

RISK FACTORS

RISKS RELATING TO THE GROUP

Substantial operations in and substantial revenue from Guangdong Province, the PRC

The Group conducted substantially all of its operations in Guangdong Province and substantially all of its revenue are attributable to the demand from Guangdong Province, the PRC during the Track Record Period. Therefore, the Group's operations and business are vulnerable to, and may be adversely affected by, any unfavorable change in the economic environment or decline in the demand of its products in Guangdong Province.

Reliance on major suppliers

Raw paper is the principal raw material of the Group's products. The five largest suppliers of the Group during the Track Record Period, including Nine Dragons Group and Lee & Man Group, were suppliers of raw paper which have been selling raw paper to the Group for five to ten years, the purchases from which accounted for approximately 64.4%, 67.7%, 76.5% and 66.7% of the total cost of goods sold of the Group for the three years ended 31 March 2008 and the six months ended 30 September 2008 respectively. Purchase from the largest supplier of the Group accounted for about 40.9%, 44.7%, 42.4% and 35.8% respectively of the Group's total cost of goods sold for the three years ended 31 March 2008 and the six months ended 30 September 2008 respectively. Should any of those major suppliers cease to supply raw paper to the Group and the Group is unable to find suitable replacements, the Group's business operation may be adversely affected.

Reliance on key management personnel

The future prospect of the Group relies on the key senior management personnel who plays major roles in the operation and development of the Group. The success of the Group will, to a certain extent, depends on whether the Group can continue to retain those competent key personnel. In particular, Mr. Chong, the founder, an executive Director, President of the Group and the Chairman of the Board[, has almost 20 years of experience and knowledge in the corrugated paper packaging industry and packaging requirements of various industries such as electronic appliances, food and beverages as well as garment.] Should the Group fail to retain those competent key personnel or recruit competent replacement, its operation and future development may be adversely affected.

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No long-term sales agreements with most of the customers

The Group has not entered into long-term sales agreements with most of the customers. If any of these customers, particularly the major customers, materially reduce their orders from the Group, the business and financial performance of the Group may be adversely affected.

Leased production plants

The Group and the Processing Partner currently carry out their production in the Three Production Plants. The Second Production Plant and the Third Production Plant are occupied on a leasehold basis by the Group and the Processing Partner respectively. Should the Group or the Processing Partner fail to renew the respective lease agreements and fail to relocate the production lines to suitable sites, the business operation of the Group may be adversely affected.

Termination or non-renewal of the Processing Arrangement

Certain products of the Group, in particular, offset printed cartons are manufactured by the Processing Partner under the Processing Arrangement. The terms of the Processing Arrangement will expire on 22 September 2012. Turnover generated from the products manufactured under the Processing Arrangement amounted to approximately HK\$96.9 million, HK\$109.4 million, HK\$112.8 million and HK\$68.1 million, contributing to approximately 16.9%, 17.0%, 16.9% and 17.4% of the Group's total turnover for the three years ended 31 March 2008 and the six months ended 30 September 2008 respectively. In the event that the Processing Arrangement is terminated by the PRC Party before the expiry date or not renewed upon expiry, resulting delay in the production schedule of the products supposed to be manufactured under the Processing Arrangement, the Group's business operation may be adversely affected.

Liabilities assured under the Processing Arrangement

As advised by the PRC Legal Advisers, under the Processing Arrangement, the Processing Partner is responsible for any claims or liabilities with regard to work safety, environmental protection and labour related issues of it or any other reasons under the applicable PRC laws and regulations. In light of the management and supervisory roles assumed by the Group in relation to the overall operation of the Processing Partner, the Group may also in practice be held liable in respect of the aforesaid claims or liabilities jointly with the Processing Partner. The Processing Partner will be held liable for and the Group may also in practice be held liable for any claim and liability arising out of negligence of the PRC Party under the Processing Arrangement. In the event that the Processing Partner and/or the PRC Party arising out of its negligence incur any claim or liability before or upon expiry of the Processing Arrangement, the Group's financial position and profitability may be adversely affected.

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Employees' claim for underpaid social security contribution

The Group has not made full social security contribution to retirement insurance and industrial injury insurance for its employees in accordance with the local regulations in the PRC. The amount of underpaid social security contribution for the existing employees of Come Sure Shenzhen, Bright Leader Shenzhen and the Processing Partner according to the relevant PRC rules and regulations is estimated to be approximately HK\$[5.1] million, HK\$[6.5] million, HK\$[8.3] million and HK\$[8.9] million as at 31 March 2006, 2007 and 2008 and as at 30 September 2008 respectively. As at [31 October 2008], the amount of underpaid social security contribution for resigned employees according to the relevant PRC rules and regulations was estimated by the Directors to be approximately HK\$[2.8] million for the two-year claim period from [1 November 2006 to 31 October 2008]. The maximum penalty in relation to the underpaid contribution to industrial injury insurance of the Group was estimated to be HK\$317,000 from 1 April 2006 to 30 April 2008. Besides, the Group may be subject to a maximum penalty of RMB50,000 and the management and other persons with direct responsibilities of the Group may be subject to a penalty ranging from RMB10,000 to RMB30,000. Details are set out under the sub-section headed "Insurance" under the section headed "Business" in this document.

The Group has made full provision for underpaid social security contribution for its existing employees abovementioned. [The PRC Legal Advisers advised that the possibility that resigned employees claim against Come Sure Shenzhen, Bright Leader Shenzhen and the Processing Partner for underpaid social security contribution is low] [and Mr. Chong has given an indemnity to the Group for any losses, liabilities or damages suffered in connection with such under-payment of contributions exceeding the amount of provision incurred prior to [●]]. If the relevant bureau claim or employees claim against the Group for underpaid social security contribution and Mr. Chong fails to honour his indemnity, the Group's business operation or financial position may be adversely affected.

Seasonal factors

As advised by the Directors, the peak season of the packaging industry is normally from June to November each year, the few months before the approach of the Christmas and Chinese Lunar New Year. Should the Group fail to capture orders from customers during the peak season, the financial results of the Group during the year may be adversely affected.

Dividend policy

The Group declared dividends of approximately HK\$60 million, HK\$30 million, HK\$40 million and nil respectively for the three years ended 31 March 2008 and the six months ended 30 September 2008 respectively. 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.

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No insurance on product liability

The Group has not maintained any insurance on product liability as the Directors are of the view that the Group's exposure to product liability is remote and the cost of insurance coverage for product liability is not justifiable compared against such exposure. Should there be any product claims or losses for product liability, the Group's reputation, business operation or financial position may be adversely affected.

Dilution in the earnings per Share and net assets value per Share may be resulted from granting share options under the Share Option Scheme

The Group has adopted the Share Option Scheme although [no options have been granted] thereunder as at the Latest Practicable Date. Any exercise of the options to be granted under the Share Option Scheme in the future and issuance of Shares thereunder would result in reduction in the percentage ownership of the Shareholders and dilution in the earnings per Share and net assets value per Share due to the increase in the number of issued Shares after the issuance. Under the Hong Kong Financial Reporting Standards, the costs of share options granted to employees under the Share Option Scheme will be charged to the Group's income statement over the vesting period by reference to the fair value on the date the share options are granted. As a result, the Group's profitability may be adversely affected.

Revocation of tax benefits

Pursuant to relevant laws and regulations in the PRC, Come Sure Shenzhen is subject to a reduced enterprise income tax rate of 15% for the period from 1 April 2005 to 31 December 2007. In addition, since the value of exported goods is over 70% of the total value of goods for the year, Come Sure Shenzhen is qualified as an 'Export Oriented Enterprise' ("EOE") and is entitled for a reduced enterprise income tax rate of 10% for the period from 1 April 2005 to 31 December 2006 and tax refunds of approximately HK\$622,000 and HK\$606,000 were received for such reduction of tax rate during the years ended 31 March 2006 and 2007 respectively. On 16 March 2007, the new PRC enterprise income tax law passed by the Tenth National People's Congress introduces various changes which include the unification of the enterprise income tax rate for domestic and foreign enterprises at 25%. The new tax law became effective on 1 January 2008. The enterprise income tax reduction for EOE described above is no longer provided in the new enterprise income tax law. Pursuant to Notice [2007]39 "Notice on Implementation of Corporate Income Tax Transitional Preferential Treatment" issued by the State Council on 26 December 2007, enterprises entitled to lower tax rates under the old law will be given a five-year grace period before they are required to pay the statutory rate. Accordingly, subject to Shenzhen tax bureau final approval, the applicable enterprise income tax rate for Come Sure Shenzhen would be 18% in calendar year 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% for 2012 onwards. Any future change in government policy, in particular, increase in the enterprise income tax rate applicable to the Company's PRC operating subsidiaries or other adverse tax treatments, would have an adverse effect on the Group's financial condition.

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Newly enacted PRC employment contract law may increase labour costs

Law of the People's Republic of China on Employment Contracts 《中華人民共和國勞動合同法》 (the "Employment Contract Law") was adopted by the Standing Committee of the National People's Congress of the PRC in 2007 and became effective on 1 January 2008. Compliance with the requirements under the new law, in particular, the requirement of severance payment and non-fixed term employment contracts, may increase the Group's labour costs.

Pursuant to the Employment Contract Law, the Group is required to enter into non-fixed term employment contract with employees who has worked for the Group for more than 10 years or whom a fixed term employment has been concluded for two consecutive terms since 2008. The Group may not be able to efficiently terminate these non-fixed term employment contract under the new Employment Contract Law without cause. The Group is also required to make severance payment to the employee when the term of the employment contracts available to him/her. The severance payment will be equal to the monthly wages times the number of full years that the employee has been working for the employer. The minimum wages requirement has also been imposed. Fines will be imposed for any breach of the Employment Contract Law. Compliance with the relevant laws and regulations may substantially increase the Group's operating costs, thus may have an adverse effect on the Group's results of operations.

Environmental protection

The Group manufactures corrugated paperboards and paper-based packaging products through Come Sure Shenzhen and the Processing Partner. During the manufacturing process, industrial wastage such as waste air and waste water is produced. As advised by the PRC Legal Advisers, Come Sure Shenzhen and the [Processing Partner] have complied with PRC laws and regulations relating to environmental protection in all material aspects during the Track Record Period. However, Come Sure Shenzhen and the Processing Partner may need to incur additional cost to upgrade its existing production facilities if the PRC government imposes more stringent control on environmental protection, which may adversely affect the profitability of the Group. In addition, in the event that Come Sure Shenzhen or the Processing Partner fails to meet any new environmental requirements, they may not be able to continue their business operation.

Business plans may be delayed or may not materialise

The business plans of the Group as stated in this document are decided based on certain assumptions of future events which by their nature are subject to uncertainty and therefore there is no assurance that the Group's plans, in particular the establishment of a new production plant on the Huidong Land, will be achieved as planned. In the event that any part of the Group's business plans is delayed or not achieved as planned, the Directors will consider to hold or deposit the funds with financial institutions so long as the Directors consider it to be in the Group's interests.

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The Group may experience difficulties managing its growth

During the Track Record Period, turnover of the Group grew from approximately HK\$574.9 million in 2006 to HK\$665.7 million in 2008 while the profit of the Group grew from approximately HK\$46.0 million in 2006 to HK\$61.3 million in 2008.

The Group intends to expand its production capacity by expanding its existing production facilities and establishing a new production plant in the PRC. Such expansion may place a significant strain on its managerial, operational and financial resources. Other factors like the seasonal demand of customers and economic conditions and decrease in orders from customers, in particular, manufacturers of consumer products due to the recent economic crisis in the world, which are beyond the control of the Group, may also affect the growth of the Group. There is no assurance that the Group will be able to achieve or maintain similar level growth in turnover and profit in the future and the difficulties which may be experienced by the Group when managing its growth may adversely affect its business operation, financial position and profitability.

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

The recent economic crisis in the world has adversely affected the U.S. and the world economies. With a deteriorating worldwide economy, demand for, among other things, consumer products may fall, which in turn may affect the demand for the Group's corrugated paperboards and paper-based packaging products. In addition, in amid of the credit tightening environment, [banks may vary the terms of bank loans or the banking facilities currently available to the Group.] If this economic downturn continues, the Group's financial position or business operations could be adversely affected.

RISKS RELATING TO THE INDUSTRY IN WHICH THE GROUP OPERATES

Pricing of raw paper

The principal raw material used by the Group is raw paper including kraftlinerboard and corrugated medium. Prices of raw paper are subject to fluctuations according to market conditions, in particular, the number and production capacity of paper manufacturers which affect the supply of raw paper, and demand of raw paper which is affected by the worldwide economic growth. Please refer to the sub-section headed "Price of raw paper" under the section headed "Industry and Regulatory Overview" for the price trends of imported kraftlinerboard and imported and PRC corrugated medium, major kinds of raw paper purchased by the Group, for the period from 2005 to 2008. For the three years ended 31 March 2008 and the six months ended 30 September 2008, cost of raw paper accounted for approximately 77.6%, 75.6%, 83.3% and 71.4% of the Group's cost of goods sold respectively. During the Track Record Period, the Group recorded a stable average purchase price of raw paper for the financial year 2006 and 2007, approximately 14.9% increase in the average purchase price of raw paper for the financial year 2008 as compared with that of 2007 and approximately 22.4% increase of the same for the six months ended 30 September 2008 as compared with the financial year 2008. To the best knowledge of the Directors, surge in international and domestic raw paper price for the financial year 2007 and 2008 was mainly due to the high economic growth in the PRC

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which induced the demand of raw paper and surge in price of raw materials for producing raw paper such as scrap and pulp. There was also decrease in short-term domestic supply of raw paper as some small paper manufacturers in the PRC phased out or being merged or acquired as their development was restricted by the State's policy under the China's 11th Five-Year Plan pursuant to which scale and environment has been laid down as a major direction for the development of paper manufacturing industry in the PRC during the five-year period from 2006 to 2010. As such, if the supply of raw paper is unable to catch up the increase in demand of raw paper as packaging materials for consumer products, the selling price of raw paper will likely increase, and vice versa. Should there be any significant increase in the price of raw paper whilst the Group is unable to pass the cost to its customers by making corresponding increase in the selling price of the Group's products, the Group's profit margin may be adversely affected.

Competition

The Directors consider that there are a number of local corrugated paperboard and carton manufacturers in Guangdong Province in the PRC, especially Shenzhen and Dongguan, which are the potential or existing competitors of the Group. Should these competitors equip themselves with more advanced machinery and equipment, technical expertise, or expand their sales and marketing network which constitute a stronger competitive edge of them against the Group, the business operation and profitability of the Group may be adversely affected.

RISKS RELATING TO THE PRC

Economic, social and legal considerations

The PRC has a long history of being a planned economy. The PRC economy is still to a large extent a planned economy, albeit that the PRC government has undergone economic reforms to transform the PRC economy into a market economy with socialist characteristics. These reforms have resulted in a more significant role being played by market forces in the overall economic performance. Nevertheless, many of the regulations are subject to further refinement and revision which aim at optimising the economic system. There is no assurance that any change in the economic conditions as a result of the economic reforms or macro-economic control measures adopted by the PRC government will have a positive effect on the economic development of the PRC.

Since 1979, the PRC has promulgated various laws and regulations relating to economic issues in general as well as issues involving foreign investment. In 1982, the National People's Congress of the PRC resolved to amend the PRC constitution to allow foreign investment and to protect the legal interests of foreign investors in the PRC. The enforcement of existing laws and regulations may be uncertain or inconsistent, and the interpretation of these laws and regulations may change from time to time. Any such change could have an adverse impact on the business operation of the Group.

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Currency conversion

For the three years ended 31 March 2008 and the six months ended 30 September 2008, approximately 81.1%, 74.7%, 62.6% and 60.3% of the Group's sales were denominated in HK\$; approximately 17.6%, 22.6%, 32.0% and 34.7% of the Group's sales were denominated in RMB and approximately 1.3%, 2.7%, 5.4% and 5.0% of the Group's sales were denominated in US\$ respectively. For the three years ended 31 March 2008 and the six months ended 30 September 2008, approximately 63.0%, 61.1%, 64.5% and 46.3% of the Group's purchases were denominated in HK\$; approximately 18.7%, 32.2%, 33.5% and 45.2% of the Group's purchases were denominated in RMB and approximately 18.3%, 6.7%, 2.0% and 8.5% of the Group's purchases were denominated in US\$ respectively. The Group recorded exchange loss of approximately HK\$2.8 million, HK\$3.7 million, HK\$10.6 million and HK\$0.6 million for the three years ended 31 March 2008 and the six months ended 30 September 2008 respectively.

The value of RMB against US\$ and other currencies fluctuates and is affected by, among other things, changes in the PRC's and international political and economic conditions. Since 1994, the conversion of RMB into foreign currencies, including HK\$ and US\$, has been based on rates set by People's Bank of China on a daily basis, which are based on the previous business day's interbank foreign exchange market rates and current exchange rates on the world financial markets. From 1994 to 20 July 2005, the official exchange rates for the conversion of RMB to US\$ were generally stable. On 20 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of RMB to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of RMB appreciated by approximately 2% against US\$. The PRC government has since made and in the future may make further adjustments to the exchange rate system. In the event that the PRC government allows more flexibility or fluctuations of the exchange rate of RMB converting into foreign currencies in the future, the volatility of the exchange rate in the future may result in foreign exchange losses because the Group has RMB denominated revenues and debts, and thus may adversely affect the Group's results of operation and financial condition.

Epidemics, acts of war and other disasters

The Group's business is subject to general economic and social conditions in the PRC. Natural disasters, epidemics and other acts of God which are beyond human control may adversely affect the economy, infrastructure and livelihood of the people of the PRC. Many major cities in the PRC are under threat of flood, earthquake, typhoon, sandstorm or drought. The business, operation results and financial condition of the Group may be adversely affected if such natural disasters occur. In particular, any future outbreaks of SARS, Avian Flu or any other epidemic could have an adverse effect on the results of operation of the Group.

In addition, acts of war and terrorist attacks may cause damage or disruption to the manufacturing plants, employees, distribution channels, markets or customers, any of which could adversely impact turnover, cost of goods sold, overall results and financial condition or Share price of the Group. Potential war or terrorist attacks may also cause uncertainty and cause the business to suffer in ways that the Group cannot currently predict.

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RISKS RELATING TO CERTAIN INFORMATION CONTAINED IN THIS DOCUMENT

Statistics and industry information

Statistics, industry data and other information relating to the economy and the industry contained in this document have been derived, in part, from government official publications. The Company cannot ensure or make any representation as to the accuracy or completeness of such information. Neither the Company nor any of its respective affiliates or advisers, have prepared or independently verified the accuracy or completeness of such information derived from government official publications. Statistics, industry data and other information relating to the economy and the industry derived from government official publications may not be consistent with other information available from other sources and should not be unduly relied upon. Due to possible flawed collection methods, discrepancies between published information, different market practices or other problems, the statistics, industry data and other information relating to the economy and the industry derived from government official publications might be inaccurate or might not be comparable to statistics produced from other sources. In all cases, investors should give careful consideration as to how much weight or importance the investors should attach or place on such statistics, the projected industry data and other information relating to the economy and the industry.

Forward-looking statements contained in this document may not materialise

This document contains certain statements and information that are "forward-looking" and uses of forward-looking terminology such as ["anticipate", "believe", "could", "expect", "estimate", "may", "ought to", "should" or "will".] Those statements include, among other things, the discussion of the Group's growth strategy and expectations concerning its future operations, liquidity and capital resources. Although the Directors believe the assumptions on which the forward-looking statements are based are reasonable, any or all of those assumptions could prove to be incorrect and as a result, the forward-looking statements based on those assumptions could also be incorrect. The uncertainties in this regard include, but are not limited to, those identified in this "Risk factors" section, many of which are not within the Group's control. In light of these and other uncertainties, the inclusion of forward-looking statements in this document should not be regarded as representations by the Company that its plans or objectives will be achieved and investors should not place undue reliance on such forward-looking statements. The Company does not undertake any obligation to update publicly or release any revisions of any forward-looking statements, whether as a result of new information, future events or otherwise.