

### OVERVIEW

We are an established vertically integrated waste paper management services provider and recycled paper products producer in the PRC. Our waste paper management services include collecting waste paper from our suppliers in Hong Kong and the PRC and providing confidential materials destruction services in Hong Kong. According to the RPL Report, we are the largest vertically integrated paper recycler in the PRC as of December 31, 2009. In particular:

- we are the largest waste paper management services provider in the China Region in terms of waste paper processing capacity in 2009 according to RISI;
- we are the largest producer of recycled tissue paper products in the PRC in terms of production and sales volumes in 2008 according to the China Paper Association. We produce recycled bathroom tissue, jumbo rolls and paper towels using 100% recovered paper, a large portion of which is sourced from our waste paper management and confidential materials destruction services network in Hong Kong and Guangdong province. We also produce and sell tissue paper products made from virgin pulp; and
- we are also the largest confidential materials destruction services provider in Hong Kong in terms of market share in 2009 according to the RPL Report. We serve a diverse portfolio of clients such as banks, governmental bodies, printers, financial and other professional institutions, including The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank Limited, each of which has been our customer for over ten years. Our plant in Hong Kong is the only plant that is AAA certified by the National Association for Information Destruction, Inc. (NAID) for Plant-based Operation in the PRC and Hong Kong.

We procure waste paper through our waste paper management network in Hong Kong and the PRC and confidential materials destruction services network in Hong Kong and from waste paper distributors. We recover recovered paper from the waste paper that we collect by using equipment and experienced manual labor to filter out other waste materials (such as small amounts of plastics and metal) and sort the recovered paper into different grades according to their type, specification and quality. Recovered paper can then be re-pulped and used as raw materials in our production of recycled paper products. All the recovered paper used in our production of recycled tissue paper products and recycled grayboard is recovered internally and we do not purchase recovered paper from third parties for this purpose. We also sell recovered paper that is not used in our production process to our customers, such as Guangzhou Paper and Zhongshan Hung Hing (who are our only customers with whom we have entered into long-term recovered paper supply contracts of over twelve months duration), who use our recovered paper in their production of recycled paper products. For the years ended March 31, 2007, 2008 and 2009 and the six months ended September 30, 2008 and 2009, the percentage of recovered paper used as raw materials in our production of recycled tissue paper products and recycled grayboard in terms of cost of sales were 33.5%, 21.5%, 24.9%, 18.3% and 25.0%, respectively.

We sell our recycled and virgin pulp-based tissue paper products to direct customers, distributors and value-added resellers. We primarily target direct customers in the away-from-home market, such as office buildings, shopping malls and public facilities in the PRC, the United States, Hong Kong, Australia and the Philippines. Our top direct customers include Jardine OneSolution (HK) Limited in Hong Kong. We sell parent rolls, which are semi-finished recycled tissue paper products, to value-added resellers who

convert them into finished products for resale. We also sell recycled greyboard to paper merchants, manufacturers and printers.

As of the Latest Practicable Date, we operated four waste paper collection stations in Hong Kong (see the section headed “Facilities, Equipment and Real Property — Waste Paper Collection Stations and Balers — Hong Kong” below), and also collected waste paper at our production base in Huizhou, Guangdong province, PRC, with a total maximum daily capacity of approximately 2,436 tonnes. We also operate two piers in Hong Kong and one in Huizhou. Waste paper that we collect in Hong Kong is transported by inland river vessels to our production base in Huizhou, where it is processed into recovered paper for the production of recycled paper products or sold as raw materials to third parties. Some of our recovered paper is also delivered to our customers by inland river vessels. Transportation through inland waterways is substantially more efficient in terms of time and cost than transportation by roadways. We operate technologically advanced paper-making facilities, including two Advantage DCT 60 tissue machines manufactured and supplied by Metso Corporation, in our Huizhou production base. As of the Latest Practicable Date, we had a total annual paper-making capacity of approximately 109,560 tonnes, of which 91,410 tonnes represented tissue paper production capacity.

Our products and services are broadly classified into recovered paper, tissue paper products, recycled greyboard and confidential materials destruction services. For the year ended March 31, 2009, approximately 54.4%, 41.7%, 3.5% and 0.4% of our revenue was derived from sales of recovered paper, sales of tissue paper products, sales of recycled greyboard and the provision of confidential materials destruction services, respectively.

For the years ended March 31, 2007, 2008 and 2009 and the six months ended September 30, 2009, we generated revenue of HK\$957.6 million, HK\$1,178.9 million, HK\$1,098.5 million and HK\$554.9 million, respectively, and the net profit attributable to the equity holders of our Company was HK\$214.9 million, HK\$240.8 million, HK\$172.6 million and HK\$107.2 million, respectively.

### KEY STRENGTHS

We create value for our customers by providing high quality paper products, particularly recycled paper products, and reliable and highly professional waste paper management and confidential materials destruction services from which we source waste paper. We process waste paper into recovered paper to be used in our production of recycled paper products or sold to other manufacturers. We believe our success to date and our potential for future growth are attributable to a combination of our strengths in the following areas:

**We are an established vertically integrated provider of waste paper management services and manufacturer of paper products, particularly recycled paper products. We enjoy a consistent supply of high quality waste paper at competitive prices.**

We operate across the breadth of the waste paper value chain, from the collection and processing of waste paper and destruction of confidential materials to the production of recycled paper products and the sale of recovered paper. We believe that we have a highly efficient waste paper management network in Hong Kong and the PRC.

As the largest waste paper management services provider in terms of waste paper processing capacity in the China Region in 2009 and the largest confidential materials destruction services provider in Hong Kong in terms of market share in 2009, we are able to collect large volumes of high quality waste paper at competitive prices which we use in our production of recycled paper products and sell as recovered paper. We believe we have an efficient collection network in Hong Kong and the PRC, and we have excellent working relationships with many of our suppliers, who provide us with large amounts of high quality waste paper. As of the Latest Practicable Date, we collected waste paper from more than 1,500 suppliers in Hong Kong and the PRC. As our waste paper collection network allows us to source waste paper directly from sources that generate waste paper, we believe that we capture a higher profit margin than many of our competitors in the recycled paper industry since the cost of the recovered paper we use in our production of recycled paper products is typically lower than that of such competitors. Such competitors may not have a proprietary and cost efficient waste paper collection network, and can only rely on third parties to supply recovered paper for their production process, which incurs higher transportation costs and other related expenses. In addition, we sort mixed waste paper at our Huizhou production base as opposed to purchasing the sorted waste paper from local or foreign suppliers. We also provide waste management services to our customers and suppliers from whom we are able to purchase waste paper at a lower price. Hence, we are able to achieve lower cost for recovered paper than our competitors. With a consistent supply of high quality waste paper that exceeds our demand for use as raw materials in our production of recycled paper products, we have the flexibility to adjust the portion of recovered paper to be used in our production and that to be sold as raw materials to third parties without suffering from supply shortages of recovered paper.

**We operate a highly streamlined and efficient logistic model with our production facilities strategically located with access to efficient transportation links and reliable water sources, thereby enjoying significant cost and competitive advantages.**

Our production base in Huizhou, Guangdong province, PRC, is located alongside the Dongjiang river and is well served by inland waterways. We have constructed piers at our Huizhou production base that are capable of accommodating inland river vessels. In Hong Kong, we operate two piers in the Hong Kong Island and Kowloon, respectively. Our strategic location and piers allow us to deliver recovered paper from our Huizhou production base to our customers in the PRC and transport waste paper from our collection network in Hong Kong to our Huizhou production base by inland river vessels in a timely and cost effective manner, a key factor to our competitiveness. We believe that the time and cost of transportation by inland waterways is significantly lower than the time and cost of transportation by road. Transportation by inland waterways also improves the reliability of deliveries by avoiding transportation bottlenecks on roadways. This enables us to maintain a lower level of inventory at our Huizhou production base.

Water is essential to our manufacturing process, and our Huizhou production base is located close to abundant water supply from the Dongjiang river. We believe that our strategic location provides significant cost advantage to our production, which in turn enhances and further strengthens our competitiveness.

**We service and market our products domestically and internationally to a large, diversified and stable base of customers and we enjoy a large and stable supply of waste paper.**

Under the leadership of our founder, Chairman and Chief Executive Officer, Mr. Leung Kai Kuen, who has over 40 years of experience in the waste paper management industry and over 10 years of experience

in the recycled paper manufacturing industry, we have established a large and diversified waste paper supplier base in the China Region and a large, diversified and stable customer base in Hong Kong, the PRC and internationally. As of the Latest Practicable Date, we sourced waste paper, our major raw materials in the production, from over 1,500 suppliers in Hong Kong and PRC. We believe that these waste paper suppliers trade with us partly because of our ability to handle a large variety of recovered paper and waste materials sorted from the waste paper. We also believe that the consistently high quality of our products and services and our ability to provide a broad range of specifications that meet our customers' needs is the key to our success in maintaining our customer base. Our customers include:

- paper mills and paper manufacturers that use our recovered paper as raw materials in their production of recycled paper products, including Guangzhou Paper and Zhongshan Hung Hing;
- supermarkets that sell our tissue paper products; and
- banks, governmental bodies, printers, financial and other professional institutions that use our confidential materials destruction services, including The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank Limited.

### **We operate in an industry with high barriers to entry.**

We believe that obtaining the requisite governmental permits to operate a paper manufacturing business imposes significant barriers to entry for new entrants. In particular, since 2007, paper manufacturers in the PRC have been subject to stringent environmental requirements on the emission of waste water. In order to comply with such requirements and remain commercially viable, the existing PRC paper manufacturers will need to upgrade or replace their paper-making machines and/or establish water treatment facilities in their factories to reduce the amount of waste water produced during the production process, the cost of which may be disproportionate to their operational scale. Due to the relatively sizeable scale of our operations, we have been able to and expect to continue to be able to comply with such stringent environmental requirements. Unless the production scale is sizeable, such upgrading or replacement may not be cost effective and will result in higher production cost, thereby limiting competitiveness.

We are the largest vertically integrated paper recycler in the PRC with more than 20 years of relevant experience of manufacturing recycled tissue paper products that also manages operation across the entire waste paper value chain. We believe it is difficult and will take a significant period of time for new entrants to develop the requisite technology and know-how to produce comparable standards of high quality recycled paper products and to duplicate our vertically integrated business model.

Due to our established business relationships with our waste paper suppliers, our dominant position in the waste paper management network in Hong Kong and our expanding waste paper management network in the PRC, we believe that potential entrants to the waste paper management and recycled tissue paper product industry will face significant challenges in securing waste paper suppliers and sourcing sufficient high quality waste paper or recovered paper at competitive prices. We also have a wide and stable customer base, which allows us to be able to utilize and sell nearly all the different types of recovered paper and waste materials sorted from the waste paper we collect through our waste paper management network. We believe that new entrants will unlikely be able to handle and process such recovered paper and waste materials at a similar scale and efficiency as our plants in Huizhou.

**We are recognized domestically and internationally for our environmentally responsible practices, thereby enhancing the appeal of our products to the global markets.**

We believe that our commitment to environmentally responsible practices will enhance the appeal of our products in markets where environmental awareness is increasing, such as the PRC, Hong Kong, Australia and the United States to which we sell our recycled paper products to.

We obtained a certification from FSC in October 2009 in recognition of our implementation of the wood products control system in accordance with the FSC certification system in our manufacturing and trading of recycled tissue paper, paper towels and greyboards. Following such certification, we were authorized by the FSC to use the FSC label on our products. This FSC label enables us to demonstrate our socially and environmentally responsible practices in the market. We believe that this is one of the highest environmental standards in the market and some of our customers prefer to trade with us than our competitors because of this recognition. We also obtained ISO 14001 certification for our environmental management standards in December 2006. As of Latest Practicable Date, we had not been in material violation of any environmental laws and regulations or been subject to any fine for violation of any environmental laws or regulations. In 2009, we were awarded the Clean Production Enterprise of Guangdong Province (廣東省清潔生產企業) by the Economic and Trade Commission of Guangdong Province (廣東省經濟貿易委員會), the Guangdong Science and Technology Department (廣東省科學技術廳) and the Hong Kong — Guangdong Cleaner Production Partner Certificate by the Government of the Hong Kong SAR.

We operate a water recycling plant and a waste water treatment plant at our Huizhou production base with daily waste water treatment capacity of 18,500 m<sup>3</sup>. Waste water from our production is treated and recycled for use in our paper making process, before it undergoes a second treatment for release in accordance with our Pollutants Discharge Permit (排放污染物許可證). Furthermore, we commenced operation of our first Advantage DCT 60 tissue machine in July 2009 and the second Advantage DCT 60 tissue machine is expected to commence operation by the first quarter of 2010, which are further described in the section headed “— Facilities, Equipment and Real Property — Paper Machines” below. The Advantage DCT 60 tissue machines are highly efficient, consuming 7m<sup>3</sup> to 8m<sup>3</sup> of water per tonne of paper produced, which is significantly less than that of older model paper machines.

**We have an experienced and dedicated management team with a proven track record.**

Our management team is led by our founder, Chairman and Chief Executive Officer, Mr. Leung Kai Kuen, who has worked in the waste paper industry since 1968. With over 40 years of experience in the waste paper management industry and over 10 years of experience in the recycled paper manufacturing industry, Mr. Leung Kai Kuen has, with foresight and strong business relationships, expanded a local waste paper collection and resale trade into our current vertically integrated waste paper management and paper manufacturing business. In addition, our executive Director and Head of Waste Paper Business Unit, Mr. Leung Tat Piu, has over 24 years of experience in the waste paper industry. Our executive Director and Head of Recycled Paper Business Unit, Mr. Cheng Chun Keung, Thomas, has more than 13 years of experience in the paper industry. Our chief engineer, Mr. Zhuo Yong Xin, also has over 40 years of experience in the paper-making industry. Please refer to the section headed “Directors and Senior Management” in this prospectus for further details and the experience of our Directors and senior management.

Through our management's leadership, vision and consistent efforts to implement international best practices, we are, the largest waste paper management services provider in the China Region in terms of waste paper processing capacity in 2009 according to RISI, the largest confidential materials destruction services provider in Hong Kong in terms of market share in 2009 according to the RPL Report and the largest producer in the PRC of recycled tissue paper products in terms of production and sales volumes in 2008 according to the China Paper Association.

### **BUSINESS STRATEGY**

Our goal is to be the dominant player in China's green paper industry with a global brand. In order to achieve our goal, we aim to expand our market shares in the waste paper management and confidential materials destruction services industries in Hong Kong and the PRC so as to secure a larger supply of high quality waste paper. The following are the key elements of our business strategy:

#### **Promote our green tissue paper product brands for recycled paper products.**

We anticipate growing demand for recycled tissue paper products worldwide and, in particular, in the PRC. As there are currently few established brands of recycled tissue paper products in the PRC, we intend to position our brands as ones that are recognized for environmental-friendliness and quality, thereby helping to expand our sales and distribution network and deepen market penetration. We plan to further strengthen our major recycled tissue paper product brands, Moonily and Smoovie, by adopting tailored marketing strategies, for example, sponsoring events which could enhance our brand image, and maintaining the high quality standards of our products. In addition, we will continue to promote the association of our brands with environmentally responsible production practices to establish a "green" and "environmental friendly" image to capture the growing demand for recycled tissue paper products.

#### **Enhance market penetration in existing markets, explore new markets and expand the range of our recycled tissue paper products.**

We actively seek to deepen penetration of our recycled tissue paper products in our existing markets in the PRC and overseas by expanding our sales and distribution network. We will continue to target high consumption clients in the away-from-home market, such as restaurants, hotels, offices, hospitals and public facilities, as well as supermarkets and other retailers.

We seek to establish relationships with tissue paper product distributors in the United States who buy our tissue paper products and resell to local retailers and supermarkets. We expect that this will enhance our presence and market penetration in the U.S. markets.

We are also actively seeking to expand our product portfolio through our continuous product innovation efforts. By leveraging on our existing production expertise, customers and distribution network, we aim to diversify our product portfolio by introducing recycled facial tissue and pocket tissue in order to offer a broader range of recycled tissue paper products to our existing as well as new customers.

#### **Strengthen our leading position in the waste paper management and confidential materials destruction services network in the China Region.**

In order to expand our waste paper management network and strengthen our leading position in the waste paper management network in the China Region, as a near term target, we will leverage on our reputation, business relationships and experience to strengthen our presence in Beijing, Tianjin, Shanghai



and other parts of southern China, where we believe that the expected continuing growth in commercial activities and the rapid rate of industrialization and urbanization, coupled with increased environmental awareness in these regions, will drive growth in paper consumption and recycling and the supply of waste paper. As a longer term target, as some of our existing confidential materials destruction services customers in Hong Kong have sought our services for their operations in other provinces of the PRC, we plan to capitalize on these opportunities and commence operation of secured destruction facilities in Beijing, Tianjin, Shanghai and nearby cities to serve our clients as well as to expand the client base and coverage in those regions. We intend to expand our waste paper management network in the PRC through our relationship with existing customers in the PRC and build on and replicate our successful waste paper management network in Hong Kong to increase our sources of high quality waste paper. We will also consider acquiring existing waste paper recycling businesses to gain greater access to the PRC market.

We plan to establish new waste paper collection and packing stations at strategic locations in Hong Kong Island, Kowloon and the New Territories to increase our geographical coverage, market penetration and waste paper collection capacity. Ideally these strategic locations would be close to our waste paper suppliers and provide logistical advantages to our operations. We plan to acquire a piece of land in Hong Kong where we will set up an integrated waste paper collection and confidential materials destruction facility as part of our strategy to expand our waste paper collection and confidential materials destruction facilities as well as establish a sales and distribution center for our sales of paper products in Hong Kong. We believe that a permanent base in Hong Kong will help strengthen our presence and dominance in Hong Kong.

To strengthen our leading position in the provision of confidential materials destruction services in Hong Kong, we plan to implement appropriate marketing strategies such as advertising and campaigns to enhance market awareness of the need for secure disposal of confidential materials. We will also continue to acquire shredding machines and to improve our facilities for our confidential materials destruction services business, and will also actively explore opportunities to diversify into providing confidential materials storage services in Hong Kong.

### **Increase our production capacity and enhance cost competitiveness.**

We aim to increase our overall tissue paper products production capacity through enhancing our manufacturing process and purchasing new production facilities. We seek to maintain and strengthen our cost competitiveness by continuing to pursue a cost reduction strategy, maintaining a lean management team, and exercising strict cost control over our operations and capital expenditure.

We plan to acquire new packing machines in Hong Kong and the PRC. It is expected that our waste paper collection capacity will be increased from approximately 880,000 tonnes to approximately 1,380,000 tonnes by the end of 2013. We also plan to acquire additional technologically advanced machines to improve the quality and energy-efficiency of the production of our tissue paper products. We expect such machines can commence operation in 2012 and will increase the annual production capacity of our existing Huizhou base from 91,410 tonnes to approximately 124,410 tonnes;

In order to improve the efficiency and productivity of our workforce, we will continue to implement continuing education and training programs for both our management staff and production teams. We

will also continue to seek and retain talented personnel by offering incentives to and maintaining good working relationships with our valued employees.

### **Invest in research and development initiatives to improve production efficiency and enhance the quality of our products.**

We are committed to product innovation and delivering high quality products. We will continue to invest in research and development to develop new products that meet our customers' demands and market standards in Hong Kong, the PRC as well as overseas.

We will continue to undertake product development initiatives to improve the quality of our products, in particular the smoothness and softness of our recycled tissue paper products, so that they can be comparable to tissue paper products made from virgin pulp. We believe this will enhance the appeal of our recycled tissue paper products in both the PRC and the overseas markets, and in turn increase the demand for, and market coverage of, our recycled tissue paper products.

To improve our efficiency in the production, use of water, other consumables and raw materials, particularly for the production of tissue paper products, we will continue to carry out related research and development initiatives that include quality control measures, advancement of our tissue paper machines and other technical improvements.

## **PRODUCTS AND SERVICES**

We are vertically integrated and operate across the breadth of the waste paper value chain. We offer confidential materials destruction services and operate a waste paper management network in Hong Kong and through our strategic partners in the PRC, which provide us with raw materials for our production of recycled paper products. We also process and sell recovered paper not used in our production process. Our major products and services are recovered paper, tissue paper products, recycled greyboard and confidential materials destruction services.

### **Recovered Paper**

We process and sell recovered paper of various grades to paper mills and other manufacturers that use recovered paper as raw materials in their production of recycled paper products such as linerboard, high performance corrugating medium, coated duplex board and newsprint. We have a 30,283m<sup>2</sup> warehouse at our Huizhou production base that serves as a trading floor for recovered paper for our customers throughout China. Recovered non-paper materials, such as metals, textiles and plastics, that are found in the waste paper that we have collected are also sold to third parties. We also further process recovered paper into other recycled paper products such as newsprint, restaurant order sheets and paper bedding for horses.

For the years ended March 31, 2007, 2008 and 2009, revenue generated from the sale of recovered paper was HK\$504.8 million, HK\$681.8 million and HK\$597.8 million, respectively, our recovered paper sales volume was 297,483 tonnes, 379,639 tonnes and 313,645 tonnes, respectively, while the average selling price was HK\$1,697 per tonne, HK\$1,796 per tonne and HK\$1,906 per tonne over the same periods, respectively. For the six months ended September 30, 2008 and 2009, revenue generated from the sale of recovered paper was HK\$384.2 million and HK\$292.4 million, respectively, our recovered



paper sales volume was 175,710 tonnes and 191,255 tonnes, respectively, and the average selling price was HK\$2,187 per tonne and HK\$1,529 per tonne, respectively. This decrease in average sales price of recovered paper was due to the economic downturn during the period. Please see the section headed “Risk Factors — Risks Relating to Our Business — Any prolonged economic downturn could materially and adversely affect our business, financial condition and results of operations.” in this prospectus.

### **Tissue Paper Products**

We manufacture and sell recycled and virgin pulp-based tissue paper products. For the years ended March 31, 2007, 2008 and 2009, HK\$332.1 million, HK\$389.1 million and HK\$457.7 million, respectively, our tissue paper sales volume was 49,603 tonnes, 49,661 tonnes and 60,185 tonnes, respectively, while the average selling price was HK\$6,696 per tonne, HK\$7,837 per tonne and HK\$7,604 per tonne, respectively. For the six months ended September 30, 2008 and 2009, revenue generated from the sale of tissue paper products was HK\$229 million and HK\$247 million, respectively, our tissue paper sales volume was 30,697 tonnes and 34,201 tonnes, respectively, and the average selling price was HK\$7,473 per tonne and HK\$7,234 per tonne, respectively.

- **Recycled tissue paper products.** We manufacture and sell recycled bathroom tissue, jumbo rolls and paper towels made from 100% recovered paper that we procure and process. We sell these products to the away-from-home market, including office buildings, shopping malls and public facilities as well as to the retail market in the PRC and Hong Kong. We also export our recycled tissue paper products to overseas away-from-home and retail markets such as the United States, Australia and the Philippines, under our brands and OEM brands of our customers. We tailor the package designs and sizes of the packaging and specifications of our products to cater to different customer needs and preferences. We also sell parent rolls to value-added resellers who convert them into finished products for resale.
- **Tissue paper products made from virgin pulp.** We manufacture and sell tissue paper products made from virgin pulp, such as bathroom tissue, jumbo roll, paper towel, kitchen towel, napkin and facial/pocket tissue.

### **Recycled Greyboard**

We manufacture and sell recycled greyboard made from recovered paper of lower quality that cannot be used in the production of our recycled tissue paper products. All our recycled greyboards are made from 100% recovered paper that we procure and process. Recycled greyboards are used for producing rigid boxes, gameboards, hardcover books and ring binders. We sell recycled greyboards to paper merchants, manufacturers and printers. We also use recycled greyboards as raw materials to make the core of our bathroom tissue, jumbo rolls and paper towels.

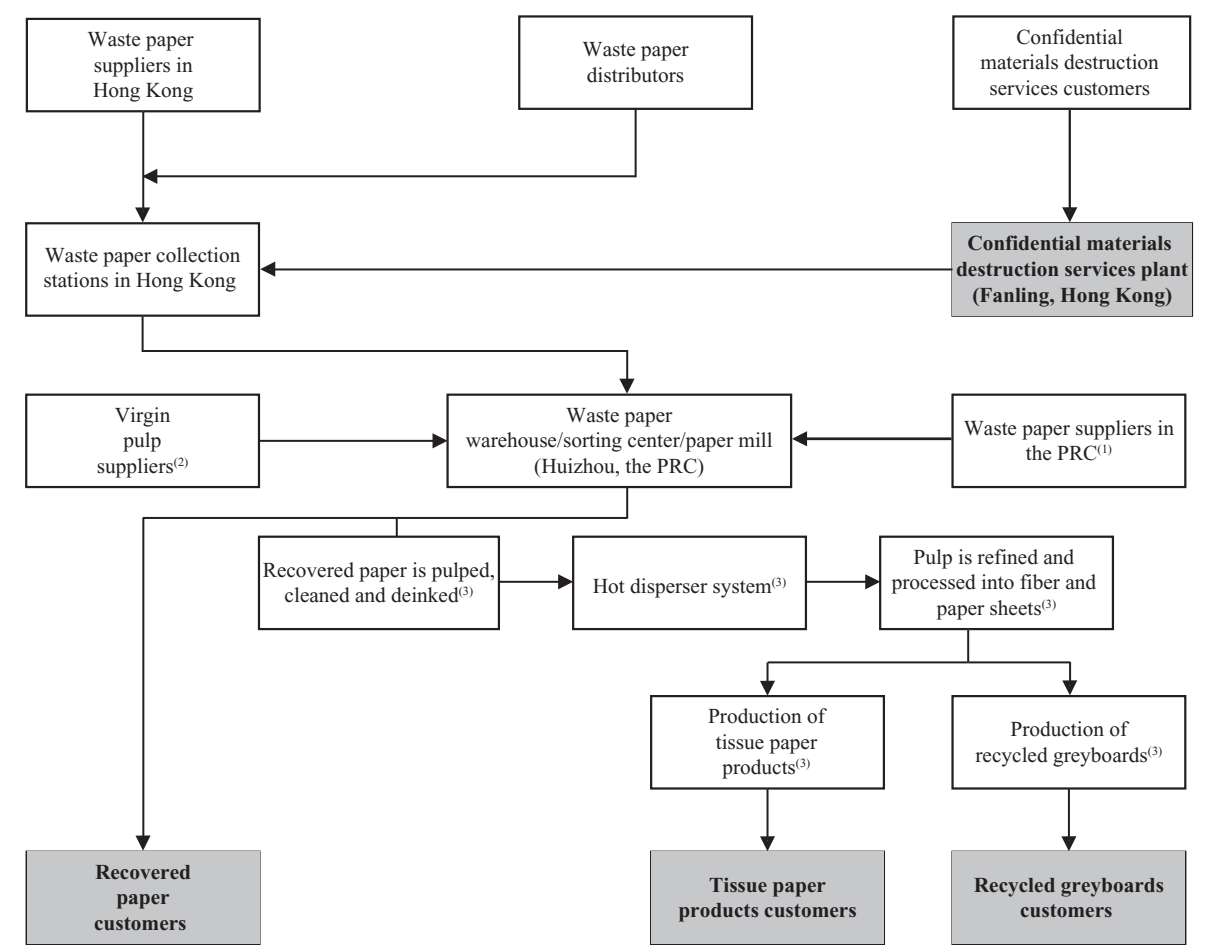
### **Confidential Materials Destruction Services**

We collect and destroy confidential materials from banks, governmental bodies, financial and other professional institutions and printers in Hong Kong. In Guangdong province, Beijing, Tianjin and Shanghai, our strategic partners currently provide collection and destruction services to our customers' operations in the PRC in accordance with our confidential materials destruction services standard. We have the capability to shred and destroy paper, plastic and metal. Confidential materials that we destroy include confidential documents; branded products; counterfeit and other confiscated products; and

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storage media such as computer hard disks, credit cards, mobile phone subscriber identity module (SIM) cards, disc and films. We provide collection equipment such as collection bags, seals, baskets and cages to our customers, and we collect on an agreed schedule. We also provide ad hoc collection services and accept ad hoc delivery of confidential waste for destruction. Shredded paper is used as raw materials in our production of recycled paper products as well as sold to our customers as recovered paper. We also sell other destroyed materials, for example, plastic and metal, to third parties. Our plant in Fanling, Hong Kong, is the only plant that is AAA certified by NAID for Plant-based Operation in the PRC and Hong Kong.

The following flowchart provides, in simplified form, an overview of our operations:



Notes:

- (1) Waste paper suppliers in the PRC include our strategic partners who provide collection and destruction services to our customers in Guangdong province, Beijing, Tianjin and Shanghai.
- (2) Virgin pulp is only used for the production of virgin-based tissue paper products.
- (3) For details of the production process of our recycled tissue paper products and recycled greyboard, please refer to the section headed “— Production Process” below.

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The following table sets forth the revenue generated by each of our major products and services, both in absolute terms and as a percentage of our total revenue for the periods indicated:

Product/ Service Type	For the year ended March 31,						For the six months ended September 30,			
	2007		2008		2009		2008		2009	
							(unaudited)			
	% of Total		% of Total		% of Total		% of Total		% of Total	
	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue
	(HK\$'000)		(HK\$'000)		(HK\$'000)		(HK\$'000)		(HK\$'000)	
Recovered paper.....	504,771	52.7%	681,764	57.8%	597,809	54.4%	384,197	59.7%	292,452	52.7%
Tissue paper products.....	332,157	34.7%	389,184	33.0%	457,662	41.7%	229,394	35.7%	247,418	44.6%
Recycled tissue paper products ....	189,882	19.8%	205,618	17.4%	362,417	33.0%	179,805	28.0%	201,804	36.4%
Virgin tissue paper products ....	142,275	14.9%	183,566	15.6%	95,245	8.7%	49,589	7.7%	45,614	8.2%
Recycled greyboard .....	117,051	12.2%	104,579	8.9%	39,150	3.5%	27,833	4.3%	13,107	2.4%
Confidential materials destruction services.....	3,578	0.4%	3,418	0.3%	3,928	0.4%	1,908	0.3%	1,884	0.3%
Total.....	957,557	100%	1,178,945	100%	1,098,549	100%	643,332	100%	554,861	100%

### PRODUCT SPECIFICATIONS

#### Recovered Paper

We sort and sell waste paper that we have collected and processed into different grades of recovered paper according to quality and specifications. As a reference only, the table below sets out the types of recovered paper that we sell, ranging from the lowest value old corrugated cardboard to the highest value hard and soft white shavings:

Type/Description	Specifications <sup>(1)</sup>	Major Application/Use	Equivalent Grades in America <sup>(1)</sup>
Old corrugated cardboard	Consists of (i) baled corrugated containers having liners of either test liner, jute or kraft and (ii) baled new corrugated cuttings having liners of either test liner, jute or kraft and free of insoluble adhesives, butt rolls, slabbed or hogged medium, and treated medium or liners	Carton box	Corrugated containers and new double-lined kraft corrugated cuttings

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Type/Description	Specifications <sup>(1)</sup>	Major Application/Use	Equivalent Grades in America <sup>(1)</sup>
Box board cuttings	Consists of (i) baled corrugated containers having liners of either test liner, jute or kraft and (ii) baled new corrugated cuttings having liners of either test liner, jute or kraft and free of insoluble adhesives, butt rolls, slabbed or hogged medium, and treated medium or liners	Shirt board or carton box	Corrugated containers and new double-lined kraft corrugated cuttings
Mixed waste paper	Consists of (i) a mixture of various qualities of paper not limited as to type of packing or fiber content and (ii) a baled clean, sorted mixture of various qualities of papers containing less than 10% of groundwood stock, coated or uncoated	Greyboard and carton box	Mixed paper and super mixed paper
Coated paper	Consists of new printed, coated groundwood paper in sheets, sections, shavings or guillotined books	Recycled tissue or woodfree paper	Coated groundwood sections
Wrapping paper	Baled paper used as outside wrap for rolls, bundles or skids of finished paper	Carton box	Mill wrappers
Old newsprint	Consists of (i) baled sorted, fresh newspapers, not sunburned, free from magazines, white blank, pressroom over-issues, and paper other than news, containing not more than the normal percentage of rotogravure and colored sections, and must be tare-free and (ii) unused, overrun newspapers printed on newsprint, baled or securely tied in bundles, containing not more than the normal percentage of rotogravure and colored sections	Newsprint	Special news de-ink quality and over-issue news
Black and white paper	Consists of baled paper, as typically generated by offices, containing primarily groundwood free paper, free of unbleached fiber and may include a small percentage of groundwood computer printout and facsimile paper	Laminated white board	Sorted office paper

**Note:**  
(1) Specifications and equivalent grades are based on the American Waste Paper Grading System by the Institute of SCRAP Recycling Industries, Inc.

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Tissue Paper Products

Our tissue paper products are produced either from 100% recovered paper or virgin pulp. The table below sets out the specifications of each of our primary tissue paper products:

	Bathroom tissue	Jumbo roll	Paper Towel <sup>(1)</sup>	Kitchen Towel	Napkin <sup>(2)</sup>	Facial/Pocket Tissue
Grammage (g/m <sup>2</sup> ) .....	13.5 – 22	15 – 22	36 – 45	15 –22	14 – 22	13.5 – 15
Width/size per piece (mm) .....	90 – 110	90 – 110	ranging from 230 x 230 to 230 x 260	197	ranging from 230 x 230 to 400 x 400	195 – 215
Weight (g) .....	90 – 180	650-2000	—	—	—	—
Number of layers .....	1 – 3	1 – 2	1	2	1-3	2 – 4
Number of sheets / length per unit .....	500 up	600 ft.	150 – 334 up	80 up	100 up	50 up / box 8 up / pocket
Type of raw materials ...	Recovered paper or virgin pulp	Recovered paper or virgin pulp	Recovered paper or virgin pulp	Virgin pulp	Virgin pulp	Virgin pulp
Scent .....	No	No	No	No	No	No
Embossing .....	Yes or no	Yes or no	Yes or no	Yes	Yes	Yes or no

Notes:

- (1) Our paper towels include singlefold towels, multifold towels, C-fold towels, roll towels and center pull roll towels.
- (2) Our napkins include beverage napkins, dinner napkins, tall fold dispenser napkins and picnic napkins.

Recycled Greyboard

Our recycled greyboard is produced from 100% recovered paper. The table below sets out the specifications of our primary products marketed under the two brands. For details of the brands, please see the section headed “— Branding and Marketing — Branding” below.

	Eagle King (飛鷹王)	Hui Lan (惠蘭)
Grammage (g/m <sup>2</sup> ) .....	700 – 2000	700 – 2000
Size per piece (mm) .....	787 x 1092 or 889 x 1194	787 x 1092 or 889 x 1194
Width (mm) .....	1.085 – 3.10	1.085 – 3.10
Density (g/cm <sup>3</sup> ) .....	not less than 0.7	0.62 – 0.64
Tensile strength (KN/m) .....	not less than 20	not less than 14
Smoothness (MmHg/sec) .....	2.0 – 3.5	1.0 – 2.0

### CUSTOMERS

For the years ended March 31, 2007, 2008 and 2009 and the six months ended September 30, 2009, our five largest customers in aggregate accounted for approximately 25.4%, 29.9%, 34.7% and 27.9% of our total revenue, respectively. Sales to the single largest customer for the same periods accounted for approximately 8.9%, 8.0%, 11.7% and 10.5% of our total revenue, respectively. For our customers who had been trading with us during the six months ended September 30, 2009, as of September 30, 2009, our Group has an average relationship with them of 32 months. None of our Directors, their respective associates or Shareholders holding more than 5% of our issued share capital holds any interest in any of our five largest customers during those periods.

### Recovered Paper

We sell recovered paper not used in our own production process directly and primarily to paper manufacturers that use our recovered paper, alone or mixed with virgin pulp, to manufacture various types of recycled papers such as linerboard, high performance corrugating medium, coated duplex board and newsprint. Our top customers for recovered paper include Guangzhou Paper and Zhongshan Hung Hing. All of our recovered paper sales were made to our direct customers during the Track Record Period.

For the year ended March 31, 2007, 2008 and 2009 and the six months ended September 30, 2008 and 2009, sales of recovered paper sold to the PRC accounted for approximately 86.5%, 86.3%, 86.5%, 87.6% and 94.6% of our total recovered paper sales, respectively. The remaining was sold to Hong Kong and overseas (including the Philippines, Thailand and Vietnam). We generally enter into one-off or short-term contracts with our customers, other than Guangzhou Paper and Zhongshan Hung Hing who are our only customers whom we have entered into long-term recovered paper supply contracts of over twelve months duration. We sold our recovered paper to 766, 430, 378 and 217 customers for the years ended March 31, 2007, 2008, 2009 and the six months ended September 30, 2009, respectively. As of September 30, 2009, approximately 140 of our customers had repeated trading with us within the preceding 18 months, 68 of whom had trading with us at least once in each of the three years ended March 31, 2007, 2008 and 2009 and the six months ended September 30, 2009.

### Tissue Paper Products

Our recycled tissue paper products and tissue paper products made from virgin pulp are sold to three main categories of customers, namely, direct customers, distributors and value-added resellers. Sales of goods are recognized upon delivery of our products to our customers when risks and ownership are passed to the customers (whether they are direct customers, distributors or value-added resellers). Please refer to Note 2.17 regarding revenue recognition to the Accountant's Report set out in Appendix I to this prospectus.

Our direct customers include away-from-home customers and supermarket customers and a majority of them are OEM customers. For the OEM customers, we produce tissue paper products according to their specifications and brand name requirements and at the OEM customer's request, dispatch our products at our production base or at the port of export or distribute these products to their designated destinations in the United States, Australia, Hong Kong and other overseas countries. All of our distributors are Independent Third Parties. Value-added resellers purchase parent rolls from us and convert them into finished products for resale to their customers under their own brands.



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## OUR BUSINESS

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For the years ended March 31, 2007, 2008 and 2009 and the six months ended September 30, 2008 and 2009, sales to our direct customers accounted for approximately 85.4%, 89.7%, 88.9%, 88.1% and 91.8% of our total tissue paper products revenue, respectively. For the same periods, sales to our distributors accounted for approximately 1.4%, 1.8%, 3.2%, 3.6% and 0.9% of our total tissue paper products revenue, respectively, and sales to our value-added resellers accounted for approximately 13.2%, 8.5%, 7.9%, 8.3% and 7.3% of our total tissue paper products revenue, respectively.

For the years ended March 31, 2007, 2008 and 2009 and the six months ended September 30, 2008 and 2009, sales of tissue paper products to the PRC accounted for approximately 70.2%, 69.6%, 68.4%, 74.1% and 73.6% of our total tissue paper products sales, respectively. The remaining tissue paper products were sold in Hong Kong and overseas (including the United States, Australia, the Philippines and South Africa). We generally enter into contracts of six months to one year with our tissue paper products customers. For details, please refer to the section headed “— Contracts — Tissue Paper Products” below. We sold our tissue paper products to 205, 197, 188 and 266 customers, respectively, for the years ended March 31, 2007, 2008 and 2009 and the six months ended September 30, 2009. As of September 30, 2009, 63 customers had repeated trading with us within the preceding 18 months, 41 of whom had traded with us at least once during each of the three years ended March 31, 2007, 2008 and 2009 and the six months ended September 30, 2009.

### **Recycled Greyboard**

Our recycled greyboard is sold direct to paper merchants, manufacturers and printers in the PRC under the brands of “Eagle King 飛鷹王” and “Hui Lan 惠蘭.”

### **Confidential Materials Destruction Services**

Clients of our confidential materials destruction services include banks, governmental bodies, financial and other professional institutions and printers in Hong Kong. Our top customers include The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank Limited.

## OUR BUSINESS

### SALES AND DISTRIBUTION

We operate our sales network for recycled tissue paper products and recovered paper from both our Huizhou production base and our Hong Kong office. The majority of our customers are in Guangdong province, the PRC, the United States, Hong Kong, Australia and the Philippines, with the remaining customers spread across other countries. As of September 30, 2009, we had 26 sales staff, including 18 in the PRC and eight in Hong Kong.

The following table sets out information regarding the percentage of the Group's total sales to each geographical segment during the Track Record Period:

	For the years ended March 31,						For the six months ended September 30,			
	2007		2008		2009		2008		2009	
							(unaudited)			
	% of Total		% of Total		% of Total		% of Total		% of Total	
	HK\$'000	Revenue	HK\$'000	Revenue	HK\$'000	Revenue	HK\$'000	Revenue	HK\$'000	Revenue
Australia .....	25,263	2.6%	22,781	1.9%	24,778	2.3%	10,872	1.7%	10,049	1.8%
Hong Kong .....	47,190	4.9%	54,412	4.6%	60,141	5.5%	30,639	4.8%	26,683	4.8%
Philippines .....	30,869	3.2%	62,952	5.3%	57,757	5.3%	40,032	6.2%	10,974	2.0%
PRC .....	786,811	82.2%	963,904	81.8%	869,346	79.1%	528,413	82.1%	471,776	85.0%
USA .....	50,946	5.3%	52,840	4.5%	68,470	6.2%	19,364	3.0%	30,205	5.4%
Other <sup>(1)</sup> .....	16,478	1.8%	22,056	1.9%	18,057	1.6%	14,012	2.2%	5,174	1.0%
Total Revenue.....	<u>957,557</u>	<u>100.0%</u>	<u>1,178,945</u>	<u>100.0%</u>	<u>1,098,549</u>	<u>100.0%</u>	<u>643,332</u>	<u>100.0%</u>	<u>554,861</u>	<u>100.0%</u>

Note:

(1) Includes mainly New Zealand, South Africa and Vietnam.

We sell our products to customers through various channels, including trade fairs, international catalogues, agents, referrals and tender offers.

We have an incentive bonus program to reward our sales staff in our confidential materials destruction service with commissions that is commensurate with their sales performance. We conduct reviews of sales performance on a monthly basis according to revenue collection, sales volume achieved and quality of services provided.

### CONTRACTS

#### Recovered Paper

We sell most of our recovered paper on one-off or short-term contracts. We do not enter into written contracts with some of our one-off local customers in order to keep the arrangements with them simple and flexible. In order to secure a stable demand for our recovered paper, we have entered into long-term recovered paper supply contracts of over twelve months duration with only two customers, being Guangzhou Paper and Zhongshan Hung Hing. We have entered into a 17 month agreement with Guangzhou Paper pursuant to which it has agreed to purchase approximately 218,000 tonnes of

newsprint and groundwood free paper from us during the period from November 2009 to March 2011. The agreement is automatically renewable for another year effective until March 2012 (during which period we will sell, and Guangzhou Paper will purchase, an additional 120,000 tonnes of newsprint) if not terminated by either party. The purchase price for newsprint is based on the Hong Kong monthly benchmark price for newsprint with an incentive fee of HK\$30 per tonne, which may be forfeited in the event of our inability to fulfill the monthly sales tonnage or our failure to give priority to Guangzhou Paper over other customers. The purchase price for groundwood free paper is based on the Hong Kong monthly benchmark price with a process fee and inclusive of the applicable value added tax. The Directors confirm that these price determination bases are on normal commercial terms. Guangzhou Paper has undertaken not to purchase from other newsprint suppliers in Hong Kong at a price that is higher or equivalent to the purchase price prescribed in the agreement. If either party to the agreement purchases or supplies less than the monthly quantity prescribed in the agreement due to events or circumstances beyond the control of the parties (for example, adjustment of production plan), it is required to give the other party two months' written notice in advance and the parties will negotiate an alternative arrangement, failing which the agreement would be enforced as prescribed.

We have also entered into a 24-month agreement with Zhongshan Hung Hing under which 168,000 tonnes of box board will be supplied to it during the period from December 2009 to December 2011. The purchase price under this agreement is based on the Hong Kong monthly benchmark price for box board plus a premium. The Directors confirm that this price determination basis is on normal commercial terms. Zhongshan Hung Hing undertakes not to purchase from other box board suppliers in Hong Kong at a price that is higher or equivalent to the purchase price prescribed in the agreement and we undertake not to supply to other customers without fulfilling the monthly sales quantity prescribed in the agreement. If any party is unable to purchase or supply 90% of the monthly quantity as prescribed in the agreement, the defaulting party is required to pay compensation to the other party at a rate of RMB20 per tonne of the shortfall. One party may give the other party two months' written notice in advance to cease purchase or supply. The average annual sales volume under these two contracts amounts to 193,000 tonnes, which represents approximately 61.5% of our total volume of recovered paper sold in the year ended March 31, 2009.

We also enter into supply agreements with customers for shorter terms under which we commit to provide a fixed tonnage of recovered paper to such customers over the terms of the contracts, based on a monthly tonnage purchase/supply amount to be agreed between the relevant parties. On December 31, 2009, we entered into four such agreements with customers under which we are required to provide an aggregate of approximately 101,500 tonnes of recovered paper by March 31, 2010. If any party is unable to purchase or supply 90% of the monthly tonnage as agreed, the defaulting party is required to pay compensation to the other party at a rate of RMB100 per tonne of the shortfall.

We will give priority to supplying recovered paper to Guangzhou Paper, Zhongshan Hung Hing and such shorter-term supply customers over other recovered paper customers. To cope with the volume to be supplied under these agreements, we plan to increase the import of mixed waste paper from waste paper distributors, to increase our sorting manpower in our Huizhou production base and to increase the waste paper sourcing from our existing and new waste paper suppliers in Hong Kong and the PRC. We also plan to purchase more shredding machines and acquire waste paper recycling businesses in the PRC in order to increase our waste paper processing capacity. We believe that we have sufficient capacity to fulfill the quantity required under these agreements.

### Tissue Paper Products

For direct customers, we generally enter into annual contracts specifying the total quantity of products to be bought and sold during the year and the price for such products. We may also enter into framework contracts with our commercial customers where no price or quantity is specified and, in the case of certain major customers, there may be clauses providing that the pricing for the products will not be higher than that charged by us for the same quantities sold to other purchasers of the same products.

For distributors, we enter into standard distribution agreements with them for a period normally ranging from six months to one year. As of March 31, 2007, 2008 and 2009 and September 30, 2009, we had two, thirteen, nine and nine distributors, respectively. Our distribution agreements contain, among others, the following provisions:

- Geographic restriction — Distributors are only permitted to sell our products within a defined geographical area but do not have any exclusive distribution right for such area.
- Minimum sale / display location — The distribution agreements specify the minimum number of shopping malls in which our products must be displayed, promoted or sold during the contractual period.
- Minimum purchase target — The distribution agreements specify the minimum sales revenue that our distributors are expected to generate each month and for the contractual period.
- Pricing — Prices for the products are determined by us and we may make adjustment to the prices by giving 30 days' advance notice to our distributors.
- Payment, credit terms and delivery — Some of the distribution agreements provide that our products will only be delivered to the distributor when payment is received by us via bank remittance or the distributor must pay by cash, cheque or bank remittance upon receipt of our products. Depending on their credit history and years of relationship with us, we may grant a credit period of 30 days to some distributors. For selected distributors who we believe can help promote our brands and expand our market share, we have the discretion under the distribution agreements to offer them consignment stock of a certain value with a credit term of six months. Our distributors bear the costs of delivery.
- Sales incentive — Distributors are awarded a bonus as a percentage of their total sales for the months in which they meet the monthly sales target in the distribution agreements.
- Undertakings — Distributors undertake to comply with our pricing policies, adhere to our marketing policies and store display standards and refrain from selling any products which bear trademarks similar to ours.
- Right of termination — If the distributor fails to comply with the distribution agreement and such breach continues for three consecutive months, we have the right to terminate the agreement.
- Renewal — We are not obliged to renew our distribution agreement. We generally review our past trading history with each of our distributors when considering renewal of the distribution agreement with the related distributors.

For value-added resellers, we generally enter into annual contracts with them specifying the price for the products. The sales volume is then determined by the customers' orders.

### Confidential Materials Destruction Services

We generally enter into annual or longer contracts with our confidential materials destruction services clients. These contracts may provide for a fixed monthly fee for the destruction of an unlimited volume of certain confidential materials or a fixed per unit fee. We also enter into one-off contracts for confidential materials destruction services with our clients.

### Pricing

We price our recovered paper by reference to the import market prices for recovered paper from the United States and the local supply of and demand for recovered paper. We set our prices for recycled tissue paper products and recycled greyboard based on a number of factors, including manufacturing costs, operating expenses and domestic and international demand and supply for each product. For details of the factors affecting the pricing of our recovered paper and tissue paper products, please see the section headed “Financial Information — Factors Affecting Results of Operations — Product Sales Price and Volume” in this prospectus.

Our confidential materials destruction services are priced primarily by reference to the volume and types of materials to be destroyed and our operating expenses. We generally review our prices on an annual basis.

### Credit Policy

Our sales and credit terms depend on the volume of purchases, stability of purchases, creditworthiness and trading history with the relevant customer. We may grant to our distributors and customers credit periods of 10 days to 90 days, excluding cash sale customers and selected distributors to whom we offer consignment stock for a credit period of six months, depending on the circumstances, such as their credit history, payment pattern and ongoing relationship with us. For the years ended March 31, 2007, 2008 and 2009 and the six months ended September 30, 2009, our cash sales accounted for 6.3%, 5.8%, 4.3% and 4.3% of our total revenue, respectively.

For the years ended March 31, 2007, 2008 and 2009 and the six months ended September 30, 2009, we made provisions for impairment of trade and other receivables of HK\$2,232,000, HK\$2,090,000, HK\$5,278,000 and HK\$1,811,000, respectively. Direct write-offs of trade and other receivables were HK\$78,000, HK\$323,000 and HK\$4,434,000 for the years ended March 31, 2007, 2008 and 2009, respectively. For the six months ended September 30, 2009, we did not record any direct write-offs of trade and other receivables. We do not have a general provision policy. The policy of making provisions for impairment of trade and other receivables has been consistently applied during the Track Record Period. Our management determines an estimate for the provision for impairment of trade and other receivables. This estimate is based on the credit history of our customers and the current market condition. Our management assesses the adequacy of the provision at each balance sheet date.

Our cash sale customers include small-scale paper manufacturers, printers, recovered paper traders, hotels, supermarkets and restaurants. All of our products are available to our cash sale customers. For details of our products, please refer to the section headed “— Products and Services” above.

BRANDING AND MARKETING

Branding

Our recycled tissue paper products and tissue paper products made from virgin pulp are currently marketed under the brands “Moonily 皇月,” “Smoovie 綠柔,” “See-mia 思蜜兒,” “Dear Green 綠仙子,” “Fook Woo 福和” and “FWP.” In order to promote recognition of our brands, we plan to focus on the three major brands “Smoovie 綠柔,” “See-mia 思蜜兒” and “Moonily 皇月,” targeting different products and consumer demographics, and stop using the other brands.

Brands	Features
<div>Moonily 皇月</div> <div></div>	<ul style="list-style-type: none"><li>● The logo  has received the Guangdong Famous Brand Product award (廣東省著名商標) in 2008</li><li>● Recycled tissue paper products</li><li>● Current product range: bathroom tissue</li><li>● Targeting mid-range consumer market</li></ul>
<div>Smoovie</div> <div></div>	<ul style="list-style-type: none"><li>● Recycled tissue paper products</li><li>● Current product range: bathroom tissue, paper towel, jumbo roll</li><li>● Targeting high-end away-from-home market</li></ul>
<div>See-mia 思蜜兒</div> <div></div>	<ul style="list-style-type: none"><li>● Virgin pulp tissue paper products</li><li>● Current product range: bathroom tissue, pocket tissue and facial tissue</li><li>● Targeting low-end virgin pulp-based products market</li></ul>

Our recycled greyboard is currently marketed under the brands “Eagle King 飛鷹王” and “Hui Lan 惠蘭.”

Brands	Features
<div>Eagle King 飛鷹王</div>	<ul style="list-style-type: none"><li>● Greater density, thickness, strength and is smoother when compared to “Hui Lan 惠蘭”</li><li>● Targeting high-end consumer market</li></ul>
<div>Hui Lan 惠蘭</div>	<ul style="list-style-type: none"><li>● Targeting ordinary consumer and commercial markets</li></ul>

Marketing

We consider marketing and promotion are important components of the success of our tissue paper products. We plan to adopt a multi-faceted marketing strategy to market and promote our brands and tissue paper products. We have implemented our marketing strategy through various channels, including sponsoring beauty pageants and plays, selecting suitable celebrities as our brand ambassadors, advertising and organizing in-store marketing activities and roadshows.



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## OUR BUSINESS

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In 2009, we sponsored the Miss Asia Pageant 2009, Guangdong Province Division (2009亞洲小姐競選中國廣東賽區) which was a prestigious and widely publicized and reported event in the Guangdong province. Among other things, as part of this sponsorship arrangement:

- our recycled tissue paper products were named the exclusive recycled tissue paper products for the event;
- two banners bearing exclusively our name and logo and posters and programs on which our name and logo were shown were posted and distributed at the event venue from where the event was broadcast on the television network in the Guangdong province;
- we are entitled to use the Miss Asia Pageant logo on our tissue paper products for promotional and marketing purposes for a period of one year starting from July 2009; and
- the winner of the Miss Asia Pageant 2008, Guangdong Province Division, visited our Huizhou production base on July 8, 2009, during which she introduced the history and development and the highlights of our Company.

In November 2009, we also selected Ms. Zhang Ping (張萍), team member of the gold medal-winning 2004 China Olympic Volleyball team, as the worldwide image and brand ambassador for our Group, including our products and services. We may use Ms. Zhang Ping's image on our products until December 31, 2011. Ms. Zhang Ping will attend press conferences for our brands and products and roadshows as our ambassador. Our marketing strategy for selecting Ms. Zhang Ping is to convey our brand image of continuously striving for success and associate our brand image with Ms. Zhang Ping's successful athletic career. Raising environmental awareness and the importance of environmental protection will also be an important theme of Ms. Zhang Ping's ambassadorship with a view to associating our brand image with environmental friendliness.

## OUR BUSINESS

### RAW MATERIALS

Waste paper and virgin pulp are the principal raw materials used in the production of our tissue paper products. The percentage of purchases attributable to our five largest suppliers combined is less than 30% of total costs of sales for each financial year during the Track Record Period. For the six months ended September 30, 2009, the average credit period allowed by our suppliers (including those to whom we pay cash) is 26 days. We also process and sell recovered paper. The following table provides an overview of the costs of our raw materials for the periods indicated:

Raw Materials	For the year ended March 31,					
	2007		2008		2009	
	Costs (HK\$'000)	% of Total Cost of Sales	Costs (HK\$'000)	% of Total Cost of Sales	Costs (HK\$'000)	% of Total Cost of Sales
Waste paper .....	384,197	61.3	490,046	62.4	439,794	61.5
Virgin pulp .....	53,067	8.5	63,582	8.1	37,651	5.3
Packaging materials .....	22,982	3.6	27,210	3.5	26,855	3.7
Others <sup>(1)</sup> .....	18,373	2.9	23,401	3.0	20,650	2.9
<b>Total</b> .....	<b>478,619</b>	<b>76.3</b>	<b>604,239</b>	<b>77.0</b>	<b>524,950</b>	<b>73.4</b>

	For the six months ended September 30,			
Raw Materials	2008		2009	
	(unaudited)			
	Costs	% of Total	Costs	% of Total
	(HK\$'000)	Cost of Sales	(HK\$'000)	Cost of Sales
Waste paper.....	281,854	65.0	230,998	65.3
Virgin pulp .....	24,996	5.8	18,917	5.3
Packaging materials .....	15,041	3.5	12,070	3.4
Others <sup>(1)</sup> .....	15,599	3.6	7,261	2.2
Total .....	337,490	77.9	269,246	76.2

Note:

(1) Includes chemical, consumables and other raw materials

Under an import processing arrangement, the importation of raw materials used in tissue paper products manufactured for export sales are exempted from PRC customs duties and import value-added taxes, provided that the imported raw materials and/or exported products do not fall within the processing trade prohibited list. The raw materials we import are waste paper, which are not included in the prohibited list of the Year 2009 Catalogue of Prohibited Products for Processing Trade (《2009年加工貿易禁止類商品目錄》) jointly issued by MOFCOM and General Administration of Customs, and are therefore exempted from PRC customs duties and import value-added taxes.

### Waste Paper

We source large volumes of consistently high quality waste paper from our own waste paper management and confidential materials destruction services network in Hong Kong and the Guangdong

province in the PRC. Waste paper collected is sorted and processed into recovered paper for our production of recycled paper products or for resale as recovered paper. Local waste paper suppliers deliver waste paper to our waste collection stations and we purchase the waste paper at spot prices, which are determined by reference to the quality of the waste paper and the local supply of and demand for recovered paper at the time. We do not enter into written contracts with these local waste paper suppliers in order to keep the arrangements simple and flexible. We also purchase waste paper from printers and publishers in Hong Kong and the PRC. Waste paper purchased from these sources are usually of higher quality as they are pre-consumer paper. We also purchase waste paper from waste paper distributors. Our contracts and pricing policy with our customers generally allow us to pass on any increased purchase cost of waste paper to our customers. For one-off or short term contracts, price is determined with reference to the market prices which generally reflect any increase in purchase costs. Save for some direct customers with whom we entered into contracts at a fixed price, our other contracts generally allow us to adjust the selling prices according to market prices. For the years ended March 31, 2007, 2008 and 2009 and the six months ended September 30, 2009, our purchase cost of waste paper was HK\$416.0 million, HK\$466.3 million, HK\$444.8 million and HK\$237.8 million, respectively, while the volume of waste paper purchased was 416,915 tonnes, 388,586 tonnes, 371,632 tonnes and 228,235 tonnes, respectively, over the same periods. For the same respective periods, approximately 29.9%, 21.5%, 36.8% and 42.6% of the waste paper purchased was purchased from the PRC with the rest purchased from Hong Kong, respectively. The average waste paper purchase costs per tonne were HK\$998, HK\$1,200, HK\$1,197 and HK\$1,042, respectively. Our purchase costs of waste paper during the Track Record Period were higher than our costs of raw materials during the same periods as the purchase costs reflect the overall increasing market price of waste paper during the Track Record Period and were recorded as they were incurred, while the costs of raw materials are recorded on an accounting basis, which generally reflect the more historical costs of our stock of waste paper. For the same respective periods, approximately 5.2%, 5.0%, 6.0% and 5.5% of the waste paper in terms of tonnage was collected from our own confidential materials destruction services network and 94.8%, 95.0%, 94.0% and 94.5% was purchased from our suppliers and other sources.

The Group has obtained the relevant permits for importing waste paper from Hong Kong to the PRC. FWHZ, as the importer, has obtained the Import License for Automatic-licensing Solid Wastes That Can Be Used As Raw Materials (《自動許可進口類可用作原料的固體廢物進口許可證》) issued by the PRC Ministry of Environmental Protection and the Registration Certificate for Domestic Consignee of Imported Scrap Materials (《進口廢物原料國內收貨人登記證書》) issued by the PRC General Administration of Quality Supervision, Inspection and Quarantine. Each of Fook Woo Waste Paper, Golddoor, Fook Woo Environmental and CMDS, as the suppliers of raw material, has respectively obtained the Registration certificate for Overseas Supplier Enterprise of Imported Scrap Materials (《進口廢物原料境外供貨企業註冊證書》) issued by the PRC General Administration of Quality Supervision, Inspection and Quarantine and Customs Declaration Registration on Certificated for Consignee and Shipper Importing and Exporting Goods (《進出口貨物收發貨人報關註冊登記證書》) issued by the Huizhou Customs.

To the best of our knowledge and based on enquiries made with the Environmental Protection Department of the Hong Kong Government, no permits under the Waste Disposal Ordinance, Chapter 354 of the Laws of Hong Kong, are required for our import or export of waste paper into and out of Hong Kong.

### Chemicals

We use various chemicals in our tissue paper production process, including dispersing agents, preservatives, control agents, adhesive agents, hydrogen peroxide, deinking agents, resin control agents, wet strength agents and softener. We mainly purchase chemicals from local third party suppliers. Our strategy is to source chemicals from reliable and reputable suppliers that can provide the most cost effective chemicals with the requisite quality and to develop the use of new alternative chemicals with suppliers to improve machine performance and reduce costs.

### Virgin Pulp

We also use virgin pulp in the manufacture of a small amount of our tissue paper products. For the years ended March 31, 2007, 2008 and 2009 and the six months ended September 30, 2009, our purchase cost of virgin pulp was HK\$53.4 million, HK\$63.0 million, HK\$36.0 million and HK\$19.8 million, respectively and the average purchase cost of virgin pulp per tonne was HK\$4,343, HK\$4,882, HK\$4,754 and HK\$4,389, respectively.

The length of fibers is one of the most important parameters in evaluating the quality and properties of pulp. Long fiber pulp, which has better strength, is generally more expensive than short fiber pulp, which gives paper a softer texture. As such, long fiber pulp is blended with short fiber pulp in order to optimize fiber cost, strength and formation of paper. We adjust the proportion of the virgin pulp mix based on, among other things, product requirements and relative pricing of the two types of virgin pulp.

The price of virgin pulp has been subject to high volatility in recent years. Pulp prices depend on a number of factors which are beyond our control, including general economic conditions, commodity price fluctuations, environmental and conservation regulations and import and export regulations. Any increase in worldwide demand for products manufactured, in whole or in part, from pulp or any decrease in global pulp supply may lead to an increase in the prices of pulp. We do not enter into hedging arrangements with respect to our pulp purchases. Our contracts and pricing policy with our customers generally allow us to pass on any increased purchase cost of virgin pulp to our customers. For details of our contract and pricing policy, please refer to the section headed “— Contracts” above.

### Packaging and Other Raw Materials

We also purchase boxes and plastic materials for the packaging of our recycled paper products, wires for packing our processed recovered materials, felts, metal parts and lubricants for our paper machines. Most of these materials are sourced from local suppliers located near our production base in Huizhou, while certain items such as wire, felt and some metal parts for our machines are imported. For the years ended March 31, 2007, 2008 and 2009 and the six months ended September 30, 2009, our costs of packaging and other raw materials were HK\$41.4 million, HK\$50.6 million, HK\$47.5 million and HK\$19.3 million, respectively.

## PRODUCTION PROCESS

Waste paper that is collected in Hong Kong from our waste paper management network, shredded waste paper from our confidential materials destruction services and waste paper that we purchase from local and overseas waste paper suppliers are transported to our Huizhou production base where they are processed and recovered to the extent possible.

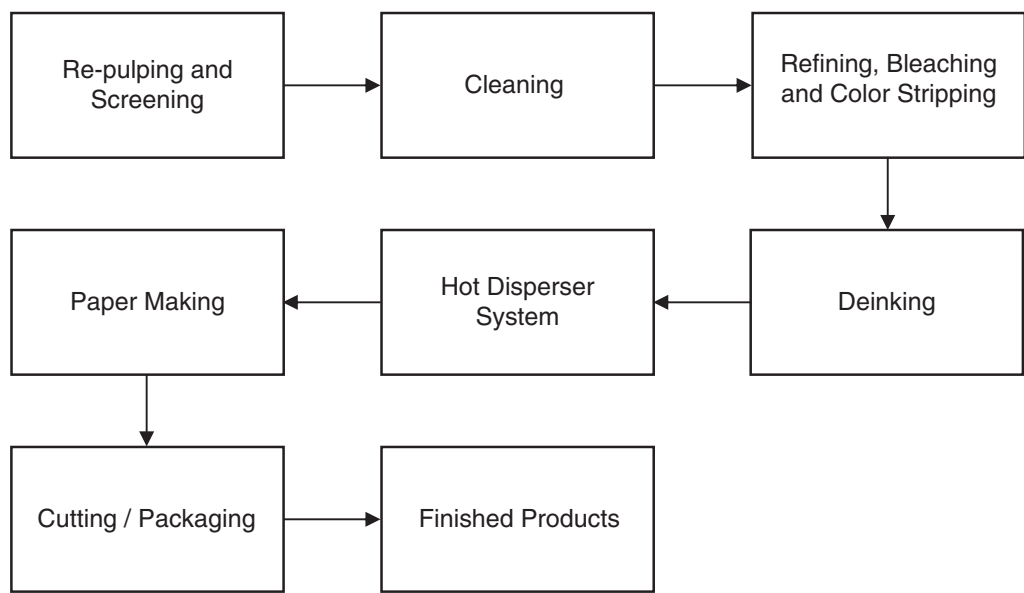
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## OUR BUSINESS

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Recovered paper is either used in our production of recycled paper products or baled by balers into standard-sized bales according to type and grade for sale to customers as recovered paper.

The following chart provides an overview of the major steps involved in our recycled paper making process:



### Re-pulping and Screening

After sorting recovered paper into different categories according to our manufacturing needs for different paper products, suitable recovered paper is moved by conveyor belts to a pulper containing water and chemicals. The pulper cuts the recovered paper into tiny pieces and heats the mixture of paper pieces, water and chemicals to speed up breakdown of the paper pieces into fibers, turning the mixture into a mushy mixture called pulp. The pulp is then forced through screens containing holes and slots of various shapes and sizes to remove small contaminants, such as bits of plastic and globs of glue.

### Cleaning

Pulp is then spun around in large cone-shaped cylinders for cleaning. Heavy contaminants, such as staples, are thrown out of the cone and fall through to the bottom of the cylinder. Lighter contaminants collect in the center of the cone and are removed.

### Refining, Bleaching and Color Stripping

During refining, pulp is beaten to make the recycled fibers swell, making them ideal for papermaking. Refining also separates any large bundles of fibers in the pulp into individual fibers. Color stripping chemicals are also added to the pulp to remove color paint from the paper. For white recycled paper, a higher ratio of white recovered paper is used to prepare the pulp to increase the brightness of the recycled paper products. No bleaching is necessary to make brown recycled paper which can be used to produce tissue paper products and greyboards.

### Deinking

In certain circumstances, the pulp undergoes deinking to remove printing ink and sticky materials, such as glue residue and adhesives. Small particles of ink are rinsed from the pulp with water, where larger particles and sticky materials are removed with air bubbles in flotation. During the flotation process, pulp is fed into a large vat called a flotation cell, where air and surfactants are injected into the pulp. Surfactants cause ink and sticky materials to loosen from the pulp and stick to the air bubbles as they float to the top of the mixture. The inky air bubbles create foam or froth, which is then removed from the top, leaving the clean pulp in the vat.

### Hot Disperser System

The pulp then enters the hot disperser system to enhance its strength and whiteness. The pulp is heated to 80°C to 130°C and mixed with bleaching chemicals. The heated pulp then goes through intensive mechanical and physical crushing, grinding and refining and as a result becomes evenly softened. The visible fine impurities in the fiber, such as hot melt material, adhesive material, asphalt and ink, which cannot be removed in the preceding procedures are peeled off from the fibers and dispersed into invisible tiny granules. As a result, the pulp can be mixed with the bleaching chemicals evenly and will appear whiter.

### Papermaking

Upon completion of the above processes, the pulp is ready for use in papermaking. The pulp is then mixed with water and chemicals so that it contains 99.5% water. This watery pulp mixture then enters the headbox of our paper machines. The headbox distributes the pulp mixture onto a flat wire screen where water contained in the pulp mixture is drained and the fibers are formed into thin wet continuous sheets. The basic function of the headbox is to achieve uniform fiber distribution and intersection. The headbox and the wire screen determine several structural properties of the paper, including basis weight variation, fiber orientation and distribution and visual uniformity. The sheet then moves rapidly through a series of felt-covered press rollers to squeeze out additional water. The sheet, which now resembles paper, passes through a series of heated metal rollers which dry the paper. Finally, the finished paper is wound into a giant roll and removed from the paper machine.

### Tissue Paper Products

For our bathroom tissue, jumbo roll, kitchen towel and parent rolls, large rolls of paper from our paper machines are wound onto glued cardboard rolls, the ends of the paper are then cut and sealed by glue. The rolls are then cut into individual rolls and packaged.

For our paper towel, napkin and facial/pocket tissue, rolls of paper from paper machines are fed into processing machines and are firstly embossed (if applicable), then folded and cut into appropriate sizes before the paper is packaged into boxes and plastic packaging.

### Greyboard

The manufacturing of greyboard involves re-pulping and screening, cleaning, refining and papermaking. Our greyboard is not deinked, bleached or color-stripped. From papermaking, finished greyboard is cut into appropriate sizes, laminated to make it heavier and thicker according to the client's specifications and sold to clients in rolls.



## **FACILITIES, EQUIPMENT AND REAL PROPERTY**

Our operations require the use of specialized facilities and equipment. We currently operate four waste paper collection stations in Hong Kong and one waste paper collection station in the PRC, one secured destruction facility in Fanling, Hong Kong, and manufacturing facilities in Huizhou, the PRC. In addition, we operate other supporting facilities that provide us with electricity, steam, water supplies and logistical support.

### **Waste Paper Collection Stations and Balers**

According to the RPL Report, with four waste collection stations, we have the largest waste paper collection network in Hong Kong in terms of volume of waste paper processed in 2009. The following tables set forth information about our waste paper collection stations in Hong Kong and the PRC:

#### ***Hong Kong***

<b>Waste Paper Collection Station Location</b>	<b>Size of the Site (m<sup>2</sup>)</b>	<b>Maximum Capacity<sup>(1)</sup> (tonne/day)</b>	<b>Features</b>
Fanling — Confidential materials destruction services.....	1,200	350	Currently stationed with, among other machines, an auto baler, a manual baler and five paper shredders
Fanling — Others.....	200	420	Currently stationed with, among other machines, two auto balers, a manual baler and a cutter
Sung Wong Toi, Kowloon City <sup>(2)</sup> .....	4,630	210	Currently stationed with, among other machines, an auto baler and two plastic shredders
Tai Po .....	6,000	420	Currently stationed with an auto baler, a manual baler, an excavator and seven containers
<b>Total.....</b>	<b>12,030</b>	<b>1,400<sup>(3)</sup></b>	

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**Notes:**

- (1) Figures calculated on the basis that the stations operate from 8:00 a.m. to 10:00 p.m. each day and an additional production line is added to the stations at Tai Po and Fanling.
- (2) The tenancy agreement for the station at Sung Wong Toi will expire in May 2010 and the station will then be relocated to our waste paper collection station in Tai Po or to a new site. Our station at Sung Wong Toi is a collection center of waste materials.
- (3) The utilization rate of our waste paper collection stations in Hong Kong is 52.0% for the six months ended September 30, 2009, calculated based on the total tonnage of waste paper we purchased and processed in Hong Kong for the six months ended September 30, 2009 divided by the maximum capacity for 180 days.

PRC

Waste Collection Station Location	Size of the Site (m²)	Maximum Capacity <sup>(1)</sup> (tonne/day)	Features
Huizhou .....	26,340	1,036 <sup>(2)</sup>	Currently stationed with six automatic balers
Total (Hong Kong and PRC) .....	38,370	2,436	

Notes:

- (1) Figures calculated on the basis that the stations operate from 8:00 a.m. to 10:00 p.m. each day.
- (2) The utilization rate of our waste collection station in Huizhou for the six months ended September 30, 2009 is 82.7%, calculated based on the total tonnage of waste paper we purchased and processed in the PRC for the six months ended September 30, 2009 divided by the maximum capacity for 180 days.

We also station our machinery and other auxiliary facilities at more than 80 of our strategic suppliers of waste paper to facilitate the collection and initial processing of their waste paper.

Secured Destruction Facility and Shredding Machines

We operate a secured destruction facility in Fanling, Hong Kong where confidential materials collected from our clients are destroyed. As of the Latest Practicable Date, we had 14 employees engaged in providing confidential materials destruction services and operated six shredding machines. Our shredding machines are capable of destroying various types of items made from paper, plastic or metal. Our collection team will collect the confidential materials from locations directed by our clients in enclosed vehicles on call or on a scheduled basis. We also accept delivery of confidential materials by our clients to our Fanling facilities. All materials that we collect are packed by our clients. The bags or boxes are sealed with bar-coded serialized tabs at the client’s office. We require our clients to fill in collection order forms for our records. Once collected, the confidential materials are transported in our trucks equipped with global positioning satellite navigation systems to our secured destruction facilities in Fanling on the day of collection, where they are shredded. We adhere to strict internal security standards at our Fanling facilities. Entry has to be authorized. Closed-circuit televisions are in place to monitor the handling process. The tabs of the bags or boxes remain sealed until the shredding process is performed, which takes place within eight working hours after the confidential materials collected are unloaded from our trucks. All the shredded paper is sent to our Huizhou production base to be used as raw materials in our production of recycled paper products or to be further processed and sold as recovered paper. Other shredded materials are either sold to third parties or disposed of. We issue certificates of destruction to our clients for their records on a monthly basis. Confidential materials are only handled by our qualified staff prior to shredding. Clients may also appoint authorized personnel to witness the secured destruction process upon request.

## OUR BUSINESS

We operate three AMS-10000 shredders produced by Ameri-Shred Corp, a breaking machine and two plastic cracking machines. The AMS-10000 shredders are equipped with steel cutters with a saw-tooth grip that shred paper, corrugated boxes, credit cards, transparencies, microfilm and microfiche. The following table sets forth further information relating to our shredding machines as of the Latest Practicable Date:

Shredding Machine	Number of Machines	Designed Capacity	Shredding Capability
AMS-10000.....	3	7.5 – 10 tonne/hour	Paper, corrugated boxes, credit cards, transparencies, microfilm and microfiche
Breaking machine .....	1	2 tonne/hour	Computer hard disk, disc, electronic parts, watches
Plastic cracking machine .....	2	1.5 tonne/hour	Disc, plastics

### Paper Machines

As of the Latest Practicable Date, we had 18 paper machines that have an aggregate annual capacity of 109,560 tonnes.

The following table sets forth further information relating to our operating paper machines as of the Latest Practicable Date:

Paper Machine	Primary Products	Total Annual Designed Production Capacity Tonnes	Commencement Date	Note
Tissue				
Machine 1-10 .....	Tissue	19,800	2001-2002	In operation
Machine 11-12 .....	Tissue	5,280	2005	In operation
Machine 24.....	Tissue	4,950	2006	In operation
Machine 25-26 .....	Tissue	16,500	December 2008	In operation
Machine 27 <sup>(1)(2)</sup> .....	Tissue	22,440	July 2009	In operation
Machine 28 <sup>(2)</sup> .....	Tissue	22,440	first quarter of 2010	Expected
<b>Subtotal</b> .....		<u>91,410</u>		
<b>Greyboard</b>				
Machine 29.....	Greyboard	<u>18,150</u>	September 2008	
<b>Total</b> .....		<u><u>109,560</u></u>		

#### Notes:

- (1) Machine 27 is an Advantage DCT 60 tissue machine and it replaced Machines 13-23 which became obsolete and were disposed of or sold in November 2009.
- (2) As a result of the replacement of Machines 13-23 with Machine 27 and the expected commencement of operation of Machine 28 by the first quarter of 2010, another Advantage DCT 60 tissue machine, our annual tissue designed production capacity is expected to increase by 15,840 tonnes.

## OUR BUSINESS

As of the Latest Practicable Date, we employed 203 workers to operate our paper machines. These workers are divided into three teams handling the re-pulping process for tissue paper products, paper making process for tissue paper products and recycled greyboard making process, respectively. Each paper machine is scheduled to run three eight-hour shifts per day. With the exception of periodic repair and maintenance typically scheduled during our low seasons and scheduled maintenance, we seek to maintain uninterrupted operation of our paper machines.

We increased our production capacity by installing two Advantage DCT 60 tissue machines manufactured and supplied by Metso Corporation, Machines 27 and Machines 28, one of which commenced operation in July 2009 and the other of which will commence operation by the first quarter of 2010. These two tissue machines are the first machines in the PRC to use 100% post-consumer recovered paper to manufacture recycled tissue paper products. The Advantage DCT 60 tissue machines are capable of producing 1300 meters of tissue papers per minute, which is 10 times faster than the old model local machines. Environmentally friendly and efficient production features are also incorporated in their design. They consume 7 m<sup>3</sup> to 8 m<sup>3</sup> water per tonne of paper produced which is significantly less than old model local machines enabling lower product cost per tonne.

The following table sets forth information on the utilization rates and actual and planned hours of operation for our paper machines which are or will be in operation for the periods indicated.

Paper Machine	For the year ended March 31,									For the six months ended September 30, 2009		
	2007			2008			2009					
	Equipment	Actual	Planned	Equipment	Actual	Planned	Equipment	Actual	Planned	Equipment	Actual	Planned
	Utilization <sup>(1)</sup>	Hours of	Hours of	Utilization <sup>(1)</sup>	Hours of	Hours of	Utilization <sup>(1)</sup>	Hours of	Hours of	Utilization <sup>(1)</sup>	Hours of	Hours of
	(%)	Operation	Operation <sup>(2)</sup>	(%)	Operation	Operation <sup>(2)</sup>	(%)	Operation	Operation <sup>(2)</sup>	(%)	Operation	Operation <sup>(2)</sup>
<b>Tissue</b>												
Machine												
1-10 .....	85.6%	67,772	79,200	83.7%	66,324	79,200	94.6%	74,944	79,200	86.2%	68,304	79,200
Machine												
11-12 .....	84.5%	13,385	15,840	86.4%	13,689	15,840	96.3%	15,258	15,840	89.1%	14,118	15,840
Machine 24 .....	87.6%	6,938	7,920	87.8%	6,952	7,920	96.6%	7,650	7,920	88.4%	7,005	7,920
Machine												
25-26 .....	—	—	—	—	—	—	84.2%	4,445	5,280	87.4%	13,839	15,840
Machine 27 .....	—	—	—	—	—	—	—	—	—	48.5%	3,843	7,920
Machine 28 .....	—	—	—	—	—	—	—	—	—	—	—	—
<b>Greyboard</b>												
Machine 29 .....	—	—	—	—	—	—	66.3%	5,249	7,920	95.1%	7,530	7,920

**Notes:**

- (1) Equipment utilization rates represent the actual hours of operation as a percentage of the planned hours of operation. The utilization rates are lower during the initial trial period, which is typically the first six months of operation.
- (2) Planned hours of operation take into account, among others, planned maintenance shutdowns and shutdowns in connection with equipment optimization.

Converting Machines and Systems

We also operate eight converting machines and a deinking system which were imported from Taiwan, Europe and the United States to support our two Advantage DCT 60 tissue machines (Machine 27 and Machine 28). The following table sets out the details of these converting machines and deinking system.

Converting Machine	Number of Machines or Systems	Origin	Capacity	Features
Rewinding machine — household paper products ....	2	Italy	700 meters / minute / unit	<ul style="list-style-type: none"><li>● To convert base paper to tissue paper products</li><li>● Equipped with high speed embossing unit and one log saw with four cutting lanes for each machine</li></ul>
Rewinding machine — jumbo toilet rolls / hard roll towel...	1	Italy	700 meters / minute	<ul style="list-style-type: none"><li>● To convert base paper to jumbo roll</li><li>● Equipped with high speed embossing unit, two band saws to match with the high output</li></ul>
Automatic wrapping and packaging machine .....	3	Italy	220 rolls / minute / unit	<ul style="list-style-type: none"><li>● To wrap and pack bathroom tissue</li><li>● Equipped with sensors to run the whole process fully automatically from roll wrapping to bundling</li></ul>
Multifold interfolder machine.....	1	United States	315 meters / minute	<ul style="list-style-type: none"><li>● 2.8 m wide equipped with auto wrapping system both paper and plastic</li></ul>
Automatic hand towel converting machine .....	1	Taiwan	300 folding / minute	<ul style="list-style-type: none"><li>● To convert semi-crepe paper into hand towel</li><li>● Five lanes equipped with one set of embossing unit</li></ul>

OUR BUSINESS

Converting Machine	Number of Machines or Systems	Origin	Capacity	Features
Automatic paper wrapping machine .....	1	Taiwan	10-12 logs / minute	<ul style="list-style-type: none"><li>● To wrap paper or polyethylene film into rolls</li><li>● Equipped with a hot melt glue machine made in the United States</li></ul>
Deinking system .....	1	Sweden	100 bone- dry tonne / day	<ul style="list-style-type: none"><li>● Equipped with a high capacity system including disperser system to match the speed of our METSO machines</li></ul>

Maintenance of Production Equipment

As of September 30, 2009, we had 82 maintenance personnel, all of whom have undergone training provided by the original equipment vendors. Our maintenance personnel are responsible for periodic repair and maintenance of our packing, shredding paper machines, power plants and other supporting facilities. We conduct routine maintenance on a daily basis. Our maintenance teams regularly inspect and maintain these machines to ensure that they are in proper working order. We schedule daily inspections and monthly maintenance. Full scale maintenance programs are carried out for each of these machines once or twice each year during which production is shut down for approximately three to five days. From time to time, we upgrade our production equipment concurrently with repair and maintenance to increase the life span and the efficiency of our production equipment.

Supporting Facilities

As of the Latest Practicable Date, the major facilities which support our production facilities included the following:

Power Plant

We require a significant amount of electricity and steam for our operations. We own and operate three coal-fired cogeneration units with an aggregate installed power capacity of 10 megawatts at our Huizhou production base. For the year ended March 31, 2009, we relied on the municipal power providers for a majority of our electricity needs and we generated the rest through our own power generators. Our power plant has been upgraded in February 2009 to support our recent and planned capacity expansion. As our power plant is not connected to the electricity network, we have been advised by the Power Supply Bureau of Boluo County that no specific permit is required under PRC laws and regulations. For details, please refer to the section headed “Regulations” in this prospectus. Our strategy is to source coal from suppliers that can provide a stable and reliable supply at the lowest cost. We have been purchasing all of our coal requirements since 2000 directly from coal distributors and arranging for shipping ourselves. Moreover, we have designed our Huizhou coal-fired cogeneration power plant to provide us with a constant flow of power, providing both electric power and steam to all of our paper machines for use in our paper drying process, thereby saving energy costs. For the six months ended September 30,

2009, approximately 41.8% of our electricity needs were provided by the municipal power providers and approximately 58.2% were satisfied by utilizing our own power-generating capacity.

### ***Vehicle Fleet***

To service our waste paper collection activities and products delivery, as of the Latest Practicable Date, we had a fleet of 39 vehicles in Hong Kong and a fleet of 45 vehicles in Huizhou, all of which are owned by us. Some of our vehicles in Hong Kong are equipped with global positioning satellite navigation systems for us to monitor the location of our fleet vehicles, thereby helping us to allocate their usage.

### ***Barges, Carriers and Ships***

We own four barges in Hong Kong with a total net tonnage of 1,303. We have entered into exclusive consignment agreements with various shipping companies in the PRC for three bulk carriers with a total capacity of 2,667 dead weight cargo tonnage and four container ships with a total capacity of 2,925 dead weight cargo tonnage. These consignment agreements are determinable on one month's notice in advance or one month's service fee in lieu of notice. Our carriers and ships run between Hong Kong and Huizhou every one to four days.

### ***Piers***

We operate shipping piers in Kwun Tong and Chai Wan in Hong Kong and constructed a pier at our Huizhou production base in the PRC in order to reduce port loading and unloading charges while avoiding transportation bottlenecks as well as to take advantage of inland waterway transportation. We occupy two berths at our pier in Kwun Tong. We have entered into a three year service agreement on March 11, 2010 with Lai Wah Shipping Company for one of the berths, which will expire on July 31, 2011. For details of the service agreement, please refer to the section headed "Connected Transactions — Continuing connected transactions which are exempted from the independent shareholders' approval requirement, reporting and announcement requirements under Rule 14A.33(3) of the Listing Rules — Provision of services by Lai Wah Shipping Company" in this prospectus. For our other berth in Kwun Tong, we have entered into a three year licence agreement with the Hong Kong Government which will expire on July 31, 2011. For the berth in our Chai Wan pier, we entered into a services agreement on October 1, 2009 with Kwong Lee Metal & Waste Paper Co., an Independent Third Party, which will expire on July 31, 2011. Our pier in our Huizhou production base occupies a total site area of 27,179 m<sup>2</sup> for which we entered into a lease with Boluo Yuanzhou Water and Resources Bureau (博羅縣園洲鎮水利所) for 20 years until 2029. We also have a dedicated operating berth at our Huizhou production base, with an annual loading and unloading capacity of 594,000 tonnes, for receiving deliveries of waste paper, shipping out recovered paper and receiving deliveries of coal for our cogeneration power plant. Our PRC legal adviser has advised us that we have obtained the requisite permits and certificates, and are duly approved, for our construction and operation of the pier. As we can take direct delivery from all the major coal ports on the coast of the PRC, including Qinhuangdao and Tianjin, we benefit from significant cost savings by eliminating loading and unloading charges for transshipments of coal.



### ***Water Treatment Facilities***

We require a large amount of water for our paper production process. FWHZ obtained the Water-drawing Permit (取水許可證) issued by the Bureau of Water Resources of Bo Luo County on January 20, 2009, under which FWHZ is permitted to draw water in Liangwu Reach, Dongjiang Yuanzhou Town, and the permitted amount for drawing is 4,700,000 m<sup>3</sup> per year. In January 2010, our Huizhou production plant consumed approximately 1,724 m<sup>3</sup> of fresh water a day, or approximately 620,796 m<sup>3</sup> a year. Under relevant PRC regulations, the right of FWHZ to consume water as permitted in the water-drawing permit might be subject to restrictions or control upon the occurrence of certain events, such as draught and environmental hazard. As a further back-up measure, we are permitted to draw up to approximately 25,000 m<sup>3</sup> of water per day from the municipal water plant for contingent uses. Our operations have not been disrupted due to such restrictions or a control or a shortage of water supply during the Track Record Period and up to the Latest Practicable Date.

To ensure that we have water suitable for use in our production throughout the year, we operate a water purification plant at our Huizhou production base. Dongjiang river is the main source of water supply for our production needs. Water from Dongjiang river is diverted in, settled, filtered and disinfected before use.

We also operate a water recycling plant and a waste water treatment plant at our Huizhou production base with daily waste water treatment capacity of 18,500 m<sup>3</sup>. Waste water from our production is treated and recycled for use in our papermaking process before it undergoes a second treatment for release in accordance with our Pollutants Discharge Permit (排放污染物許可證).

### **Real Property**

#### ***Hong Kong***

We have leased an industrial building with a total gross floor area of approximately 4,369 sq.m. for industrial and ancillary accommodation, a parcel of land with a site area of approximately 4,630 sq.m. as a waste material collection center, and a residential unit with a saleable area of approximately 178 sq.m. for staff quarters as of the Latest Practicable Date.

#### ***PRC***

We have made substantial investments in acquiring land use rights in Huizhou for our existing operations as well as to allow for future development and expansion. Our Huizhou production occupies a total site area of 121,823 sq.m. (the *Huizhou Land*). As of the Latest Practicable Date, we had obtained land use rights certificates for 64,781 sq.m. of the Huizhou Land occupied by our Huizhou production base for terms of between 40 and 50 years. For the remaining 57,042 sq.m. of the Huizhou Land (that is, the Land Parcels), we have obtained confirmations from Boluo Land Resources Bureau (博羅縣國土資源局) that we have succeeded in the bid invitation auction or quotation procedure (i.e. the BAQ procedure) for the Land Parcels. We have settled the sum of RMB13,520,000, being the land premium payable for the land use rights of the Land Parcels. Our PRC legal adviser has advised us that, with the above-mentioned confirmations and settlement of the land premium payable, there will be no further legal impediment to our obtaining the land use rights certificates of the Land Parcels. According to the bidding notice, the land use rights to be granted for the Land Parcels are for terms of 50 years.

As of the Latest Practicable Date, we have not obtained the relevant permits and licenses for the planning, construction, fire-fighting and completion inspection of the buildings and construction in progress on the Land Parcels as we have yet to obtain the land use right certificates for the Land Parcels. As a result, we may be subject to a maximum legal penalty of approximately RMB4,174,801 (equivalent to approximately HK\$4,742,574) and may be ordered by the relevant government authorities to rectify the non-compliance relating to the construction and existing use of the buildings and structures on the Land Parcels. Although on 1,292 sq.m. of the Land Parcels, the relevant government authorities may require us to have such buildings and structures dismantled if they are not satisfied that such non-compliance has been rectified, we have been advised by our PRC legal adviser that as FWHZ has succeeded in the BAQ procedure, if FWHZ enters into the land grant contracts with the Land Administration in Boluo County in respect of the Land Parcels, there will be no further legal impediment for us to obtain the relevant permits and licenses and the risk of us having to dismantle such buildings and structures is low. Each of the Controlling Shareholders has agreed to indemnify the Group in relation to such legal penalty and any related costs.

The Huizhou Land was originally owned by Liang Wu Gao Tou Village Committee (博羅縣園洲鎮梁屋高頭村民委員會) (the *Village*), Yuan Zhou Town. Under the relevant PRC laws and regulations, FWHZ is not able to directly acquire the land use right of the Huizhou Land from the Village. However, on July 8, 1995 the Village and we entered into an agreement pursuant to which the Village allowed us to occupy and proceed with the construction of buildings and structures on the Huizhou Land and the Village undertook to assist us in obtaining the land use right certificates of the Huizhou Land. FWHZ paid to the Village RMB24,028,000 (equivalent to approximately HK\$27,295,694) for its use and occupation of the Huizhou Land, out of which the cost paid for the Land Parcels, on the basis of the proportional ratio of the area of the Land Parcels to that of the Huizhou Land, amounted to approximately RMB11,251,000 (equivalent to approximately HK\$12,780,899). We were then unfamiliar with the relevant PRC laws, regulations and administrative procedures and relied on the Village's assistance to obtain the land use right certificates. We have then, with the assistance of the Village, obtained from the relevant government authority the land use right certificates for 64,781 sq.m. of the Huizhou Land.

We have paid in full the penalty of RMB286,405 imposed by Boluo Land Resources Bureau for our use of the Land Parcels without land use right certificates, and the Boluo Land Resources Bureau has confirmed that no further penalty would be imposed for the continuous use of the Land Parcels before we complete the relevant administrative formalities, including obtaining approvals from Guangdong Land Resources Bureau for the use of the Land Parcels, execution of land use right grant contract with Boluo Land Resources Bureau and obtaining the land use right certificates from Boluo Land Resources Bureau, provided that there is no other violation of the law or regulation. The sum of RMB13,520,000 payable for the land use rights of the Land Parcels has been paid and related taxes for the execution of the relevant land grant contract will be settled before the Listing Date.

After we obtained the land use right certificates for the Land Parcels, we are also required to amend the registration details of our title certificate of the land property (房地產權證) as the location of some of our properties is not correctly reflected on the title certificates that we currently have.

### ENVIRONMENTAL MATTERS

We consider the implementation of environmentally responsible practices and the maintenance of high environmental standards to be valuable assets and among our competitive strengths. We believe that such practices significantly reduce the impact of our operations on the environment and the risk of exposure to liabilities under environmental protection laws and regulations. We obtained ISO 14001 certification for our environmental management standards in 2006.

As part of our environmental commitment, we have adopted the following practices and invested in the following facilities in our Huizhou base:

- **Waste Water Treatment** — To minimize water pollution, we have technologically advanced waste water treatment facilities in our Huizhou production base. Our waste water treatment facilities have automated programmable logic controller (PLC) systems and online monitoring systems that allow us to monitor our waste water discharge.
- **Conservation of Water** — To minimize water pollution, we have a water recycling and conservation system at our Huizhou production base that reduces our water consumption significantly on each of our production lines. For example, to take advantage of the different water quality requirements for different production lines, water used in the manufacture of tissue paper products is treated and recycled for use in the manufacture of greyboard, before it is treated again and released. The Advantage DCT 60 tissue machines consume 7 m<sup>3</sup> to 8 m<sup>3</sup> of water per tonne of paper produced which is significantly less than the old model local machines.
- **Reusing Waste** — We have a circulating solid-waste-to-energy boiler in our production base in Huizhou capable of producing electricity by burning waste in conjunction with coal. Incineration temperature is carefully controlled and we add limestone to the process to prevent the production of nitrogen oxide and sulphur oxide.
- **Keeping Polluting Emissions Minimal** — Our coal-fired cogeneration power plant is equipped with particulate filtration and desulfuration equipment. The emissions from our coal-fired cogeneration power plant are constantly monitored by a monitoring device linked to the system operated by the local environmental supervision station. The emission levels of our power plants are below permitted emission levels under applicable PRC regulatory requirements.
- **Waste** — Waste from our production facilities that contains substances which may pollute the environment or become pollutant or hazardous when burnt, is collected and treated by a third-party contractor specialized in treating such waste to ensure minimal pollution and compliance with applicable laws and regulations.

Our manufacturing processes generate solid and liquid wastes, including waste water, sludge, and gaseous emissions. In compliance with applicable laws and regulations, we have obtained all required permits for waste water discharge and airborne emissions.

Our Directors believe that the Group is currently in compliance with the relevant PRC regulations and standards related to the production of recycled paper products and that the Group will remain in compliance with the existing regulations and standards. To comply with these regulations and standards, we have made significant investment in the above facilities, in particular our waste water treatment system.

Our PRC legal adviser has advised that, to the best of its knowledge, as of the Latest Practicable Date, there was no promulgation of any new environmental laws, regulations or standards or any relevant bill of legislation in relation to recycled paper products production in the PRC, other than the laws, regulations and standards disclosed in the section headed “Regulation” in this prospectus. Therefore, we do not expect to incur any further significant capital expenditures in complying with the prevailing regulations and standards and hence our Directors are of the view that the existing regulations and standards would not cause material burden to the Company. Please refer to the section headed “Risk Factors — Risks Relating to the Industry — Increasingly strict PRC regulations relating to recycled paper products could significantly increase our operating costs or lead to fines or other penalties that may materially and adversely affect our business, financial condition and results of operations” in this prospectus for further details.

### **Environmental Approvals and Compliance**

According to PRC environmental laws and regulations, we are required to obtain the following two types of environmental approvals:

- we are required to carry out an environmental impact assessment before commencing construction of production facilities, and to install equipment to reduce pollution in accordance with relevant environmental standards. Environmental approvals to be issued by the relevant governmental authorities before the construction of a project focus on whether a project would have a material adverse impact on the environment or pollution; and
- where production facilities that may affect the environment are being constructed, complementary environmental protection facilities must also be designed, constructed, put into use and examined and approved by the relevant governmental authorities at the same time. Environmental approvals for completion of such environmental protection facilities are issued by the relevant governmental authorities only after the completion of the construction of the production facilities and the environmental protection facilities.

We have not been in material violation of any environmental laws or regulations, or subject to any fine for violation of environmental laws or regulations. We believe that our record of environmental compliance has been a positive factor in obtaining regulatory approvals for our expansion projects. The annual cost of compliance with the applicable environmental rules and regulations for the years ended March 31, 2007, 2008 and 2009 and the six months ended September 30, 2009 were approximately HK\$758,000, HK\$531,000, HK\$1,997,000 and HK\$409,000, respectively. The cost of compliance going forward is expected to be similar to the amounts spent during the six months ended September 30, 2009.

## OUR BUSINESS

### AWARDS AND RECOGNITION

We have received a number of awards and recognition from authorities and other associations. A selection of the more significant ones is set out below:

Year received	Award or recognition	Awarding bodies
2002 .....	ISO 9001:2000	International Certification Network and CQM Certification
2006 .....	ISO 14001:2004	Moody International Certification Ltd.
2008 .....	AAA Certification by NAID and the first certified member in the PRC	NAID
	Asia’s Top 10 Green Company	FinanceAsia
	Guangdong Famous Brand Product (廣東省著名商標) for the logo “Moon”	Guangzhou Famous Brand Recognition Committee (廣東省著名商標認定委員會)
2009 .....	Clean Production Enterprise of Guangdong Province	Economic and Trade Commission of Guangdong Province (廣東省經濟貿易委員會) and the Guangdong Science and Technology Department (廣東省科學技術廳)
	FSC Certification <sup>(1)</sup>	FSC
	Program for the Endorsement of Forest Certification (PEFC) Certification <sup>(1)</sup>	Program for the Endorsement of Forest Certification Council
	ISO 9001:2008	International Certification Network and CQM Certification
	Hong Kong — Guangdong Cleaner Production Partner Certificate	Hong Kong Government
	Hong Kong Safety Mark <sup>(2)</sup>	Hong Kong Safety Institute Limited
In the process of application .....	ISO 27001	Bureau Veritas

Notes:

- (1) For the Group’s manufacturing and trading of recycled tissue paper, paper towels and greyboards.
- (2) For the Group’s recycled tissue roll and hand towels.

### QUALITY CONTROL

In August 2002, our Huizhou production base obtained ISO9001 certification for our ability to comply with applicable requirements relating to quality control. We aim to enhance customer satisfaction through application of quality control measures, including processes for continual improvement of our production system and the assurance of conformity to customer and applicable regulatory requirements.

We carry out internal and external audits annually to ensure compliance with the above standard.

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In addition, to ensure that our tissue paper products comply with GB 20810-2006, which is a set of quality standards applicable to bathroom tissue (including bathroom tissue base paper) issued by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC and the Standardization Administration of the PRC, we have implemented the following measures since 2007:

- every six months: samples of each type of our tissue paper products are randomly selected and tested by external qualified laboratories against GB 20810-2006 in Hong Kong and/or PRC, and all samples tested complied with this standard; and
- daily: spot checks are carried out by our quality control team and internal laboratory on all of our tissue paper products for compliance with GB 20810-2006.

We also conduct ad hoc testings of our tissue paper products upon customers' requests.

Since January 1, 2009, the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局) has implemented new quality supervision measures whereby samples are randomly selected from each export batch of our tissue paper products and tested against GB 20810-2006. As of the Latest Practicable Date, none of our tissue paper products were found to be in contravention of GB 20810-2006.

In June 2009, the Consumer Council in Hong Kong published a product test report on bathroom tissues in its magazine, "CHOICE." In the report, the Consumer Council reported that certain of our tissue products that they had tested in February 2009 exceeded the GB 20810-2006 standard of 600 colony forming units per gram. In response to the report, we commissioned SGS Hong Kong Ltd., an independent third party laboratory, to conduct tests on the same product in June 2009 and October 2009, respectively, and the report on both tests showed that the sample tested complied with GB 20810-2006, and in particular, the bacterial count limit was under such standard. As we were not involved in the Consumer Council's testing, nor were we privy to the testing and environmental conditions for which the products tested were subject to, we are not able to comment on nor do we accept any responsibility for the article about us. Moreover, there has been negative media coverage about our Group supplying tissue paper products in weight that was less than what was contractually agreed with a certain customer, the complaint of which was received in August 2008. Please see the section headed "Risk Factors — Risks Relating to Our Business — Publicity regarding our Company or our products may not be accurate or complete and any negative publicity about our Company, whether or not accurate, may adversely affect our brand and reputation." in this prospectus for more details.

After the publication of the Consumer Council's report, we took additional measures to ensure compliance with GB 20810-2006. We increased the number of staff in our quality control team and provided additional training regarding production specifications and standards to our staff in both the production and quality control teams. We have also increased the number of inspection points in our internal production lines and increased the frequency of internal laboratory tests that we conduct on our products.

In addition, we have appointed an independent internal control consultant to perform certain limited agreed upon procedures relating to our internal controls over financial reporting. These included discussing with management the basis of determining the financial reporting implications of the excess

bacteria levels found in certain tissue products as reported in the Consumer Council's June 2009 report mentioned above. No significant adverse findings were identified from the independent internal control consultant's procedures outlined above relating to discussing the financial implications thereof with management.

Following the negative media coverage regarding the weight of our tissue paper products, we investigated the relevant complaint and found that some of the stock in warehouses was inadvertently misplaced by our logistics staff. We entered into a settlement agreement on a non-admission of liability basis with the relevant customer and implemented work procedures to ensure that our products would be weighted accurately. We also circulated detailed internal guidelines to our staff to enhance the internal logistical flow and to improve our internal marking and packaging system for different stock. To the best of the Directors' knowledge, this incident has had no material impact on the Group's business.

Other than the Consumer Counsel's report and the negative media coverage, we have not received any similar complaints on our products exceeding the bacterial limit as specified in the GB 20810-2006 standard or on our tissue paper products weighting less than what was contractually agreed during the Track Record Period and up to the Latest Practicable Date and neither the Consumer Counsel's report nor the negative media coverage had any material financial impact on the Group. On this basis, each of the Directors and the Joint Sponsors believe our internal system and quality control procedures, including the additional measures we adopted above, are adequate to ensure that our products are in compliance with all relevant quality standards and specifications.

We have obtained the Hygiene Permit (衛生許可證) for production of tissue paper products issued by the Department of Health of Guangdong Province, PRC and adopted strict measures at all of our production facilities in compliance with the national hygiene standards set out in GB 20810-2006 and GB 15979-2002. We also meet the quality control standards of ISO9001 and ISO14001. All production employees are required to attend on-the-job training on the required hygiene standards. Access to our production plan is controlled and each individual employee is assigned to a designated post within the production plant.

### Quality Control Team

As of September 30, 2009, we had 22 personnel handling quality control in our Huizhou production base.

We implement a process quality control system in our Huizhou production base. Under this system, we standardize our operation to ensure effective management of the production process and consistent operation.

We have two quality control divisions:

- **Tissue Paper Product Quality Control** — This division is mainly responsible for the quality control over our tissue paper products by regularly inspecting and testing the raw materials, semi-finished products, finished products, water quality and the level of noise in our factories to ensure compliance with ISO and other applicable standards. Annual and ad hoc inspections of our



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production facilities are also conducted. This division also identifies issues in our operations and proposes preventive, remedial and improvement measures.

- **Recovered Paper Quality Control** — This division examines waste paper delivered by waste paper suppliers. Our experienced staff inspect the waste paper and separate unsuitable waste paper that does not meet its quality control standards. Our supervisors supervise the waste paper sorting process to ensure that waste paper is sorted according to its grades and quality. Further, the division takes random samples from every kind of recovered paper to ensure all are assigned to an appropriate grade according to their quality.

### INVENTORY MANAGEMENT

We monitor the inventory levels of our raw materials and finished products to balance our production needs and our exposure to changes in recovered paper prices. Our inventory of raw materials comprises primarily recovered paper, virgin pulp and chemicals. We generally maintain an inventory of waste paper and paper products sufficient for approximately 15 to 30 days of sales. We have warehouses at our sites in Huizhou and Hong Kong with an aggregate storage area of approximately 51,382 m<sup>2</sup> and 14,155 m<sup>2</sup> respectively for our raw materials and finished products.

As of March 31, 2007, 2008, 2009 and September 30, 2009, our inventory was approximately HK\$74.2 million, HK\$49.1 million, HK\$59.2 million and HK\$56.2 million, respectively. Our average inventory turnover days during the years ended March 31, 2007, 2008 and 2009 and the six months ended September 30, 2009 were 40 days, 29 days, 28 days and 30 days, respectively.

We have not made any provisions for inventory obsolescence during the Track Record Period. Recovered paper and virgin pulp, our primary raw materials, are not generally susceptible to obsolescence by the passage of time.

### RESEARCH AND DEVELOPMENT

As of the Latest Practicable Date, we had approximately 43 employees in our central laboratory department which serve the dual functions of testing raw materials and products as well as engaging in research and development.

Our research and development activities primarily focus on improvement of efficiencies of our production equipment and manufacturing process, development of new products, improvement of quality of our existing products, and market and industry research covering areas such as demand of products, potential market growth and our competitors' products, prices and sales. We also conduct specific research and development in respect of our products upon our customers' requests.

### COMPETITION

We are the largest producer of recycled tissue paper products in the PRC in terms of production and sales volumes in 2008 according to the China Paper Association. We currently compete with several Chinese manufacturers of recycled tissue paper products as well as with a number of Chinese manufacturers of non-recycled paper tissue products. We also compete with manufacturers of recycled tissue paper



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products in other countries, including other larger paper mills in the United States. Our paper products mainly compete on the basis of price (including distribution costs) and product quality.

We believe that the high start-up cost and capital intensive nature of the paper manufacturing industry impose significant barriers to entry for new entrants. In particular, since 2007, paper making factories in the PRC were subject to stringent environmental requirements regarding the emission of waste water. In order to comply with such requirements and remain commercially viable, paper-making factories would need to upgrade or replace their paper-making machines and/or establish water treatment facilities to reduce the amount of waste water produced during the production process. Unless the production scale is sizeable, such upgrading or replacement may not be cost-effective and would result in higher production cost, thereby limiting competitiveness.

Moreover, we believe that other constraints, such as obtaining governmental permits and the supply of waste paper, also pose difficulties to other mainstream virgin pulp-based paper product manufacturers who are interested in expanding into the production of recycled paper.

Under the PRC's foreign investment rules, foreign investment in recycled paper manufacturing is permitted. Foreign companies may establish recycled paper manufacturing operations in the PRC in the future, in which case we may face increased competition.

As we are the largest waste paper management services provider in Hong Kong in terms of volume of waste paper processed in 2009, we believe we can maintain a steady supply of waste paper for our manufacturing purposes, which we believe provides us with a competitive advantage over our competitors in recycled tissue paper products. Our competitors for the collection of waste paper in Hong Kong are other waste paper collectors.

We are also the largest confidential materials destruction services provider in Hong Kong in terms of market share in 2009. Our competitors for the provision of confidential materials destruction services are other confidential materials destruction services providers in Hong Kong.

Please see the section headed "Industry Overview" in this prospectus for details of the competition that we face in the markets that we operate in.

### SAFETY

To ensure that our production facilities comply with applicable safety standards, our safety management teams carry out regular safety inspections throughout our production facilities to ensure that our machines are operated safely and that our fire prevention facilities are in working order. On-the-job training is provided to our staff to educate them of the required safety standards. All equipment is required to be thoroughly tested and certified by the safety department before the commencement of production. All operators of equipment are required to complete training and pass examinations before they are granted work permits and allowed to operate equipment. In addition, we provide all necessary safety and protective gear to our workers, including ear plugs, industrial face masks, eye masks, helmets, work shoes and work clothes. We also provide regular health checks for our workers.

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Our workers at the waste paper collection and processing facilities are full-time workers who receive on-the-job training. We do not collect or handle dangerous or hazardous materials and we specifically request our agents and sub-contractors not to deliver such materials to us. If any dangerous or hazardous materials were found in the waste paper that we collect, such waste is collected and treated by a third-party contractor who specializes in treating such waste.

We were in compliance with all applicable laws, regulations and standards in relation to health and safety issues during the Track Record Period. We intend to continue to strengthen our health and safety measures to minimize potential future risks and maintain our compliance with all applicable laws, regulations and standards.

### INSURANCE COVERAGE

We maintain a range of insurance policies for our ongoing operations including property insurance on plants and machinery, natural disaster insurance and personal injury insurance. We also maintain social security insurance for our employees in the PRC as required by PRC social security regulations, such as pension insurance, unemployment insurance, work injury insurance and medical insurance. Under PRC laws and regulations, we are not required to maintain any insurance in relation to our business operations, such as business interruption insurance, or product liability insurance against claims or liabilities that may arise from products that we have sold. We do not carry insurance coverage against war or acts of terrorism. We believe that our insurance coverage is in line with industry practice in the PRC. We did not experience any material industrial accidents during the Track Record Period.

### INTELLECTUAL PROPERTY

We own and use a number of trademarks and designs in connection with our business. For details, please see the section headed “Statutory and General Information — Further Information About Our Business — Intellectual Property Rights of Our Group” in Appendix VII to this prospectus.

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## OUR BUSINESS

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### EMPLOYEES

As of September 30, 2009, we employed a total of 1,691 individuals on a full-time basis in Hong Kong and in Huizhou. The following table shows a breakdown of our employees by jurisdiction and function as of September 30, 2009:

	Number of Employees		
	Hong Kong	Huizhou, the PRC	Total
Management and administration.....	27	15	42
Production (including research and development) .....	0	864	864
Collection of waste paper.....	79	450	529
Operation of shredding facilities .....	14	0	14
Sales and marketing .....	8	18	26
Finance and accounting.....	13	27	40
Quality control .....	0	22	22
Sourcing and raw materials and equipment.....	0	6	6
Warehousing, transport and others .....	3	12	15
Maintenance .....	3	0	3
Power stations.....	0	79	79
Transportation.....	<u>25</u>	<u>26</u>	<u>51</u>
<b>Total.....</b>	<b><u>172</u></b>	<b><u>1,519</u></b>	<b><u>1,691</u></b>

We believe that successful implementation of our growth and business strategies relies on a team of experienced, motivated and well-trained management and employees at all levels.

We enter into individual employment contracts with our employees to cover matters such as wages, benefits, and grounds for termination. We generally formulate our employees' remuneration package to include a salary, bonus and allowance elements. Our compensation programs are designed to remunerate our employees based on their performance, measured against other objective criteria we prescribe. We also provide our employees with welfare benefits in accordance with applicable regulations and our internal policies.

### RETIREMENT SCHEMES

With the promulgation of the recent PRC Labor Contract Law, which became effective on January 1, 2008, more stringent requirements have been imposed on employers in the PRC with respect to employment contracts entered into between an employer and its employees, hiring of temporary employees and dismissal of employees. The labor contracts we entered into with our employees prior to the promulgation of the new PRC Labor Contract Law, which are still effective, are subject to the old contract law and relevant rules and regulations. The labor contracts we entered into with our employees after January 1, 2008 were entered into in accordance with the new PRC Labor Contract Law. We expect that our labor costs will increase as a result of the implementation of the new PRC Labor Contract Law. However, since the labor costs are a relatively small component of our overall cost structure, we do not expect the new PRC Labor Contract Law to have a material impact on our business or results of operations.

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In accordance with applicable PRC regulations on social insurance, we participate in a pension contribution plan, a medical insurance plan and an unemployment insurance plan for our employees. We comply with all statutory social insurance obligations applicable to us under PRC laws.

We participate in a provident fund scheme (the *MPF Scheme*) registered under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for all our employees in Hong Kong. We contribute 5% of our employees' relevant income per month as required under the ordinance subject to a maximum of HK\$1,000 per employee. Contributions from us are 100% vested in each employee immediately but, subject to limited exceptions, all benefits derived from the mandatory contributions must be preserved until the employee reaches the retirement age of 65 or ceases employment and attains the age of 60. Our contributions to the MPF Scheme can be used to offset any long service payments or severance payments payable and are deductible for income tax purposes.

The total amount of contributions we made for such employee pension schemes for the years ended March 31, 2007, 2008 and 2009 and the six months ended September 30, 2009 was approximately HK\$6.9 million, HK\$9.1 million, HK\$9.5 million and HK\$3.1 million, respectively.

### LEGAL, ADMINISTRATIVE AND SIMILAR PROCEEDINGS

We are involved in a number of legal proceedings that have arisen in the ordinary course of our business. Other than as discussed below, we were not, as of the Latest Practicable Date, engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our business, results of operations or financial condition.

On June 18, 2009, we were fined HK\$5,000 in the Magistrates' Court in Hong Kong. We were tried and convicted of aiding, abetting, counseling and procuring the breach of condition of stay of a waste disposal worker from the PRC employed by us under Section 89 of the Criminal Procedure Ordinance (Chapter 221 of the Laws of Hong Kong). As of the Latest Practicable Date, we have filed an application to appeal against the conviction and the appeal is expected to be heard in March or April 2010. We have been advised by our legal adviser for the case that there are arguable grounds of appeal.

In April 2009, Fook Woo Assorted Paper, Fook Woo Waste Paper, CMDs and Golddoor received notices of additional assessment dated March 30, 2009 from the IRD for the year of assessment 2002/2003 assessing additional profits for the four subsidiaries demanding additional profits tax payments in an aggregate amount of approximately HK\$3.8 million. We have filed notices of objection and the IRD has granted unconditional holdover orders in respect of the amounts demanded under such additional assessments. In addition, on March 15, 2010, the same four subsidiaries and Fook Woo Environmental received notices of additional tax assessment from the IRD for the 2003/2004 tax year, in which the tax assessment notices demanded additional profit tax payments in the aggregate amount of HK\$7.7 million. We expect to file objections with the IRD against these additional assessments before the statutory objection deadline.

In February 2010 and March 2010, we instructed our tax adviser to obtain an understanding from the IRD in relation to the basis of the additional assessments relating to the 2002/2003 and 2003/2004 tax years, respectively. Based on the discussions between the IRD and our tax adviser, we understand that the additional assessments relating to the 2002/2003 and 2003/2004 tax years are of a protective nature and were issued to keep the 2002/2003 and 2003/2004 tax years technically open in view of the statutory time-bar and that the IRD had no specific basis in arriving at the profits assessed under the additional assessments, and the case is still in the information collection stage. We further understand from our tax adviser that, according to the IRD's current practice, the IRD may select cases for investigation and audit by risk of non-compliance or by random checking. It then follows that, if there is no non-compliance issue after the IRD review process, it is possible that the relevant subsidiaries would not be subject to any additional tax or penalty. On the other hand, if there are non-compliance issues, actual tax liabilities (not limited to the 2002/2003 tax year or the 2003/2004 tax year), including any corresponding penalty and interest, could be higher or lower than the amounts indicated in the assessment notices. Please also refer to the section headed "Risk Factors — Risks Relating to Our Business — Our Hong Kong subsidiaries may be subject to additional tax liabilities." in this prospectus for further details. We are of the view that there is no reliable basis for estimating, and making provision for, the potential liabilities relating to the 2002/2003 and the 2003/2004 tax years, if any, including corresponding penalty and interest, if any. Therefore, the potential liabilities of HK\$3.8 million relating to 2002/2003 tax year, if any, were not accrued for but treated as a contingent liability in our audited combined financial information for the six months ended September 30, 2009 (see Note 32 to the Accountant's Report set out in Appendix I to this prospectus, which forms part of the combined financial information on which the Reporting Accountant has opined). We have also treated the potential liabilities of HK\$7.7 million relating to 2003/2004 tax year, if any, as a contingent liability and have disclosed this contingent liability as a subsequent event in our audited combined financial information for the six months ended September 30, 2009. The Controlling Shareholders have entered into the Deed of Indemnity with the Group under which they have agreed to indemnify on a joint and several basis each member of the Group in respect of any tax assessment for the 2002/2003 tax year and any other notices of additional assessment that may be received by any member of the Group for and including the 2003/2004 tax year through the 2009/2010 tax year. For details of the Deed of Indemnity, please refer to the section headed "Statutory and General Information — Other Information — Indemnity" in Appendix VII to this prospectus.

## **COMPLIANCE**

Based on the certificates issued by the PRC governmental authorities and confirmation and other documents provided by our Group, our PRC legal adviser is of the view that we have complied with the applicable PRC laws and regulations, including obtaining all necessary permits and licenses, on environmental protection, labor, health and safety during the Track Record Period and up to the Latest Practicable Date. We have obtained all material certificates, permits, licenses and approvals necessary for our operations in Hong Kong as of the Latest Practicable Date.