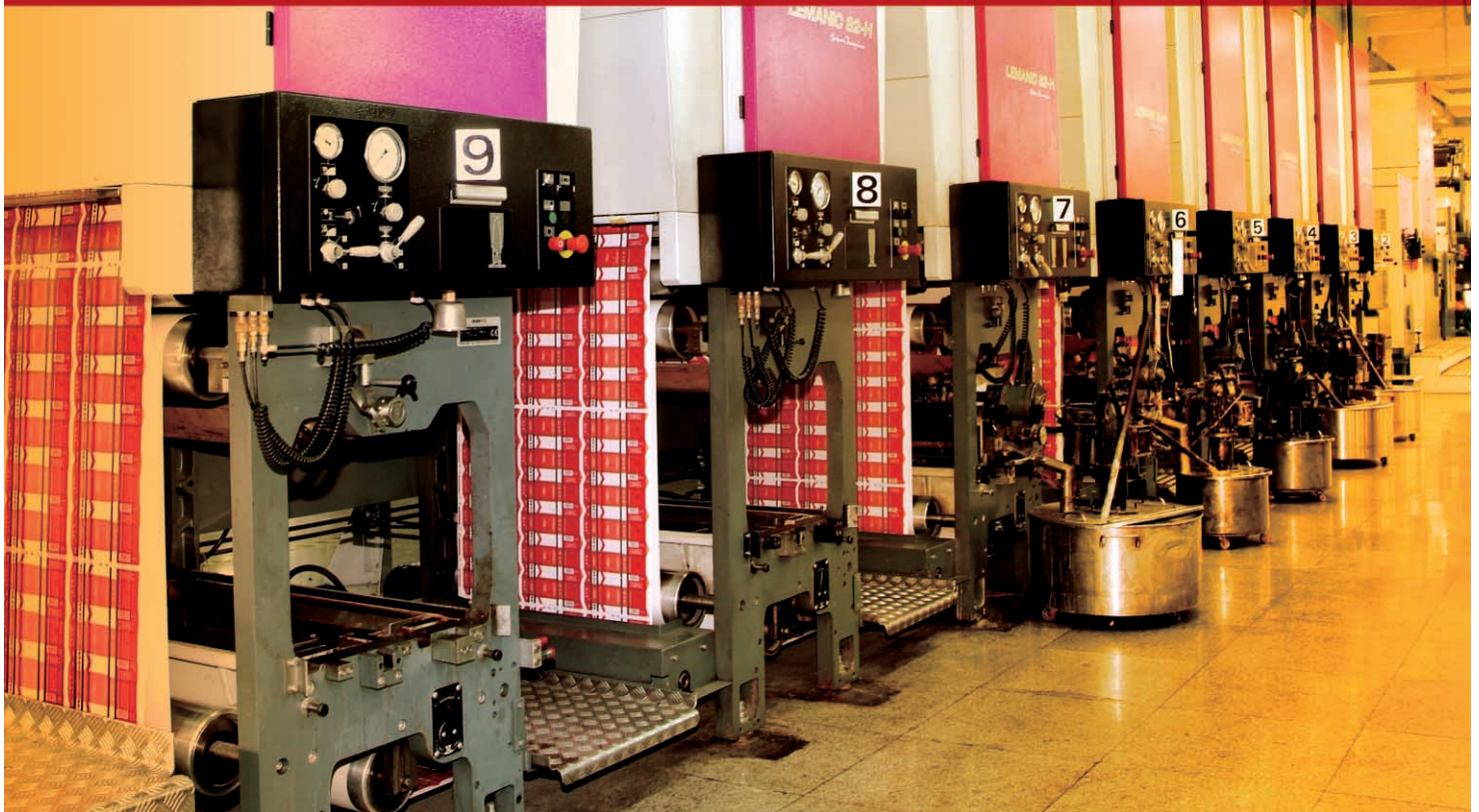




To manage, avoid risk and also to take considered advantage of opportunities that arise and add value to our business.



Risk Management Report

Risk management considerations play an important role in all decisions and business processes in our Company. Comprehensive risk management, built into our activities in the form of management structures, company-wide standards as well as reporting and information systems, allows us to identify risks at an early stage. The associated control procedures enable us to promptly isolate and monitor both general and specific risks. Our objective in applying risk management is not only to manage and avoid risk but also to use it to take considered advantage of opportunities that arise and which may add value to our business.

Risk management is integrated into the Group controlling process and functions on two levels. The first level consists of a Group control function, which takes responsibility for identifying risk across the Group, setting standards and developing short, medium and long-term strategic approaches to its management. On the second level, specific risk affecting individual subsidiaries and business units is identified and resolved at an early stage through key performance indicators and project analysis.

The major risks as may be affecting the Group have been mentioned in the prospectus of the Company dated 16 March 2004. With the continued growth of the Group especially after the acquisition of Beijing Leigh-Mardon Pacific Packaging Co. Limited, Qingdao Leigh-Mardon Packaging Co. Limited and Kunming World Grand Colour Printing Company Limited in 2006, some of the risks as previously mentioned, such as reliance on Nanjing Sanlong Packaging Co., Ltd. and reliance on major suppliers, have been substantially reduced or minimized.

The Risk Management Committee, which has been established in 2006, has three broad objectives:

1. protect against unforeseen losses;
2. ensure earnings stability; and
3. maximize earnings potential and opportunities leading to shareholder value creation.

After the Risk Management Committee has been formed, it has revisited and identified the major risks that the Group is now facing and it has made recommendations to the Board of the Company for the measures that should be taken in order to minimize the risk exposure. The major risks and the related measures being taken are summarized below:

1. MARKET RISK

The Group has been focusing in its principal business of cigarette packaging printing and laminated papers manufacturing. The competition among other market participants is intense, leading to price pressure. The consolidation of cigarette manufacturers in the PRC is continuing and the continuous demand for highest quality and service from the existing customers is increasing.

In view of the rapidly changing business environment in the cigarette industry in the PRC, the Group has adopted an acquisition strategy for accelerating its growth and increasing its market share. As the cigarette packaging industry in the PRC is generally segmented by geography, growth by acquisition will enable the Group to expand its business. To provide good service such as guaranteed delivery on time and maintain good quality product with enhanced anti-counterfeit feature with consistent production will increase the corporate image of the Group. Moreover, the strategic partnership with Amcor Group and the necessary support from the Amcor Group's expertise and global reach are also expected to assist the Group to obtain the support of cigarette manufacturers for any possible acquisitions. Given the success of the acquisition of Beijing Leigh-Mardon Pacific Packaging Co. Limited, Qingdao Leigh-Mardon Packaging Co. Limited and Kunming World Grand Colour Printing Company Limited, the Group will continue to pursue its acquisition strategy to enhance shareholder value.

2. OPERATIONAL RISK

The Group requires purchase of paper and ink for manufacturing of laminated papers and printing of cigarette packages. Paper and ink costs therefore account for a significant proportion of the Group's total costs of sales. In 2006, there had been an overwhelming growth in the PRC economy generally brought about by strong domestic demand. This has led to an increase in the price of raw materials including paper and ink costs.

In common with other manufacturing companies, production efficiency has always been a major factor for the Group's success. Smooth production process with good quality control will enable the Group to meet the expectation from its customers. The increasing demand for quality from the customers also requires the Group to invest in new and advanced machineries and development. As any disruption in the production schedule including, a breakdown of machinery, or any problems in the quality of the Group's product may have a significant negative impact on the confidence of the customers and the business and profit of the Group, strong operation management is required to be in place to closely monitor the production process and to take immediate action to rectify any problem.

In response to these risks, the Group has adopted the following strategies:

- to coordinate and allocate production among the production plants of the Group in Nanjing, Shenzhen, Kunming, Qingdao and Beijing;
- the Group's procurement activities will be centralized with the expansion of the Group's production scale as a result of the various acquisitions in 2006, the benefit of bulk purchase of raw materials becomes more obvious, thereby minimizing the effect on general increase in raw material prices;
- some laminated papers are produced by the Group thereby reducing its reliance on the supply of papers from outside sources;
- monitor the performance regularly and maintain the consistent operational management;
- an operational review has been conducted to enhance the overall utilization of the production capacity of the Group. This includes sharing of resources such as technological know-how, printing machinery, shared marketing and sales force among different production plants of the Group;
- a contingency plan has been set up to cater for any material disruption in production;
- continual investment in development to keep abreast of the market changes;
- performance targets and indicators are set for each production plant and the operational decision making process is decentralized to allow flexible and quick response to the changing needs of the customers;
- monthly reports on operating KPIs of each production plants are prepared and submitted to the Operation Director for review; and
- long-term manpower planning is introduced to recruit trainees and apprentices to ensure continued supply of skilled labour, training employees, and develop management people.

3. FINANCIAL RISK

The Group's overall objective is to act prudently to ensure that the Group has adequate cash flow and access to funding sources from our established businesses to fund our working capital requirements and potential new investments. Credit risk control becomes important to the Group as it is the Group's policy to provide credit to its customers generally with a credit term of one to three months.

The above risks are managed through prudent treasury policies and management which include the following:

- an internal control department has been set up, which reports as an independent body directly to the board of the Company and the Audit Committee, to monitor the internal control system, of the Group from time to time. Meetings between the internal auditor and the Audit Committee are held as and when required to discuss any internal control problems and solutions;
- the Group's treasury function and efforts to limit financial risk are managed centrally;
- a standard credit policy is in place for different plants and any variation from the standard policy should be reported and approved by the Chief Financial Controller of the Company; and
- a standard accounting system has been installed for the input by each subsidiary and a monthly management report should be prepared for the review by the management after the month end for control purpose.

