

## SUMMARY

### INTRODUCTION

The Group is principally engaged in the manufacturing and sale of corrugated paperboards and paper-based packaging products to customers which are manufacturers with production base in the PRC for approximately 20 years. Founded in Hong Kong, the Group began the manufacturing and sale of corrugated cartons in 1989 and corrugated paperboards in 1992.

The following table sets forth a breakdown of the Group's turnover by products during the Track Record Period:

	Year ended 31 March						Six months ended 30 September	
	2006		2007		2008		2008	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Corrugated paperboards	251,723	43.8	271,198	42.2	325,311	48.9	162,125	41.3
Paper-based packaging products	307,627	53.5	355,412	55.2	324,390	48.7	220,683	56.3
Substandard paperboards and scraps	15,521	2.7	16,588	2.6	15,966	2.4	9,375	2.4
<b>Total</b>	<b>574,871</b>	<b>100</b>	<b>643,198</b>	<b>100</b>	<b>665,667</b>	<b>100</b>	<b>392,183</b>	<b>100</b>

The Directors believe that the Group is competitive and well positioned in the industry in view of the Group's product range including corrugated paperboards, paper-based packaging products, substandard paperboards and scraps, long-term relationship with customers of international recognised brand name and suppliers as well as in-depth knowledge and experience of the Group's management in the corrugated packaging products business.

Customers of the Group's corrugated paperboards include manufacturers of corrugated carton. Customers of the Group's paper-based packaging products mainly include consumer products manufacturers of renowned brands in various industries such as electronic and electrical appliances, garment, furniture, food and beverages, toys, medicine as well as audio and video products, and/or their manufacturing arm or OEM who use the Group's products for packaging purposes. The Group has established long-term business relationship with consumer products manufacturers of international brands such as Philips (飛利浦) in electronic appliances, audio and video products industry, Jinlongyu (金龍魚) in food and beverages industry. In addition, the Group sells its substandard paperboards and scraps to corrugated carton manufacturers, paper mills and scrap dealer.

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In order to satisfy specific product requirements and production schedules of customers, the Group provides or advises them on the structural design of corrugated carton.

[To the best knowledge of the Directors, the Group is one of the largest customers of the Lee & Man Group and the Nine Dragons Group, two leading paper mills in the PRC.] The Group has established long-term business relationship and entered into bi-monthly or quarterly purchase agreements with its major suppliers and thus is able to stabilise the cost and supply of raw papers.

The Group has established its production base which is composed of the Three Production Plants in Shenzhen in the PRC with an aggregate annual production capacity of approximately 284 million sq.m. of corrugated paperboards and approximately 250 million pieces of corrugated cartons. [A new production plant is expected to be built in Huizhou, Guangdong Province, the PRC by [July 2010]. Production is expected to commence by [October 2010], contributing to the Group an additional annual production capacity of corrugated paperboards of approximately 100 million sq.m. and corrugated cartons of approximately 100 million pieces, and a new annual production capacity of moulded pulps of approximately 1,000 tonnes as well.]

### COMPETITIVE STRENGTHS

The Group considers that its achievements are principally attributable to the following competitive strengths of the Group:

- Long operating history and good reputation in the packaging industry
- Solutions for paper-based packaging products
- Diversified and strong customer base
- Strong production capability
- Good relationship with suppliers
- Stringent quality control
- Strong management team with in-depth knowledge in the paper-based packaging industry

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### TRADING RECORD DURING THE TRACK RECORD PERIOD

The following table summarises the combined results of the Group during the Track Record Period, which are prepared on the assumption that the current corporate structure had been in existence throughout the Track Record Period and is extracted from, and has been prepared in accordance with the basis set forth in the section headed "G. Notes to financial information" of the Accountants' Report in Appendix I to this document. Certain financial information on the CSI Group is set forth in the CSI Group Accountants' Report in Appendix II to this document.

#### Consolidated income statements

	Note	Year ended 31 March			Six months ended 30 September	
		2006 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000 <i>(unaudited)</i>	2008 HK\$'000
<b>Turnover</b>	1	574,871	643,198	665,667	333,134	392,183
Cost of goods sold		<u>(466,293)</u>	<u>(517,840)</u>	<u>(524,737)</u>	<u>(271,222)</u>	<u>(312,799)</u>
<b>Gross profit</b>		108,578	125,358	140,930	61,912	79,384
Other income		2,966	1,761	2,412	1,371	1,081
Selling expenses		(18,422)	(21,378)	(19,078)	(9,450)	(13,178)
Administrative expenses		(35,619)	(38,667)	(48,877)	(19,596)	(23,442)
Other operating expenses		<u>(2,439)</u>	<u>(4,599)</u>	<u>(1,343)</u>	<u>(1,266)</u>	<u>(143)</u>
<b>Profit from operations</b>		55,064	62,475	74,044	32,971	43,702
Finance costs		<u>(7,361)</u>	<u>(9,982)</u>	<u>(6,841)</u>	<u>(3,606)</u>	<u>(2,255)</u>
<b>Profit before tax</b>		47,703	52,493	67,203	29,365	41,447
Income tax expense		<u>(1,648)</u>	<u>(3,201)</u>	<u>(5,908)</u>	<u>(3,122)</u>	<u>(3,564)</u>
<b>Profit for the year/period</b>		<u>46,005</u>	<u>49,292</u>	<u>61,295</u>	<u>26,243</u>	<u>37,883</u>
Dividends		<u>60,000</u>	<u>30,000</u>	<u>40,000</u>	<u>–</u>	<u>–</u>
<b>Earnings per Share</b>						
Basic		<u>[●] cents</u>	<u>[●] cents</u>	<u>[●] cents</u>	<u>[●] cents</u>	<u>[●] cents</u>

Notes:

1. Turnover represents net invoiced value of goods sold to customers during the Track Record Period.

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### Consolidated balance sheets

	At 31 March		At 30 September	
	2006	2007	2008	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Non-current assets</b>				
Prepaid land lease payments	1,607	4,694	5,163	5,197
Property, plant and equipment	128,475	131,195	130,997	126,517
Investment properties	420	420	420	420
Club membership	366	366	366	366
	<u>130,868</u>	<u>136,675</u>	<u>136,946</u>	<u>132,500</u>
<b>Current assets</b>				
Inventories	68,580	51,016	77,277	66,518
Trade and other receivables	155,447	152,899	172,384	204,928
Prepaid land lease payments	40	393	215	222
Due from related companies	6,559	200	–	–
Current tax assets	236	78	–	–
Pledged bank deposits	26,436	34,529	37,841	39,378
Bank and cash balances	49,629	39,728	56,148	48,131
	<u>306,927</u>	<u>278,843</u>	<u>343,865</u>	<u>359,177</u>
<b>Current liabilities</b>				
Trade and other payables	63,195	77,236	97,462	79,530
Due to a related company	–	240	–	–
Due to a director	18,150	–	–	–
Dividend payable	–	–	40,000	–
Short-term bank borrowings	185,133	100,766	81,973	105,666
Current tax liabilities	7,770	9,187	3,643	[3,383]
Current portion of long term borrowings	5,869	5,047	5,539	5,185
	<u>280,117</u>	<u>192,476</u>	<u>228,617</u>	<u>193,764</u>
<b>Net current assets</b>	<u>26,810</u>	<u>86,367</u>	<u>115,248</u>	<u>165,413</u>
<b>Total assets less current liabilities</b>	157,678	223,042	252,194	297,913

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	<b>At 31 March</b>		<b>At 30</b>	
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current liabilities</b>				
Deferred tax liabilities	817	1,885	2,285	2,885
Long term borrowings	<u>4,023</u>	<u>6,891</u>	<u>8,436</u>	<u>5,843</u>
	<u>4,840</u>	<u>8,776</u>	<u>10,721</u>	<u>8,728</u>
<b>NET ASSETS</b>	<u>152,838</u>	<u>214,266</u>	<u>241,473</u>	<u>289,185</u>
<b>Capital and reserves</b>				
Share capital	–	–	–	–
Reserves	<u>152,838</u>	<u>214,266</u>	<u>241,473</u>	<u>289,185</u>
<b>TOTAL EQUITY</b>	<u>152,838</u>	<u>214,266</u>	<u>241,473</u>	<u>289,185</u>

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### DIVIDENDS AND DIVIDEND POLICY

For the three years ended 31 March 2008 and the six months ended 30 September 2008, dividends of approximately HK\$60 million, HK\$30 million, HK\$40 million and nil respectively were made out of the internal resources of the Group.

It is the present intention of the Directors that the Company will declare interim and/or final dividends equivalent to approximately 30% to 40% in total of the audited consolidated profit for the year of the Group each year for the two years ending 31 March 2010, whilst the amount of dividends to be declared will be subject to, the full discretion of the Directors, taking into consideration, among others, the amount of earnings, financial position, cash requirements and availability of the Group as well as the provisions of applicable laws and regulations and other relevant factors.

### FUTURE PLANS

In view of the high economic growth in the PRC, the Directors are of the view that the demand for consumer products in the PRC will continue to increase, which in turn will increase the demand for corrugated paperboard and paper-based packaging products for consumer products. As such, the Group's objective is to strengthen its market position in the packaging industry. In addition, the Group intends to enlarge its production capacity as the utilisation rate of most of the production lines of corrugated paperboards and/or corrugated cartons in the First Production Plant and the Second Production Plant can reach around 70% during peak season. To achieve this objective, the Directors have formulated the following strategies:

- Expansion of the existing production facilities
- Establishment of a new production plant in Huidong County in Huizhou in Guangdong Province, the PRC
- Research and development

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### SUMMARY OF RISK FACTORS

The Directors consider that business and operations of the Group are subject to a number of risk factors that may be broadly categorised into: (i) risks relating to the Group; (ii) risks relating to the industry in which the Group operates; (iii) risks relating to the PRC; and (iv) risks relating to certain information contained in this document, which are summarised as follows:

#### (i) Risks relating to the Group

- Substantial operations in and substantial revenue from Guangdong Province, the PRC
- Reliance on major suppliers
- Reliance on key management personnel
- No long-term sales agreement with most of the customers
- Leased production plants
- Termination or non-renewal of the Processing Arrangement
- Liabilities assumed under the Processing Arrangement
- Employees' claim for underpaid social security contribution
- Seasonal factors
- Dividend policy
- No insurance on product liability
- Dilution in the earnings per Share and net assets value per Share may be resulted from granting share options under the Share Option Scheme
- Revocation of tax benefits
- Newly enacted PRC employment contract law may increase labour costs
- Environmental protection
- Business plans may be delayed or may not materialise
- The Group may experience difficulties managing its growth

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- The Group may be adversely affected by the recent economic crisis in the world

### **(ii) Risks relating to the industry in which the Group operates**

- Pricing of raw paper
- Competition

### **(iii) Risks relating to the PRC**

- Economic, social and legal considerations
- Currency conversion
- Epidemics, acts of war and other disasters

### **(iv) Risks relating to certain information contained in this document**

- Statistics and industry information
- Forward-looking statements contained in this document may not materialise