 30% of the share capital of our Company in issue from time to time. No options may be granted under the Share Option Scheme or any other share option scheme adopted by our Group if the grant of such option will result in the limit referred to in this paragraph 7(a) being exceeded.

(b) The total number of Shares which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of our Group) to be granted under the Share Option Scheme and any other share option scheme of our Group must not in aggregate exceed 10% of the Shares in issue at the time dealings in the Shares first commence on the Stock Exchange, i.e. 30,000,000 Shares (the "**General Scheme Limit**") provided that:

(i) subject to paragraph 7(a) and without prejudice to paragraph 7(b)(ii), our Company may seek approval of our Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of our Group must not exceed 10% of the Shares in issue as at the date of approval of the limit and for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of our Group) previously granted under the Share Option Scheme and any other share option scheme of our Group will not be counted; and

(ii) subject to paragraph 7(a) and without prejudice to paragraph 7(b)(i), our Company may seek separate Shareholders' approval in general meeting to grant options under the Share Option Scheme beyond the General Scheme Limit or, if applicable, the extended limit referred to in paragraph 7(b)(i) to Eligible Participants specifically identified by our Company before such approval is sought.

(c) Subject to paragraph 7(d), the total number of Shares issued and which may fall to be issued upon exercise of the options and the options granted under any other share option scheme of our Group (including both exercised or outstanding options) to each Grantee in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being. Where any further grant of options to a Grantee under the Share Option Scheme would result in the Shares issued and to be issued upon exercise of all options granted and proposed to be granted to such person (including exercised, cancelled and outstanding options) under the Share Option Scheme and any other share option schemes of our Group in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant must be separately approved by our Shareholders in general meeting with such Grantee and his associates abstaining from voting.

(d) Without prejudice to paragraph 3(b), where any grant of options to a substantial Shareholder or an independent non-executive Director or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% of the Shares in issue; and

(ii) having an aggregate value, based on the closing price of the Shares at the offer date of each offer, in excess of HK$5 million;

such further grant of options must be approved by our Shareholders in general meeting.

(e) For the purpose of seeking the approval of our Shareholders under paragraphs 7(b), 7(c) and 7(d), our Company must send a circular to our Shareholders containing the information required under the Listing Rules and where the Listing Rules shall so require, the vote at the Shareholders' meeting convened to obtain the requisite approval shall be taken on a poll with those persons required under the Listing Rules abstaining from voting.

8. Adjustments to the Subscription Price

(a) In the event of any alteration in the capital structure of our Company whilst any option remains exercisable or the Share Option Scheme remains in effect, and such event arises from a capitalisation of profits or reserves, rights issue, consolidation or sub-division of the Shares, or reduction of the share capital of our Company, then, in any such case our Company shall instruct the auditors or an independent financial advisor to certify in writing the adjustment, if any, that ought in their opinion fairly and reasonably to be made either generally or as regards any particular Grantee, to:

(i) the number or nominal amount of Shares to which the Share Option Scheme or any option(s) relates (insofar as it is/they are unexercised); and/or

(ii) the Subscription Price of any option; and/or

(iii) (unless the relevant Grantee elects to waive such adjustment) the number of Shares comprised in an option or which remain comprised in an option,

and an adjustment as so certified by the auditors or such independent financial advisor shall be made, provided that:

(i) any such adjustment shall give the Grantee the same proportion of the issued share capital of our Company for which such Grantee would have been entitled to subscribe had he exercised all the options held by him immediately prior to such adjustment;

(ii) no such adjustment shall be made the effect of which would be to enable a Share to be issued at less than its nominal value;

(iii) the issue of Shares or other securities of our Group as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustment; and

(iv) any such adjustment shall be made in compliance with such rules, codes and guidance notes of the Stock Exchange from time to time.

In respect of any adjustment referred to in this paragraph 8(a), other than any adjustment made on a capitalisation issue, the auditors or such independent financial advisor must confirm to our Directors in writing that the adjustments satisfy the requirements of the relevant provisions of the Listing Rules.

(b) If there has been any alteration in the capital structure of our Company as referred to in paragraph 8(a), our Company shall, upon receipt of a notice from a Grantee in accordance with paragraph 5(c), inform the Grantee of such alteration and shall either inform the Grantee of the adjustment to be made in accordance with the certificate of the auditors or the independent financial advisor obtained by our Company for such purpose or, if no such certificate has yet been obtained, inform the Grantee of such fact and instruct the auditors or the independent financial advisor as soon as practicable thereafter to issue a certificate in that regard in accordance with paragraph 8(a).

(c) In giving any certificate under this paragraph 8, the auditors or the independent financial advisor appointed under paragraph 8(a) shall be deemed to be acting as experts and not as arbitrators and their certificate shall, in the absence of manifest error, be final, conclusive and binding on our Company and all persons who may be affected thereby.

9. Cancellation of options

(a) Subject to paragraph 5(a) and Chapter 17 of the Listing Rules, any option granted but not exercised may not be cancelled except with the prior written consent of the relevant grantee and the approval of our Directors.

(b) Where our Company cancels any option granted to a Grantee but not exercised and issues new option(s) to the same Grantee, the issue of such new option(s) may only be made with available unissued options (excluding, for this purpose, the options so cancelled) within the General Scheme Limit or the limits approved by our Shareholders pursuant to paragraph 7(b)(i) or 7(b)(ii).

10. Share capital

The exercise of any option shall be subject to our Shareholders in general meeting approving any necessary increase in the authorised share capital of our Company. Subject thereto, our Directors shall make available sufficient authorised but unissued share capital of our Company to allot and issue the Shares on the exercise of any option.

11. Disputes

Any dispute arising in connection with the number of Shares the subject of an option, or any adjustment under paragraph 8(a) shall be referred to the decision of the auditors who shall act as experts and not as arbitrators and whose decision shall, in the absence of manifest error, be final, conclusive and binding on all persons who may be affected thereby.

12. Alteration of the Share Option Scheme

(a) Subject to paragraphs 12(b) and 12(d), the Share Option Scheme may be altered in any respect by a resolution of our Directors except that:

(i) the provisions of the Share Option Scheme as to the definitions of "Eligible Participants", "Grantee", "Option Period" and "Termination Date"; and

(ii) the provisions of the Share Option Scheme relating to the matters governed by Rule 17.03 of the Listing Rules;

shall not be altered to the advantage of Grantees or prospective Grantees except with the prior sanction of a resolution of our Shareholders in general meeting, provided that no such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the Grantees as would be required of our Shareholders under the Articles for a variation of the rights attached to the Shares.

(b) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted shall be approved by our Shareholders in general meeting except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

(c) Any change to the authority of our Directors or the administrators of the Share Option Scheme in relation to any alteration to the terms of the Share Option Scheme must be approved by our Shareholders in general meeting.

(d) The terms of the Share Option Scheme and/or any options amended pursuant to this paragraph 12 must comply with the applicable requirements of the Listing Rules.

13. Termination

Our Company by resolution in general meeting may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme and options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares which may be issued upon the exercise of the options granted under the Share Option Scheme, being 30,000,000 Shares in total. As at the date of this prospectus, no option had been granted by our Company under the Share Option Scheme.

E. OTHER INFORMATION

1. Tax and other indemnity

Our Controlling Shareholders (together, the "**Indemnifiers**") have entered into the Deed of Indemnity to provide the following indemnities in favour of our Company (for ourselves and as trustee for each of our subsidiaries from time to time).

Under the Deed of Indemnity, the Indemnifiers will jointly and severally indemnify each member of our Group against (a) all damages, losses, claims, penalties, charges, fees, costs, interests, expenses and liabilities which our Group may suffer, incur or be imposed by any regulatory authorities or courts in the PRC, Hong Kong or any applicable jurisdiction as a result of any violation or non-compliance (including but not limited to the duty to pay the retrospective unpaid amount in relation to social insurance if requested by the competent local social insurance authority in the PRC) by any member of our Group with any applicable laws, rules or regulations on all matters subsisting prior to the date on which the conditions set out in the paragraph headed "Conditions of the Share

Offer" in the section headed "Structure of the Share Offer" in this prospectus being fulfilled (the "**Effective Date**"); (b) taxation, together with all reasonable costs, expenses or other liabilities which any member of our Group may incur in connection with (i) the investigation, assessment, contesting or settlement of any taxation claim under the Deed of Indemnity; (ii) any legal proceeding in relation to taxation claim in which any member of our Group claims under or in respect of the Deed of Indemnity and in which judgment is given for any member of our Group; or (iii) the enforcement of any such settlement or judgment falling on any member of our Group resulting from or by reference to any income, profits or gains, transactions, events, acts, omissions, matters or things earned, accrued or received, entered into or occurring on or before the Effective Date; and (c) any liability for Hong Kong estate duty which might be incurred by any member of our Group and/or its associated companies by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or the equivalent thereof under the laws of any jurisdiction outside Hong Kong) to any member of our Group on or before the Effective Date.

The Indemnifiers will, however, not be liable under the Deed of Indemnity where, among others, (a) allowance, provision or reserve has been made for taxation in the audited accounts of our Group for each of the three financial years ended 31 March 2013 and the three months ended 30 June 2013; (b) taxation claim arises as a result of the imposition of taxation as a consequence of any introduction of new legislation or any retrospective change in law or the interpretation or practice by the relevant tax authority coming into force after the Effective Date or taxation claim arises or is increased by an increase in rates of taxation after the Effective Date with retrospective effect; (c) any member of our Group is liable as a result of any event occurring or income, profits earned, accrued or received or transactions entered into in the ordinary course of business on or before the Effective Date; or (d) taxation or liability would not have arisen but for any act or omission by any member of our Group voluntarily effected otherwise than in the ordinary course of business on or before the Effective Date.

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries in the Cayman Islands, the BVI and the PRC.

2. Litigation

As at the Latest Practicable Date, neither our Company nor any member of our Group was engaged in any actual or threatened litigation or claim of material importance and our Directors consider that no litigation or claim of material importance was pending or threatened against our Company or any member of our Group which could materially affect our business, financial condition and results of operations.

3. The Sponsor

The Sponsor has made an application on behalf of our Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, including any Shares which may be issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme.

4. Preliminary expenses

The estimated preliminary expenses incurred or proposed to be incurred by our Company are approximately HK$38,000 and are payable by our Company.

5. Promoters

Our Company has no promoter for the purpose of the Listing Rules.

6. Qualification of experts

The qualifications of the experts (as defined under the Companies Ordinance and the Listing Rules) who have given their opinions or advice in this prospectus are as follows:

Name	Qualification
Haitong International Capital Limited	A corporation licensed to carry on type 6 (advising on corporate finance) regulated activity under the SFO
PricewaterhouseCoopers	Certified Public Accountants
King & Wood Mallesons	Legal advisors as to PRC law
Appleby	Cayman Islands attorneys-at-law

7. Consents

Each of the Sponsor, PricewaterhouseCoopers, King & Wood Mallesons and Appleby has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or the references to their names included in this prospectus in the form and context in which they are respectively included.

None of the experts named above has any shareholding interest in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any members of our Group.

8. Share register

The register of members of our Company is maintained in the Cayman Islands by Appleby Trust (Cayman) Ltd. and in Hong Kong by Computershare Hong Kong Investor Services Limited. Unless our Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration by the share register in Hong Kong and may not be lodged in the Cayman Islands.

9. Miscellaneous

Save as disclosed in this prospectus:

(a) none of our Directors nor any of the parties listed in the paragraph headed "Qualification of experts" in this appendix has any direct or indirect interest in the promotion of our Company or any of our subsidiaries, or in any assets which have, within the two years immediately preceding the date of this prospectus, been acquired or disposed of by or leased to our Company or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any of our subsidiaries;

(b) none of our Directors nor any of the parties listed in the paragraph headed "Qualification of experts" in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business;

(c) save for the Underwriting Agreements, none of the parties listed in the paragraph headed "Qualification of experts" in this appendix:

(i) is interested legally or beneficially in any of the Shares or any shares in 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 our securities;

(d) no Share or loan capital of our Company is under option or is agreed conditionally or unconditionally to be put under option;

(e) we have not issued or agreed to issue any founder shares, management shares or deferred shares;

(f) we have no outstanding convertible debt securities;

(g) within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerages or other special items have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries and we have not issued or agreed to issue any Share or loan capital fully or partly paid either for cash or for a consideration other than cash;

(h) within the two years immediately preceding the date of this prospectus, no commission has been paid or payable (except commissions to the Underwriter) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in or debentures of our Company;

(i) within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit had been paid, allotted or given to, or was proposed to be paid, allotted or given to, any promoter in connection with the Share Offer or the related transactions described in this prospectus;

(j) since 30 June 2013, there has been no material adverse change in the financial or trading position or prospects of our Group;

(k) none of our Company or any of our subsidiaries is presently listed on any stock exchange or traded on any trading system; and

(l) in case of discrepancy, the English version of this prospectus shall prevail over the Chinese version.

10. Binding effect

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

11. Bilingual prospectus

The English version and the Chinese version of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

12. Particulars of the Selling Shareholder

Name of the Selling Shareholder:	SXD Limited
Description:	An investment holding company incorporated in the BVI as a BVI business company on 3 April 2013 with BVI company number 1767996
Director of the Selling Shareholder:	Mr. Zheng
Shareholder of the Selling Shareholder:	Mr. Zheng (holding the entire issued share capital)
Registered office of the Selling Shareholder:	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, BVI
Number of Sale Shares to be offered by the Selling Shareholder under the Placing:	15,000,000

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE**, **YELLOW** and **GREEN** Application Forms, the written consents referred to in the paragraph headed "Consents" in Appendix V to this prospectus and copies of the material contracts referred to in the paragraph headed "Summary of material contracts" in Appendix V to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Pang & Co. in association with Loeb & Loeb LLP at 21st Floor, CCB Tower, 3 Connaught Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) the Memorandum and the Articles;

(b) the accountant's report from PricewaterhouseCoopers, our reporting accountant, the text of which is set out in Appendix I to this prospectus;

(c) the report from PricewaterhouseCoopers relating to the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;

(d) the audited combined financial statements of our Group for the three financial years ended 31 March 2013 and the three months ended 30 June 2013;

(e) the material contracts referred to in the paragraph headed "Summary of material contracts" in Appendix V to this prospectus;

(f) the service agreements referred to in the paragraph headed "Particulars of service agreements" in Appendix V to this prospectus;

(g) the rules of the Share Option Scheme;

(h) the written consents referred to in the paragraph headed "Consents" in Appendix V to this prospectus;

(i) the Companies Law;

(j) the PRC legal opinion prepared by King & Wood Mallesons, our legal advisors as to PRC law; and

(k) the letter prepared by Appleby, our legal advisors as to Cayman Islands law, summarising certain aspects of the Cayman Islands company law referred to in Appendix III to this prospectus.

HUAXI HOLDINGS COMPANY LIMITED
華禧控股有限公司