

## FINANCIAL INFORMATION

You should read the following discussion and analysis together with our combined financial information and the notes thereto as of and for the years ended March 31, 2007, 2008 and 2009, and the six months ended September 30, 2008 and 2009, all included in the Accountant's Report set out in Appendix I to this prospectus. The Accountant's Report has been prepared in accordance with IFRS. The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. Please see the section headed "Risk Factors" in this prospectus.

### SELECTED FINANCIAL INFORMATION

The following tables set forth, for the periods indicated, our selected financial information derived from the Accountant's Report included in Appendix I to this prospectus.

#### Summary Data of Combined Income Statement

	For the year ended March 31,			For the six months ended September 30,	
	2007	2008	2009	2008	2009
	(HK\$'000)			(unaudited) (HK\$'000)	
Revenue .....	957,557	1,178,945	1,098,549	643,332	554,861
Cost of sales.....	(626,965)	(785,028)	(715,462)	(433,288)	(353,519)
Gross profit .....	330,592	393,917	383,087	210,044	201,342
Other income.....	1,968	4,079	3,324	2,030	1,514
Other gain/(loss), net .....	1,517	(7,404)	(10,132)	(3,100)	(1,902)
Administrative expenses.....	(79,671)	(97,882)	(116,199)	(57,019)	(52,544)
Selling expenses .....	(36,423)	(46,977)	(50,564)	(29,010)	(18,698)
Operating profit.....	217,983	245,733	209,516	122,945	129,712
Finance income .....	180	6,150	1,927	2,214	774
Finance costs.....	(1,477)	(1,166)	(11,116)	(4,893)	(5,597)
Profit before income tax .....	216,686	250,717	200,327	120,266	124,889
Income tax expense.....	(1,745)	(9,873)	(27,737)	(17,034)	(17,708)
Profit for the year/period attributable to equity holders of the Company.....	<u>214,941</u>	<u>240,844</u>	<u>172,590</u>	<u>103,232</u>	<u>107,181</u>

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### Summary Data of Combined Balance Sheet

	As of March 31,			As of September 30,
	2007	2008	2009	2009
	(HK\$'000)			(HK\$'000)
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment .....	186,730	256,480	420,498	860,220
Land use rights.....	19,279	20,739	20,498	20,492
Prepayments.....	1,486	153,309	326,825	23,735
Deferred income tax assets .....	—	—	38	—
	<u>207,495</u>	<u>430,528</u>	<u>767,859</u>	<u>904,447</u>
<b>Current assets</b>				
Inventories .....	74,181	49,137	59,249	56,240
Trade and bills receivables .....	190,474	219,634	178,105	241,795
Prepayments, deposits, and other receivables.....	41,031	61,329	84,058	67,217
Amounts due from related companies .....	8,889	9,081	29,637	28,355
Tax recoverable .....	412	960	—	—
Cash and cash equivalents.....	38,524	176,987	52,721	66,305
Restricted bank deposits.....	—	—	—	9,294
	<u>353,511</u>	<u>517,128</u>	<u>403,770</u>	<u>469,206</u>
<b>Total assets .....</b>	<u><b>561,006</b></u>	<u><b>947,656</b></u>	<u><b>1,171,629</b></u>	<u><b>1,373,653</b></u>
<b>EQUITY</b>				
Capital and reserves attributable to equity holders of the Company				
Capital reserve .....	2,510	2,510	(2,274)	(9,425)
Reserves .....	<u>271,627</u>	<u>558,350</u>	<u>735,918</u>	<u>851,995</u>
<b>Total equity .....</b>	<u><b>274,137</b></u>	<u><b>560,860</b></u>	<u><b>733,644</b></u>	<u><b>842,570</b></u>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Long term borrowings.....	—	53,333	40,449	109,091
Deferred income tax liabilities.....	<u>324</u>	<u>375</u>	<u>—</u>	<u>293</u>
	<u>324</u>	<u>53,708</u>	<u>40,449</u>	<u>109,384</u>
<b>Current liabilities</b>				
Trade and other payables .....	87,060	107,699	106,333	123,486
Short-term bank borrowings .....	9,687	86,106	160,683	172,629
Current portion of long term borrowings .....	—	13,333	13,483	13,636
Amounts due to related companies.....	360	1,563	1,568	—
Amount due to a Director .....	189,438	114,909	107,337	101,311
Current income tax liabilities .....	—	9,478	8,132	10,637
	<u>286,545</u>	<u>333,088</u>	<u>397,536</u>	<u>421,699</u>
<b>Total liabilities.....</b>	<u><b>286,869</b></u>	<u><b>386,796</b></u>	<u><b>437,985</b></u>	<u><b>531,083</b></u>
<b>Total equity and liabilities.....</b>	<u><b>561,006</b></u>	<u><b>947,656</b></u>	<u><b>1,171,629</b></u>	<u><b>1,373,653</b></u>
<b>Net current assets.....</b>	<u><b>66,966</b></u>	<u><b>184,040</b></u>	<u><b>6,234</b></u>	<u><b>47,507</b></u>
<b>Total assets less current liabilities.....</b>	<u><b>274,461</b></u>	<u><b>614,568</b></u>	<u><b>774,093</b></u>	<u><b>951,954</b></u>

**OVERVIEW**

We are a 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. 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.

Our sales are primarily derived from (i) the collection, packaging and sale of recovered paper and (ii) the manufacturing and sale of tissue paper products, including recycled tissue paper, mainly using waste paper that we collect from suppliers. For FY2007, FY2008, FY2009 and the six months ended September 30, 2009, our total revenue was HK\$957.6 million, HK\$1,178.9 million, HK\$1,098.5 million and HK\$554.9 million, respectively. Sales from our recovered paper and tissue paper products amounted to HK\$836.9 million, HK\$1,070.9 million, HK\$1,055.5 million and HK\$539.9 million, representing 87.4%, 90.8%, 96.1% and 97.3% of our total revenue in FY2007, FY2008, FY2009 and the six months ended September 30, 2009, respectively.

In our recovered paper business, we collect waste paper from various sources, primarily within Hong Kong and the PRC. We collect waste paper mainly through our own waste paper collection network and purchase the remaining portion of our waste paper from local distributors and sellers, as well as overseas suppliers. We then process and package the waste paper into recovered paper for on-sale.

In our tissue paper product business, we retain recovered paper usable to us in order to manufacture and convert such recovered paper into recycled tissue paper and other paper products. We sell our recycled tissue paper products and other paper products to large retail chains throughout Hong Kong and China and to international distributors and retailers. In addition, we manufacture tissue paper products from virgin pulp which are mainly sold in the PRC.

In addition to our recovered paper recycling and tissue paper product businesses, we also manufacture and sell recycled greyboard from waste paper and provide confidential materials destruction services principally to large multinational companies doing business in Hong Kong. Revenue from such other businesses amounted to HK\$120.6 million, HK\$108.0 million, HK\$43.1 million and HK\$15.0 million, representing 12.6%, 9.2%, 3.9% and 2.7% of our total revenue in FY2007, FY2008, FY2009 and the six months ended September 30, 2009, respectively.

**FACTORS AFFECTING RESULTS OF OPERATIONS**

The major factors affecting our results of operations include the following:

**Product Sales Price and Volume*****Recovered Paper***

We sell recovered paper by the tonne. The waste paper we collect is processed into various categories of recovered paper based on its type and quality. It is then packaged and resold mainly to paper manufacturers throughout the PRC based on category. Generally, the price per tonne at which we sell our recovered paper is influenced by factors such as the reference market price of imported waste paper, the cost of purchasing waste paper, fluctuations in transportation costs and the supply of and demand for recovered paper.

Demand for recovered paper is primarily driven by the general economic conditions in the PRC as well as international trade activity as our customers use our recovered paper to produce packaging materials, newsprint, and other recycled paper products. A slowdown in the global economy, especially in the PRC, or trade protectionist measures adversely affecting the PRC, could significantly reduce our recovered paper sales.

We sell most of our recovered paper on one-off or short-term contracts. In order to secure stable demand for our recovered paper, we have entered into a 17-month agreement with Guangzhou Paper pursuant to which it has agreed to purchase approximately 218,000 tonnes of recovered paper from us during the period from November 2009 to March 2011. The agreement will be renewed automatically for another year to March 2012 (during which period we will sell an additional 120,000 tonnes of recovered paper) unless terminated by either party. We have also secured a 24-month agreement with Zhongshan Hung Hing pursuant to which we will supply 168,000 tonnes of recovered paper to it during the period from December 2009 to December 2011. The average annual sales volume under these two contracts amount 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 do not enter into written contracts with some of the one-off local customers in order to keep such arrangements simple and flexible.

The recovered paper market has historically been volatile. For the years ended March 31, 2007, 2008 and 2009, 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, 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.

### ***Tissue Paper Products***

We set the sale prices of our tissue paper products in accordance with our production costs as well as our marketing strategy, which is largely determined by region-specific factors such as consumer preferences, distributor channels, market supply and demand and competition. We also set different price levels for different categories of customers. Generally, the price per tonne at which we sell our tissue paper products is influenced by factors such as the reference market price of virgin pulp in the United States, the cost of purchasing waste paper that we use for producing recycled tissue paper products and the general market demand for such products.

The sales volume of our tissue paper products is primarily based on the demand of our customers as well as our production capacity. Most of our sales are to direct customers, distributors and value-added resellers. We offer different terms of sale to each of these customer groups.

- 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 customers, the contracts may provide 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.

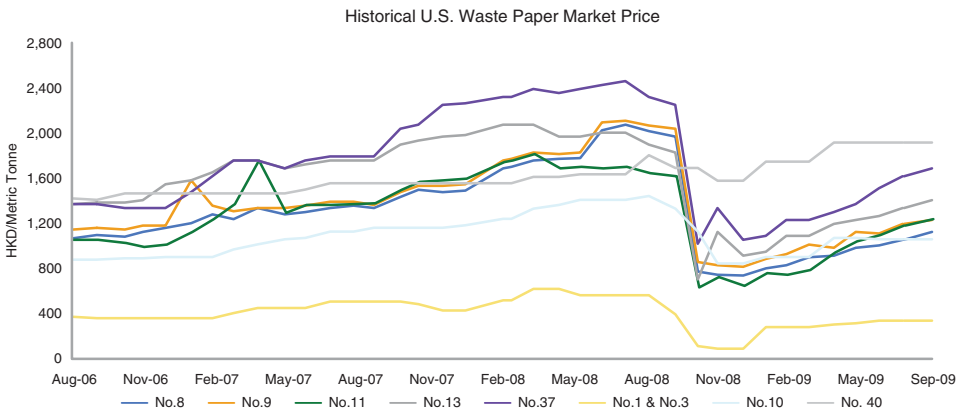
- For distributors, we generally enter into a standard distribution agreement with each of our selected distributors for a period normally ranging from six months to one year. Each of the distribution agreements generally specifies the price for the products and sales targets for each month as well as for the entire contractual period. We provide incentives to our distributors that meet the sales targets specified in the agreement and we reserve the right to rescind the agreement with distributors that continuously fail to meet the monthly targets.
- For value-added resellers, we generally enter into annual contracts with them specifying the price for the products. The sales volume is determined by the customer’s orders.

The tissue paper products market has historically been volatile. For the years ended March 31, 2007, 2008 and 2009, our tissue paper product 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, our tissue paper product 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.

Reference Market Prices of Waste Paper and Virgin Pulp

Waste Paper

We regularly refer to the import market price of waste paper from the United States to set the price at which we sell our recovered paper along with other factors such as local supply and demand. We also use such import market price, to a lesser extent, as a reference in determining our purchase price for waste paper. We are not aware of any other similar reference prices for waste paper available in the PRC. The price of importing waste paper from the United States does not directly reflect the price we charge our customers for recovered paper or the price which we pay to suppliers for waste paper due to various factors such as the different grading and classification of recovered paper and/or waste paper, differences in demand and supply, transportation, freight and import/export costs and the different market structure of recovered paper and/or waste paper in Hong Kong and the PRC. Solely as a reference to the general price trend of recovered paper and/or waste paper over the Track Record Period, the following chart sets forth the historical price trend (including transportation cost, insurance and freight) of certain categories of import waste paper from the United States from August 2006 to September 2009.



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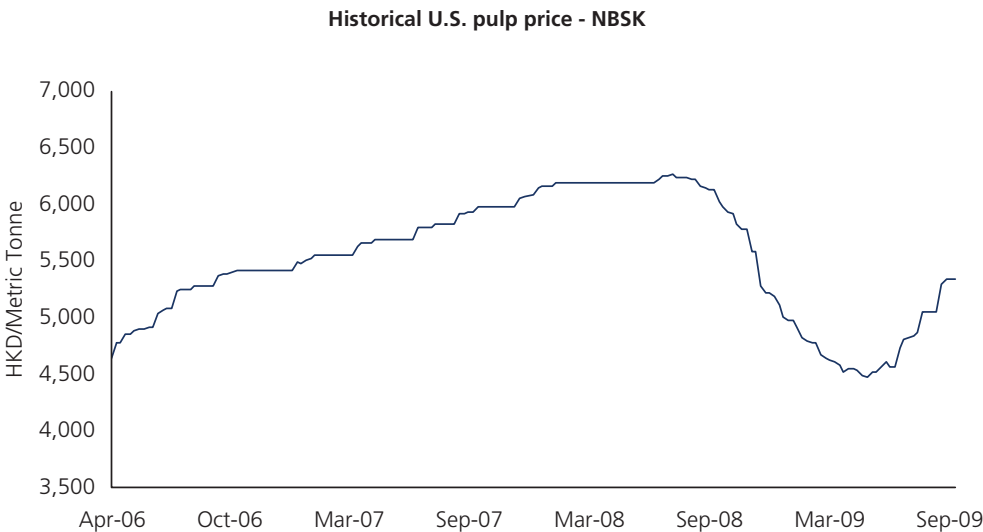
Source: *China.worldscrap.com*, a scrap recycling informational and e-business website operated by World Scrap Company Limited in China providing global scrap buyers and sellers with daily updated market price and real time supply & demand information in the PRC and foreign markets. World Scrap Company Limited was established in March 2005 with offices and branches in Ningbo, Zhejiang Province, the PRC; Milan, Italy; and Houston, USA to gather more scrap market information and has agreed to abide by the Code of Conduct of the Bureau of International Recycling, a international trade federation representing the world's recycling industry.

**Note:**

- (1) Based on first available data at the beginning of each month. We use the following classifications:
- No. 8 — Special News De-ink Quality — as a general reference price for our purchase and sale of old newsprint.
  - No. 9 — Over-Issue News — as a general reference price for our purchase and sale of old newsprint.
  - No. 11 — Corrugated Containers — as a general reference price for our purchase and sale of old corrugated cardboard and box board cuttings.
  - No. 13 — New Double-Lined Kraft Corrugated Cuttings — as a general reference price for our purchase and sale of old corrugated cardboard and box board cuttings.
  - No. 37 — Sorted Office Paper — as a general reference price for our purchase and sale of black and white paper, and hard and soft white shavings.
  - No. 1 and No. 3 — Mixed Paper and Super Mixed Paper — as a general reference price for our purchase and sale of mixed waste paper.
  - No. 10 — Magazines — as a general reference price for our purchase and sale of old magazines.
  - No. 40 — Sorted White Ledger — as a general reference price for our purchase and sale of black and white paper.

### Virgin Pulp

We periodically refer to the market price of Northern Bleached Softwood Kraft (*NBSK*), which is the paper industry's benchmark grade for virgin pulp in the United States, as a reference to set the price at which we sell our virgin tissue paper products. We are not aware of any similar reference prices for virgin pulp available in Asia. Solely as a reference to the general trend of virgin pulp prices over the Track Record Period, the following chart sets forth the price trend of NBSK in the United States from April 2006 to September 2009.



Source: Bloomberg

The Group's purchase costs of waste paper and virgin pulp were generally in line with the direction of movement of the reference market prices during the Track Record Period.

### **Consumer Preferences and Consumption Patterns for Tissue Paper Products**

We have benefited from growing consumer demand for tissue paper products in the PRC, driven by improved living standards and enhanced hygiene awareness. In addition, as a majority of our tissue paper products are made from recovered paper that is sorted and processed from the waste paper we collect through our waste paper management network, shifts in consumer preferences in favor of recycled tissue paper products due to an increasing trend towards the use of more environmentally friendly products may have a beneficial impact on our sales domestically and abroad. Conversely, demand for our recycled tissue paper products may be adversely affected if consumers become reluctant to use recycled paper products for any reason, such as a change in consumption patterns toward virgin pulp-based paper products. Nonetheless, we currently expect continued growth for our recycled tissue paper products in the near future and, because we also produce tissue made of 100% virgin pulp, we are well-positioned to take advantage of the increasing demand for tissue paper products in the PRC generally. Through better allocation and investment of our resources, we are dedicated to optimizing our brand and product mix to reach more consumers and increase our market share, as well as to strategically position ourselves to benefit from the global trend towards recycling and the use of more environmentally friendly products.

### **Product Mix and Brand for Tissue Paper Products**

For our tissue paper products business, our continuing ability to optimize our product mix to meet consumer needs and preferences helps to drive our sales volume. Currently, our product mix primarily includes parent rolls, jumbo rolls, bathroom tissue, paper towels and facial tissue that are made from 100% recycled paper, 100% virgin pulp or a mixture of both. As we make both recycled and virgin pulp-based tissue paper products, we are able to offer a greater range of products, which allows us to compete on quality and price. We also actively adjust the specifications of our products, including appearance, scent, weight, patterns, paper layers and thickness to cater to different customer preferences. In order to expand our product offering and enhance the attractiveness of our products, we also tailor the designs and sizes of the packaging. We plan to continuously introduce new products to our product mix, such as paper napkins and kitchen towels made with 100% recycled paper, to further diversify our product mix and to focus on key growth areas in the industry.

Brand awareness also plays an important role in influencing consumer preferences. Although a significant majority (approximately 72% for the year ended March 31, 2009) of our tissue paper product sales are currently from sales to OEM customers where our products are sold under their own brands, we are also in the process of further developing our own brands sold through our distributors (such as “Moonily,” “Smooovie” and “See-mia”), which, in the aggregate, accounted for approximately 3% of our tissue paper product sales for the year ended March 31, 2009. Although we market and sell our products under a range of other brand names with different specifications and packaging in order to target a variety of customer preferences, we plan to focus particularly on the further development of the above three brands.

### **Raw Material Costs**

#### ***Waste Paper***

Our revenue is primarily derived from the sale of recovered paper and tissue paper products, which mainly use waste paper as raw materials. Consequently, any significant increase in our cost of obtaining waste paper, without a corresponding increase in our sales prices, may have a significant impact on our

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results of operations. Generally, the cost of waste paper is influenced by factors such as the cost of virgin pulp, the supply of and demand for waste paper due to economic conditions, environmental and conservation regulations, and import and export regulations. See the section headed “— Reference Market Prices of Waste Paper and Virgin Pulp” above.

The following table sets forth the total purchase cost of waste paper, total tonnes of waste paper purchased and the average waste paper purchase cost per tonne for the periods indicated:

Waste paper	For the year ended March 31,			For the six months ended September 30,	
	2007	2008	2009	2008	2009
Total purchase cost of waste paper (HK\$'000) .....	415,952	466,348	444,755	309,752	237,809
Total tonnes of waste paper purchased .....	416,915	388,586	371,632	223,471	228,235
Hong Kong .....	292,438	70.1% 305,151	78.5% 234,730	63.2% 147,710	66.1% 131,070
PRC .....	124,477	29.9% 83,435	21.5% 136,902	36.8% 75,761	33.9% 97,165
Average waste paper purchase cost per tonne (HK\$).....	998	1,200	1,197	1,386	1,042

### Virgin Pulp

Approximately 20.8% of our tissue paper product sales in FY2009 were made from virgin pulp. We use a mixture of virgin wood pulp, sugar cane pulp and other pulp to produce our virgin tissue paper products. The cost of pulp is subject to a high degree of volatility and has fluctuated in recent years. Pulp cost depends on a number of factors outside of our control, including general economic conditions, commodity price fluctuations, environmental and conservation regulations, import and export regulations and other factors. Any increase in worldwide demand for products manufactured, in whole or in part, from pulp or any decrease in the worldwide pulp supply may lead to an increase in the prices we will pay for virgin pulp. We do not enter into hedging arrangements with respect to our pulp purchases.

The following table sets forth our total purchase cost of pulp and the average pulp purchase cost per tonne for the periods indicated:

Pulp	For the year ended March 31,			For the six months ended September 30,	
	2007	2008	2009	2008	2009
Total purchase cost of pulp (HK\$'000).....	53,385	63,047	36,013	23,526	19,828
Total tonnes of pulp purchased.....	12,293	12,914	7,576	4,679	4,518
Average pulp purchase cost per tonne (HK\$) .....	4,343	4,882	4,754	5,028	4,389



**Capacity**

Our revenue for tissue paper products is limited by our production capacity and we may need to incur significant costs to expand our production capacity in the future in order to maintain our growth. Our capacity utilization rates, calculated by dividing the actual hours of operation by the planned hours of operation of our tissue paper machines, were 85.6%, 84.5%, 94.5% and 84.5% in FY2007, FY2008, FY2009 and the six months ended September 30, 2009, respectively. In order to satisfy the increasing demand for our products and to expand into new geographic regions, we have significantly increased our production capacity for tissue paper products from an annual design production capacity of 59,070 tonnes in FY2007 to an expected 91,410 tonnes in the first quarter of 2010, representing an overall increase of 54.7% from FY2007 to the first quarter of 2010. Our capital expenditures from FY2007 to the six months ended September 30, 2009 were approximately HK\$758.7 million. In particular, we recently purchased two advanced and high capacity Advantage DCT 60 tissue machines from Europe, Machine 27 and Machine 28. Machine 27 along with its supporting infrastructure was put in place and started production in July 2009 and we expect Machine 28 with its supporting infrastructure to begin production in the first quarter of 2010. Machine 27 and Machine 28 have significantly increased our capacity for potential future growth and also improved the efficiency and quality of our tissue paper products.

**Taxation**

Our operations are subject to Hong Kong profits tax and PRC corporate income tax. Our future profits will be affected by changes in tax rates in Hong Kong and the PRC as we carry out the majority of our business and derive most of our revenue and profits from Hong Kong and the PRC.

We are subject to the Hong Kong profits tax at the rate of 16.5% for our assessable profits derived from our trading operations in Hong Kong. Our wholly-owned operating subsidiary in the PRC, FWHZ, is subject to PRC corporate income tax. Prior to the PRC Enterprise Income Tax Law which came into effect on January 1, 2008, FWHZ was eligible for corporate tax exemption for the 2007 calendar year, followed by a 50% reduction in the applicable corporate income tax rate from January 1, 2008 to December 31, 2010. Starting on January 1, 2008, the PRC Enterprise Income Tax Law reduced the statutory income tax rate from 33% to 25%; however, enterprises entitled to a lower tax rate under the previous tax laws are given a five-year grace period before the new statutory rate applies. Accordingly, FWHZ has been and will be subject to corporate income tax of 12.5% for the 2008, 2009 and 2010 calendar years, respectively, and 25.0% starting from the 2011 calendar year.

**DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS****Revenue**

We generate revenue primarily from the sale of recovered paper and the manufacturing and sale of paper products such as tissue paper products and recycled greyboard. Sales are presented net of value added tax and discounts and after eliminating intercompany sales.

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### Revenue by Product Type

The following table shows the breakdown of our sales by product type for the periods indicated:

Revenue by product type	For the year ended March 31,						For the six months ended September 30,			
	2007		2008		2009		2008		2009	
	HK\$'000	% of Total Revenue	HK\$'000	% of Total Revenue	HK\$'000	% of Total Revenue	(unaudited) HK\$'000	% of Total Revenue	(unaudited) HK\$'000	% of Total Revenue
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 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>

The following tables show the average selling price and sales volume by product type for the periods indicated:

### Average Selling Price

By product type	For the year ended March 31,			For the six months ended September 30,	
	2007	2008	2009	2008	2009
	(HK\$ per tonne)				
Recovered paper .....	1,697	1,796	1,906	2,187	1,529
Tissue paper products .....	6,696	7,837	7,604	7,473	7,234
Recycled greyboard.....	2,189	2,547	3,259	3,480	2,251

### Sales Volume

By product type	For the year ended March 31,			For the six months ended September 30,	
	2007	2008	2009	2008	2009
	(Tonnes)				
Recovered paper .....	297,483	379,639	313,645	175,710	191,255
Tissue paper products .....	49,603	49,661	60,185	30,697	34,201
Recycled greyboard.....	53,475	41,062	12,013	7,998	5,823

#### Note:

Average selling price and sales volume information with respect to confidential materials destruction services are not available given the nature of this business, as it is a service provided to customers.

We adjust our product portfolio based on market trends, consumer preferences, sales performance and other data. Significant changes to revenue contribution over the Track Record Period include:

***Recovered Paper***

Contribution to overall revenue from recovered paper increased from 52.7% in FY2007 to 57.8% in FY2008 and decreased to 54.4% in FY2009. Contribution from recovered paper sales increased between FY2007 and FY2008 as a result of increased sales of recovered paper primarily due to an increase in the average selling price of recovered paper from HK\$1,697 per tonne in FY2007 to HK\$1,796 per tonne in FY2008 as well as increased market demand with sales volume increasing from 297,483 tonnes in FY2007 to 379,639 tonnes in FY2008 mainly due to favorable market conditions.

Contribution from recovered paper sales decreased from 57.8% in FY2008 to 54.4% in FY2009 mainly due to a decrease in sales volume of recovered paper from 379,639 tonnes in FY2008 to 313,645 tonnes in FY2009 due to the economic downturn starting in September 2008 partially offset by an increase in average selling price from HK\$1,796 per tonne in FY2008 to HK\$1,906 per tonne in FY2009 as most of our sales of recovered paper were made at a higher price, before the economic downturn began to have a significant adverse effect on selling prices. The decrease in contribution from recovered paper sales also reflected higher recycled tissue paper product sales in FY2009.

Contribution from recovered paper sales decreased from 59.7% for the six months ended September 30, 2008 to 52.7% over the same period in 2009 mainly due to a decrease in recovered paper sales and higher recycled tissue product sales between the periods. Despite an increase in sales volume of recovered paper from 175,710 tonnes in the six months ended September 30, 2008 to 191,255 tonnes in the six months ended September 30, 2009, the average selling price decreased significantly from HK\$2,187 per tonne to HK\$1,529 per tonne over the respective periods, mainly reflecting the significant decrease in the market price of recovered paper in September 2008 due to the economic downturn.

***Tissue Paper Products***

Contribution to overall revenue from tissue paper products decreased slightly from 34.7% in FY2007 to 33.0% in FY2008 but increased significantly to 41.7% in FY2009. The decrease in contribution from tissue paper product sales between FY2007 and FY2008 was mainly due to the increase in sales of recovered paper despite growth in tissue product sales between the periods. Although sales volume of tissue paper products increased only slightly from 49,603 tonnes to 49,661 tonnes, the average selling price increased from HK\$6,696 per tonne in FY2007 to HK\$7,837 per tonne in FY2008 reflecting the general trend of increasing waste paper and virgin pulp prices.

Contribution from tissue paper product sales increased from 33.0% in FY2008 to 41.7% in FY2009 primarily due to the decrease in sales of recovered paper between the periods coupled with an increase in the sale of tissue paper products. In particular, contribution from recycled tissue paper products sales increased from 17.4% in FY2008 to 33.0% in FY2009, primarily due to our focus on promoting recycled tissue paper products, increased demand by consumers for recycled tissue paper products during the economic downturn as recycled tissue paper products are normally priced at a discount to virgin pulp-based tissue paper products, as well as wider consumer acceptance of recycled tissue paper products. Contribution from our virgin pulp-based tissue paper product sales decreased from 15.6% in FY2008 to 8.7% in

FY2009 reflecting our strategic shift towards producing more recycled tissue paper products in response to market demand. As a result, sales volume of tissue paper products increased from 49,661 tonnes in FY2008 to 60,185 tonnes in FY2009. As our recycled tissue paper products are priced lower than our virgin pulp-based tissue paper products, the average selling price decreased from HK\$7,837 per tonne in FY2008 to HK\$7,604 per tonne in FY2009 despite higher demand for our tissue paper products in general. This decrease in the average selling price of tissue paper products also reflects the general trend of decreasing recovered paper and virgin pulp prices.

Contribution from tissue paper product sales increased from 35.7% for the six months ended September 30, 2008 to 44.6% over the same period in 2009 primarily due to the decrease in sales of recovered paper between the periods coupled with an increase in the sale of tissue paper. The sales volume of tissue paper products increased from 30,697 tonnes in the six months ended September 30, 2008 to 34,201 tonnes over the same period in 2009 mainly due to increased interest from consumers for recycled tissue paper products during the economic downturn as recycled tissue paper products are normally priced at a discount to virgin pulp-based tissue paper products, as well as wider consumer acceptance of recycled tissue paper products. The average selling price decreased from HK\$7,473 per tonne in six months ended September 30, 2008 to HK\$7,234 per tonne in over the same period in 2009, reflecting a shift in the product mix towards greater sales of lower priced recycled tissue paper products as compared to virgin pulp-based tissue paper products.

### ***Recycled Greyboard***

Contribution from recycled greyboard sales decreased from 12.2% in FY2007 to 8.9% in FY2008 and further to 3.5% in FY2009 and 2.4% for the six months ended September 30, 2009. The decrease in contribution from greyboard sales between FY2007 and FY2008 mainly reflected higher recovered paper and tissue paper product sales as well as lower recycled greyboard sales. The sales volume of recycled greyboard decreased from 53,475 tonnes in FY2007 to 41,062 tonnes in FY2008 mainly due to the decommissioning of a recycled greyboard production line in January 2008 in preparation for increasing our tissue production capacity, which was in line with our strategy to focus on tissue paper products. The average selling price of greyboard, however, increased from HK\$2,189 per tonne in FY2007 to HK\$2,547 per tonne in FY2008 mainly due to favorable market conditions.

The significant decrease in contribution from recycled greyboard sales between FY2008 and FY2009 mainly reflected decreased sales volume from 41,062 tonnes in FY2008 to 12,013 tonnes in FY2009 as the decommissioning of the production line had a full year impact, coupled with decreased demand due to a weak economic environment. The average selling price of greyboard, however, increased from HK\$2,547 per tonne in FY2008 to HK\$3,259 per tonne in FY2009 mainly due to higher demand for greyboard paper in the first half of FY2009, before the economic downturn began to have a significant adverse effect on selling prices.

Contribution from recycled greyboard sales decreased from 4.3% for the six months ended September 30, 2008 to 2.4% over the same period in 2009 primarily because market demand had not yet fully recovered from the decrease in demand as a result of the economic downturn in 2008. The sales volume of recycled greyboard decreased from 7,998 tonnes in the six months ended September 30, 2008 to 5,823 tonnes over the same period in 2009 mainly due to the economic downturn and our focus on selling higher margin products such as recycled tissue paper products. The average selling price decreased

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from HK\$3,480 per tonne in the six months ended September 30, 2008 to HK\$2,251 per tonne over the same period in 2009 reflecting a decrease in the purchase cost of waste paper, which is a major component in the cost of production.

### Gross Profit and Gross Profit Margin by Product Type

The following table shows gross profit margin by product type for the periods indicated:

#### Gross Profit Margin

By product type	For the year ended March 31,			For the six months ended September 30,	
	2007	2008	2009	2008	2009
				(unaudited)	
Recovered paper .....	35.2%	33.9%	33.4%	32.1%	32.6%
Tissue paper products .....	35.0%	33.8%	38.2%	33.4%	43.0%
Recycled greyboard.....	30.0%	28.1%	17.0%	32.8%	(8.7)%
Confidential materials destruction services.....	47.2%	47.2%	46.8%	45.8%	49.2%

#### Recovered Paper

Our gross profit for recovered paper increased from HK\$177.5 million in FY2007 to HK\$231.4 million in FY2008, but decreased to HK\$199.7 million in FY2009. The increase of HK\$53.9 million, or 30.4%, in our gross profit for recovered paper between FY2007 and FY2008 was primarily due to an increase in the average selling price of recovered paper and increased market demand due to favorable market conditions, while the decrease of HK\$31.7 million, or 13.7%, between FY2008 and FY2009 was primarily due to a decrease in the average selling price because of the economic downturn during this period. Our gross profit for recovered paper for the six months ended September 30, 2008 and for the six months ended September 30, 2009 was HK\$123.4 million and HK\$95.2 million, respectively. This decrease of HK\$28.2 million, or 22.9%, was primarily due to a large decrease in the average selling price since the economic downturn began in September 2008, partially offset by an increase in sales volume.

Our gross profit margin for recovered paper decreased slightly from 35.2% in FY2007 to 33.9% in FY2008, and decreased again to 33.4% in FY2009. Our gross profit margin for recovered paper increased slightly from 32.1% in the six months ended September 30, 2008 to 32.6% in the six months ended September 30, 2009. Despite the fluctuations in our gross profit for recovered paper, our gross profit margin for recovered paper remained relatively stable as the purchase cost and selling price are generally correlated and are primarily market driven.

#### Tissue Paper Products

Our gross profit for tissue paper products increased from HK\$116.2 million in FY2007 to HK\$131.6 million in FY2008, and further increased to HK\$174.8 million in FY2009. The increase of HK\$15.4 million, or 13.3%, in our gross profit for tissue paper products between FY2007 and FY2008 was primarily due to a significant increase in the average selling price, as there was a general trend toward increases in the prices for waste paper and virgin pulp, which caused the sales prices for recycled tissue

paper products and virgin pulp tissue paper products to increase significantly. The increase in gross profit for tissue paper products of HK\$43.2 million, or 32.8%, between FY2008 and FY2009 was due to increased sales of recycled tissue paper products, as market demand for such lower priced tissue paper products increased. Recycled tissue paper products had higher profit margins because the market price of waste paper decreased significantly in the second half of FY2009. Our gross profit for tissue paper products for the six months ended September 30, 2008 and 2009 was HK\$76.7 million and HK\$106.3 million, respectively. This increase of HK\$29.6 million, or 38.6%, was due to increased sales of recycled tissue paper products, for which profit margins increased because of decreases in the market price of waste paper.

Our gross profit margin for tissue paper products decreased slightly from 35.0% in FY2007 to 33.8% in FY2008, and increased to 38.2% in FY2009. Our gross profit margin for tissue paper products increased significantly from 33.4% in the six months ended September 30, 2008 to 43.0% in the six months ended September 30, 2009. The slight decrease in gross profit margin for tissue paper products from FY2007 to FY2008 was due to an increase in raw material costs. The significant increase in gross profit margin for tissue paper products between FY2008 and FY2009 was due to increased sales of recycled tissue paper products, as market demand for such lower priced tissue paper products increased. Recycled tissue paper products saw higher profit margins because the market price of waste paper decreased significantly in the second half of FY2009. Our gross profit margin for tissue paper products increased significantly from 33.4% in the six months ended September 30, 2008 to 43.0% in the six months ended September 30, 2009, likewise due to increased sales of recycled tissue paper products, for which profit margins increased because of decreases in the market price of waste paper.

### ***Recycled Greyboard***

Our gross profit for recycled greyboard decreased from HK\$35.2 million in FY2007 to HK\$29.4 million in FY2008, and further decreased to HK\$6.7 million in FY2009. This decrease of HK\$5.8 million, or 16.5%, in our gross profit for recycled greyboard between FY2007 and FY2008 was primarily due to a decrease in the sales volume of recycled greyboard paper, as a recycled greyboard production line was decommissioned in January 2008, which resulted in an increase in the average cost per tonne. The significant decrease of HK\$22.7 million, or 77.2%, in our gross profit for recycled greyboard between FY2008 and FY2009 was mainly due to the full impact of the decommissioning of a recycled greyboard production line and a large decrease in the sales volume of recycled greyboard paper, both of which resulted in a significant increase in the average cost per tonne. Our gross profit for recycled greyboard for the six months ended September 30, 2008 was HK\$9.1 million, while we had a gross loss of HK\$1.1 million for the six months ended September 30, 2009 primarily due to a decrease in market demand because of a relatively weak economic environment, and as in FY2009, the lower sales volume resulted in the average cost per tonne to remain at a very high level. We currently have no intention of discontinuing our production and sales of recycled greyboard as it is complimentary to our tissue paper business and moreover, some of the recycled greyboard is used as the core in our tissue paper rolls. However, we expect the contribution of recycled greyboard sales to our overall sales to decrease in the future as our other product lines continue to grow.

Our gross profit margin for recycled greyboard decreased slightly from 30.0% in FY2007 to 28.1% in FY2008, and further decreased to 17.0% in FY2009. Our gross profit margin for recycled greyboard decreased from 32.8% in the six months ended September 30, 2008 to negative gross margin of 8.7% in

the six months ended September 30, 2009. The slight decrease in gross profit margin for recycled greyboard between FY2007 to FY2008 was due to an increase in raw material costs during the period. The significant decrease between FY2008 and FY2009 is mainly due to a decrease in the sales volume of recycled greyboard paper resulting from the decommissioning of a greyboard production line, which resulted in the average cost for recycled greyboard paper per tonne increasing significantly. The significant decrease in gross profit margin between the six months ended September 30, 2008 and 2009 was likewise due to the impact of the decommissioning of a recycled greyboard production line, which resulted in the average cost for recycled greyboard paper per tonne increasing significantly.

***Confidential Materials Destruction Services***

Our gross profit for confidential materials destruction services decreased slightly from HK\$1.7 million in FY2007 to HK\$1.6 million in FY2008, but increased to HK\$1.8 million in FY2009. Our gross profit margin for confidential materials destruction services was 47.2%, 47.2% and 46.8% for FY2007, FY2008 and FY2009, respectively. Our gross profit margin for confidential materials destruction services was 45.8% and 49.2% for the six months ended September 30, 2008 and September 30, 2009, respectively. Our gross profit and gross profit margin for confidential materials destruction services has been relatively stable over the Track Record Period because we have consistently been the leader in the markets that our confidential materials destruction services segment serves.



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### Cost of sales

Cost of sales represents the direct costs of production, which primarily include raw materials, direct labor costs, other direct costs and related production overhead.

The following table sets forth a breakdown of our cost of sales for the periods indicated:

	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	
Cost of sales	HK\$'000	Revenue	HK\$'000	Revenue	HK\$'000	Revenue	HK\$'000	Revenue	HK\$'000	Revenue
Raw materials .....	478,619	50.0%	604,239	51.3%	524,950	47.8%	337,490	52.5%	269,246	48.5%
Waste paper.....	384,197	40.2%	490,046	41.6%	439,794	40.0%	281,854	43.8%	230,998	41.6%
Virgin Pulp .....	53,067	5.5%	63,582	5.4%	37,651	3.4%	24,996	3.9%	18,917	3.4%
Packaging										
Materials.....	22,982	2.4%	27,210	2.3%	26,855	2.5%	15,041	2.3%	12,070	2.2%
Others .....	18,373	1.9%	23,401	2.0%	20,650	1.9%	15,599	2.5%	7,261	1.3%
Utility expenses.....	45,519	4.7%	52,978	4.5%	67,143	6.1%	35,915	5.6%	30,650	5.5%
Labor costs .....	25,849	2.7%	36,672	3.1%	37,428	3.4%	19,435	3.0%	16,923	3.1%
Depreciation .....	22,523	2.4%	25,017	2.1%	27,556	2.5%	12,861	2.0%	17,834	3.2%
Transportation.....	17,300	1.8%	20,005	1.7%	19,168	1.7%	9,339	1.5%	7,806	1.4%
Other expenses <sup>(1)</sup> .....	37,155	3.9%	46,117	3.9%	39,217	3.6%	18,248	2.8%	11,060	2.0%
	<u>626,965</u>	<u>65.5%</u>	<u>785,028</u>	<u>66.6%</u>	<u>715,462</u>	<u>65.1%</u>	<u>433,288</u>	<u>67.4%</u>	<u>353,519</u>	<u>63.7%</u>

#### Note:

(1) Consist mainly of consumable expenses related to production machinery, repair and maintenance expenses, and other direct costs of production.

Our cost of sales was HK\$627.0 million, HK\$785.0 million, HK\$715.5 million and HK\$353.5 million, representing 65.5%, 66.6%, 65.1% and 63.7% of our total revenue for FY2007, FY2008, FY2009 and the six months ended September 30, 2009, respectively. The costs of raw materials constituted the largest component of total cost of sales and accounted for 76.3%, 77.0%, 73.4% and 76.2% of total cost of sales for FY2007, FY2008, FY2009 and the six months ended September 30, 2009, respectively.

Cost of raw materials as a percentage of total revenue decreased to 47.8% in FY2009 and 48.5% in the six months ended September 30, 2009 from 51.3% in FY2008, reflecting a decrease in virgin pulp costs as we shifted more of our production towards recycled tissue paper products which use lower cost waste paper as raw materials. The cost of raw materials as a percentage of total cost of sales decreased to 73.4% in FY2009 from 77.0% in FY2008, mainly reflecting higher utility expenses in FY2009 as we shifted more of our sales towards the production of tissue paper products which generally require more electricity to produce than recovered paper products. The cost of raw materials as a percentage of total cost of sales decreased to 76.2% in the six months ended September 30, 2009 from 77.9% over the same period in 2008 mainly due to greater depreciation costs as we began to use equipment for the manufacture of tissue paper products.

Our cost of raw materials as a percentage of revenue increased slightly to 51.3% in FY2008 from 50.0% in FY2007 mainly reflecting an increase in the average purchase cost of waste paper as a result of strong



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demand for waste paper in FY2008. The average purchase cost of waste paper increased approximately 20.2% to HK\$1,200 per tonne in FY2008 from HK\$998 per tonne in FY2007. The cost of raw materials as a percentage of total cost of sales remained relatively stable between FY2007 and FY2008.

### **Other Income**

Other income primarily consists of income from the sale of non-paper recyclable materials such as metals and plastics that were collected as part of our paper collection efforts, service income and sales of packaging materials.

### **Other Gain/(Loss), Net**

Other net gain/(loss) mainly consists of net foreign exchange gain/(loss) from the translation of monetary assets and liabilities denominated in foreign currencies and the net gain/(loss) from the disposal of property, plant and equipment.

### **Administrative Expenses**

Administrative expenses primarily consist of administrative and management staff salaries and benefits, depreciation of non-production related fixed assets, amortization of land use rights, bad debt expenses, entertainment expenses, rental expenses for our administrative functions, audit and other professional fees, transportation costs and other administrative expenses.

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The following table sets forth the amounts of the components of our administrative expenses and each as a percentage of total revenue for the periods indicated:

	For the year ended March 31,						For the six months ended			
							September 30,			
	2007		2008		2009		2008		2009	
	(unaudited)									
	% of		% of		% of		% of		% of	
Administrative	Total		Total		Total		Total		Total	
expenses	HK\$'000	Revenue	HK\$'000	Revenue	HK\$'000	Revenue	HK\$'000	Revenue	HK\$'000	Revenue
Staff cost.....	36,339	3.8%	44,612	3.8%	48,017	4.4%	24,880	3.9%	21,366	3.9%
Bad debts										
expenses.....	2,310	0.2%	2,413	0.2%	9,712	0.9%	3,380	0.5%	1,811	0.3%
Transportation										
expenses .....	8,317	0.9%	10,190	0.9%	8,817	0.8%	3,829	0.6%	3,802	0.7%
Entertainment										
expenses.....	5,309	0.6%	7,973	0.7%	7,756	0.7%	3,119	0.5%	3,830	0.7%
Amortization and										
depreciation .....	5,553	0.6%	4,844	0.4%	5,674	0.5%	2,601	0.4%	5,564	1.0%
Rental expenses ....	5,330	0.6%	4,719	0.4%	5,106	0.5%	2,710	0.4%	2,838	0.5%
Audit, legal and										
other										
professional										
fees.....	2,054	0.2%	2,143	0.2%	3,856	0.4%	1,392	0.2%	2,827	0.5%
Property, land use										
and other										
taxes.....	2,293	0.2%	3,297	0.3%	4,651	0.4%	3,390	0.6%	2,533	0.4%
Utilities .....	2,578	0.3%	2,900	0.2%	4,731	0.4%	3,106	0.5%	2,033	0.4%
Other expenses <sup>(1)</sup> ...	9,588	0.9%	14,791	1.2%	17,879	1.6%	8,612	1.3%	5,940	1.1%
	79,671	8.3%	97,882	8.3%	116,199	10.6%	57,019	8.9%	52,544	9.5%

Note:

(1) Consist mainly of repair and maintenance and donations to charity.

Our administrative expenses as a percentage of total revenue increased to 9.5% in the six months ended September 30, 2009 as compared to 8.9% over the same period in 2008 mainly due to greater depreciation expenses as we put into commission new production equipment for the manufacture of tissue paper products.

Our administrative expenses as a percentage of total revenue increased to 10.6% in FY2009 from 8.3% in FY2008 mainly due to the increase in bad debt expenses coupled with increased staff costs. The increase in bad debt expenses mainly reflected increased write-offs and provisions resulting from the adverse effect of the economic downturn on some of our recovered paper customers and waste paper suppliers with whom we held receivables, deposits or prepayments. Our administrative and other operating expenses as a percentage of revenue remained stable at 8.3% between FY2007 and FY2008.

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### Selling Expenses

Selling expenses primarily consist of transportation costs for delivery of our products to our customers, staff salaries and benefits, agent commissions, consumables related to packaging materials, expenses related to tissue paper product testing and other selling expenses.

The following table sets forth the amounts of the components of our selling expenses and each as a percentage of revenue for the periods indicated:

	For the year ended March 31,						For the six months ended September 30,			
	2007		2008		2009		2008		2009	
							(unaudited)			
	% of		% of		% of		% of		% of	
	Total		Total		Total		Total		Total	
	HK\$'000	Revenue	HK\$'000	Revenue	HK\$'000	Revenue	HK\$'000	Revenue	HK\$'000	Revenue
<b>Selling expenses</b>										
Transportation expenses.....	26,494	2.8%	35,890	3.0%	39,857	3.6%	24,383	3.8%	14,836	2.7%
Consumables related to packaging materials .....	3,527	0.4%	4,379	0.4%	1,964	0.2%	1,505	0.2%	1,284	0.2%
Product testing.....	—	—	389	0.0%	1,896	0.2%	340	0.1%	—	0.0%
Salary .....	754	0.1%	1,170	0.1%	1,127	0.1%	506	0.1%	570	0.1%
Commission.....	1,180	0.1%	878	0.1%	915	0.1%	567	0.1%	369	0.1%
Other expenses <sup>(1)</sup> ....	4,468	0.4%	4,271	0.4%	4,805	0.4%	1,709	0.2%	1,639	0.3%
	<u>36,423</u>	<u>3.8%</u>	<u>46,977</u>	<u>4.0%</u>	<u>50,564</u>	<u>4.6%</u>	<u>29,010</u>	<u>4.5%</u>	<u>18,698</u>	<u>3.4%</u>

Note:

(1) Consist mainly of export inspection charges and fuel charge for forklifts.

Selling expenses as a percentage of total revenue decreased to 3.4% in the six months ended September 30, 2009 as compared to 4.5% over the same period in 2008 primarily due to lower transportation expenses as a greater proportion of shipping costs were borne by our customers in return for lower sales prices.

Selling expenses as a percentage of total revenue increased to 4.6% in FY2009 from 4.0% in FY2008, mainly reflecting greater transportation expenses due to increased import handling and inspection charges as a result of tighter security and other restrictions during the Beijing Olympics in FY2009. Selling expenses as a percentage of revenue increased to 4.0% in FY2008 from 3.8% in FY2007, mainly due to higher transportation expenses as fuel prices increased in FY2008.

### Finance Income and Costs

Finance income relates primarily to interest earned on our bank deposits and foreign exchange gains and losses that relate to borrowing and cash and cash equivalents. Finance costs primarily consist of interest expenses on bank borrowings and overdrafts.

**Income Tax Expense**

We are not taxed on a consolidated basis. Our effective tax rate may fluctuate as a consequence of (a) increased or decreased profits derived from certain of our subsidiaries that are taxed at preferential rates based on relevant PRC tax laws and regulations; (b) available tax losses not recognized in previous years; (c) certain expenses not deductible for tax purposes; and (d) certain non-taxable income. See also the section headed “— Factors Affecting Results of Operations — Taxation” above.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. The methods, estimates and judgments that we use in applying our accounting policies may have a significant impact on our results as reported in our combined financial statements included elsewhere in this prospectus. Some of the accounting policies require us to make difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Below is a summary of the accounting policies in accordance with IFRS that we believe are both important to the presentation of our financial results and involve the need to make estimates and judgments about the effect of matters that are inherently uncertain. We also have other accounting policies, estimates and judgments that we consider to be significant which are set forth in detail in Notes 2 and 4 to the Accountant’s Report set out in Appendix I to this prospectus.

**Property, Plant and Equipment**

We have a significant amount of property, plant and equipment. We determine the estimated useful lives and residual values of our property, plant and equipment in order to ascertain the depreciation charges for each reporting period. Such estimates are based on our historical experience of the actual useful lives and residual values.

Depreciation is recognized in our income statement on a straight-line basis over the estimated useful life of each part of an item of property, plant and equipment less its estimated residual value. The residual values and useful lives of the assets are reviewed, and adjusted if appropriate, at each balance sheet date. In addition, each asset’s carrying amount is written down immediately to its recoverable value if the carrying amount is greater than the estimated recoverable amount. The annual depreciation rates of property, plant and equipment are as follows:

- Buildings — 4.5%
- Leasehold improvements — 20% or using the straight-line method over the unexpired lease term, whichever is shorter
- Plant and machinery — 9% to 30%
- Furniture, fixtures and equipment — 18% to 30%
- Motor vehicles — 18% to 30%

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use. Upon completion and commissioning for operation, depreciation will be provided at the appropriate rates specified above. Depreciation methods, useful life and residual value are reassessed at each reporting date.

**Inventories**

We measure and state inventories at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost principle, and includes costs of raw materials, direct labor, other direct costs and related production overhead charges (based on normal operating capacity), and where appropriate, subcontracting charges. The cost of inventories excludes borrowing cost. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. In assessing the net realizable value and making appropriate allowances, management identifies, using their judgment, inventories that are slow moving or obsolete, taking into consideration the physical condition, age, market condition and market price for similar inventory items. We did not experience any material impairment to our inventory, such as slow moving or obsolete inventory over the Track Record Period and thus did not make any provisions for the impairment of inventories over the Track Record Period.

**Trade and Other Receivables**

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that we will not be able to collect all amounts due according to the original terms of the receivables. The provision is estimated based on the credit history of our customers and the current market conditions, and is reassessed at each balance sheet date. Significant judgment is exercised in the assessment of the collectability of trade receivables from each customer. In making the judgment, we consider a wide range of factors such as results of follow-up procedures performed by sales personnel, customer payment trends, including subsequent payments and our customers' financial position. If the financial condition of our customers were to deteriorate, an increase to our provisions may be required.

For the years ended March 31, 2007, 2008 and 2009, our provision for impairment of trade and other receivables was HK\$2.2 million, HK\$2.1 million and HK\$5.3 million, respectively. For the six months ended September 30, 2008 and 2009, our provision for impairment of trade and other receivables was HK\$2.0 million and HK\$1.8 million, respectively. Direct write-offs of trade and other receivables during the years ended March 31, 2007, 2008 and 2009 and the six months ended September 30, 2008 were HK\$0.1 million, HK\$0.3 million, HK\$4.4 million and HK\$1.4 million, respectively. We recorded no direct write-offs of trade and other receivables for the six months ended September 30, 2009.

**Income Taxes**

We are subject to income taxes in the various jurisdictions in which we operate. The current income tax charge is calculated on the basis of tax laws enacted or substantially enacted at the balance sheet date in the countries where we operate and generate taxable income. Over the Track Record Period, we were primarily subject to income taxes in the PRC and Hong Kong. We periodically evaluate positions taken in our governmental tax filings with respect to situations where the applicable tax regulation is subject to interpretation and establish provisions where appropriate on the basis of amounts expected to be paid to tax authorities. Significant judgment is required in determining the worldwide provision for income taxes as there are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax liability differs from the amount we initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which

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such determination is made. In addition, deferred income tax assets relating to certain temporary differences and tax losses are recognized when management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. However, the outcome of their actual utilization may be different.

### RESULTS OF OPERATIONS

#### Selected Combined Income Statement Information

Our selected combined income statement information for FY2007, FY2008 and FY2009 and the six months ended September 30, 2008 and 2009 as set forth below is derived from our financial statements included in Appendix I to this prospectus.

	For the year ended March 31,			For the six months ended September 30,	
	2007	2008	2009	2008	2009
	(HK\$'000)			(unaudited) (HK\$'000)	
Revenue .....	957,557	1,178,945	1,098,549	643,332	554,861
Cost of sales.....	(626,965)	(785,028)	(715,462)	(433,288)	(353,519)
Gross profit .....	330,592	393,917	383,087	210,044	201,342
Other income.....	1,968	4,079	3,324	2,030	1,514
Other gain/(loss), net .....	1,517	(7,404)	(10,132)	(3,100)	(1,902)
Administrative expenses.....	(79,671)	(97,882)	(116,199)	(57,019)	(52,544)
Selling expenses .....	(36,423)	(46,977)	(50,564)	(29,010)	(18,698)
Operating profit.....	217,983	245,733	209,516	122,945	129,712
Finance income .....	180	6,150	1,927	2,214	774
Finance costs.....	(1,477)	(1,166)	(11,116)	(4,893)	(5,597)
Profit before income tax .....	216,686	250,717	200,327	120,266	124,889
Income tax expense.....	(1,745)	(9,873)	(27,737)	(17,034)	(17,708)
Profit for the year/period attributable to equity owners.....	<u>214,941</u>	<u>240,844</u>	<u>172,590</u>	<u>103,232</u>	<u>107,181</u>

### REVIEW OF HISTORICAL OPERATING RESULTS

#### Six Months Ended September 30, 2009 Compared to Six Months Ended September 30, 2008

##### Revenue

Our total revenue decreased by HK\$88.5 million, or 13.8%, to HK\$554.9 million in the six months ended September 30, 2009 as compared to HK\$643.3 million over the same period in 2008, primarily due to a decrease in recovered paper and recycled greyboard sales reflecting lower demand due to the economic downturn, partially offset by an increase in sales of tissue paper products.

*Recovered Paper.* Revenue from recovered paper decreased by HK\$91.7 million, or 23.9%, to HK\$292.5 million in the six months ended September 30, 2009 as compared to the same period in 2008. This decrease

is mainly attributable to a large decrease in the average selling price since the economic downturn in September 2008, partially offset by an increase in sales volume. Our average selling price of recovered paper decreased by 30.1% to HK\$1,529 per tonne in the six months ended September 30, 2009 from HK\$2,187 per tonne in the same period in 2008, reflecting the large decrease in the market price for recovered paper in September 2008 despite the gradual recovery of prices since December 2008. Recovered paper sales volume increased by 8.8% for the six months ended September 30, 2009 as compared to the same period in 2008, mainly due to lower selling prices and a recovery in market demand. Sales of recovered paper were particularly impacted by lower sales of newsprint and cardboard paper sales.

*Tissue Paper Products.* Revenue from our tissue paper products increased by HK\$18.0 million, or 7.8%, to HK\$247.4 million in the six months ended September 30, 2009 as compared to the same period in 2008. This increase is mainly driven by growth in the sales volume of recycled tissue paper products, partially offset by a decrease in the sales volume of virgin pulp tissue paper products coupled with a decrease in overall average selling prices.

Recycled tissue paper product sales increased 12.2% to HK\$201.8 million in the six months ended September 30, 2009 from HK\$179.8 million in the six months ended September 30, 2008 as consumers turned towards more economical recycled tissue paper products as opposed to virgin tissue paper products during the economic downturn. Recycled tissue paper products are generally priced at a discount to virgin tissue paper products. Increasing consumer demand for recycled tissue paper products also reflected a greater environmental consciousness and acceptance of recycled tissue paper products on the part of consumers worldwide. Sales of our virgin pulp tissue paper products decreased by 8.0% to HK\$45.6 million in the six months ended September 30, 2009 from HK\$49.6 million in the same period in 2008, reflecting our shift towards producing more recycled tissue paper products in response to market demand. The increase in revenue of tissue paper products was partly offset by a decrease in average selling prices by 3.2% to HK\$7,234 per tonne in the six months ended September 30, 2009 from HK\$7,473 per tonne in the same period in 2008, mainly reflecting the product mix shift towards greater sales of lower priced recycled tissue paper products as compared to virgin pulp tissue paper products. Tissue paper products that sold particularly well in the six months ended September 30, 2009 as compared to the same period in 2008 included our jumbo rolls, bathroom tissue and paper towels.

*Recycled Greyboard and Confidential Materials Destruction Services.* Revenue from our sales of recycled greyboard decreased by HK\$14.7 million, or 52.9%, in the six months ended September 30, 2009 as compared to the same period in 2008 mainly due to lower sales due to the economic downturn and our focus on selling higher margin products such as recycled tissue paper products. Revenue from confidential materials destruction services remained stable between the periods.

### **Cost of Sales**

Cost of sales decreased by HK\$79.8 million, or 18.4%, to HK\$353.5 million in the six months ended September 30, 2009 as compared to HK\$433.3 million over the same period in 2008 primarily due to decreased sales of recovered paper. As a percentage of revenue, cost of sales decreased to 63.7% in the six months ended September 30, 2009 as compared to 67.4% in the same period in 2008. Raw material costs as a percentage of revenue decreased to 48.5% in the six months ended September 30, 2009 as compared to 52.5% in the same period in 2008 mainly reflecting lower waste paper costs coupled with a decrease in virgin pulp costs as we shifted more of our production towards recycled tissue paper products. The average purchase cost of waste paper decreased by 24.8% to HK\$1,042 per tonne in the

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six months ended September 30, 2009 as compared to HK\$1,386 per tonne in the same period in 2008, mainly reflecting a large decrease in waste paper market prices starting in September 2008 despite the gradual recovery since December 2008.

### ***Gross Profit and Gross Profit Margin***

As a result of the foregoing factors, our gross profit decreased by HK\$8.7 million, or 4.1%, to HK\$201.3 million for the six months ended September 30, 2009 as compared to the same period in 2008. Our gross profit margin, however, increased to 36.3% in the six months ended September 30, 2009 as compared to 32.6% over the same period in 2008, mainly reflecting a lower cost of recovered paper and an improved sales mix towards higher margin products such as recycled tissue paper products.

### ***Other Income***

Other income decreased slightly by HK\$0.5 million, or 25.4%, to HK\$1.5 million in the six months ended September 30, 2009 as compared to HK\$2.0 million over the same period in 2008. This decrease is mainly attributable to a decrease in sales of other non-paper recyclable material, such as metal and plastic, that we collected as part of our paper collection efforts.

### ***Other Gain/Loss, Net***

Other net loss was HK\$1.9 million in the six months ended September 30, 2009 as compared to a other net loss of HK\$3.1 million over the same period in 2008. The other net loss over the six months ended September 30, 2009 was mainly attributable to a net foreign exchange loss on translation of Renminbi denominated receivables and payables while the other net loss over the same period in 2008 was mainly attributable to the disposal of equipment.

### ***Administrative Expenses***

Administrative expenses decreased by HK\$4.5 million, or 7.9%, to HK\$52.5 million in the six months ended September 30, 2009 as compared to HK\$57.0 million over the same period in 2008. As a percentage of revenue, administrative expenses increased to 9.5% in the six months ended September 30, 2009 as compared to 8.9% over the same period in 2008. The increase in administrative expenses as a percentage of revenue between the periods was mainly due to higher depreciation expenses coupled with increased audit, legal and professional fees. Depreciation expenses increased by HK\$3.0 million between the periods as we placed our Machine 27 into operation in July 2009. Audit, legal and other professional fees increased by HK\$1.4 million primarily due to expenses relating to our Global Offering.

### ***Selling Expenses***

Selling expenses decreased by HK\$10.3 million, or 35.5%, to HK\$18.7 million in the six months ended September 30, 2009 as compared to HK\$29.0 million over the same period in 2008. As a percentage of revenue, selling expenses decreased to 3.4% in the six months ended September 30, 2009 as compared to 4.5% over the same period in 2008. The decrease in selling expenses as a percentage of revenue between the periods was mainly due to lower transportation and freight costs. Transportation and freight costs decreased by HK\$9.5 million as customers bore a greater amount of shipping costs in return for a lower sales price.



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### ***Operating Profit***

As a result of the foregoing factors, our operating profit increased by HK\$6.8 million or 5.5% to HK\$129.7 million in the six months ended September 30, 2009 as compared to HK\$122.9 million over the same period in 2008. Our operating profit margin increased to 23.4% in the six months ended September 30, 2009 as compared to 19.1% over the same period in 2008, primarily due to an increase in gross margins coupled with a decrease in selling expenses as a percentage of revenue as discussed above.

### ***Finance Income***

Finance income was HK\$0.8 million in the six months ended September 30, 2009 as compared to HK\$2.2 million over the same period in 2008, mainly reflecting a lower average bank balance.

### ***Finance Costs***

Finance costs increased to HK\$5.6 million in the six months ended September 30, 2009, as compared to HK\$4.9 million over the same period in 2008 mainly due to the HK\$77.5 million increase in bank borrowings during the period. As of September 30, 2009, the effective interest rates per annum for long-term borrowings was 6.53% and for short-term borrowings was 5.20%.

### ***Income Tax Expense***

Income tax expense increased by HK\$0.7 million, or 4.1%, to HK\$17.7 million in the six months ended September 30, 2009 as compared to HK\$17.0 million over the same period in 2008. Our effective tax rate was 14.2% for each period.

### ***Profit For the Period***

As a result of the foregoing factors, profit for the period increased by HK\$4.0 million, or 3.9%, to HK\$107.2 million in the six months ended September 30, 2009 as compared to HK\$103.2 million over the same period in 2008. Our net profit margin, however, increased to 19.3% in the six months ended September 30, 2009 as compared to 16.0% over the same period in 2008, primarily due to an increase in gross margins coupled with a decrease in selling expenses as a percentage of revenue as discussed above.

## **FY2009 Compared to FY2008**

### ***Revenue***

Our total revenue decreased by HK\$80.4 million, or 6.8%, to HK\$1,098.5 million in FY2009 as compared to HK\$1,178.9 million in FY2008, primarily due to a decrease in recovered paper and recycled grayboard sales reflecting lower demand due to the economic downturn, partially offset by an increase in sales of tissue paper products.

*Recovered Paper.* Revenue from recovered paper decreased by HK\$84.0 million, or 12.3%, to HK\$597.8 million for FY2009 as compared to FY2008. This decrease is mainly attributable to decreased demand due to the economic downturn that began around September 2008. The volume of recovered paper sold decreased by 17.4% in FY2009 as compared to FY2008. In particular, the economic downturn led to a

significant decrease in exports from the PRC and consequently decreased demand for recovered paper, particularly recyclable black and white paper, which was partially offset by an increase in cardboard paper sales. However, our average selling price of recovered paper increased by 6.1% to HK\$1,906 per tonne in FY2009 from HK\$1,796 per tonne in FY2008 despite the general decrease in market price of recovered paper starting in September 2008, as most of our sales of recovered paper were made at a higher price prior to when the economic downturn started to have a significant adverse effect on selling prices.

*Tissue Paper Products.* Revenue from our tissue paper products increased by HK\$68.5 million or 17.6%, to HK\$457.7 million for FY2009 as compared to FY2008. This increase was mainly driven by growth in the sales volume of recycled tissue paper products, partially offset by a decrease in the sales volume of virgin pulp tissue paper products coupled with a decrease in overall average selling prices.

Recycled tissue paper product sales increased 76.3% to HK\$362.4 million in FY2009 from HK\$205.6 million in FY2008 as consumers turned towards more economical recycled tissue paper products as opposed to virgin tissue paper products during the economic downturn. Recycled tissue paper products are generally priced at a discount to virgin tissue paper products. Increasing consumer demand for recycled tissue paper products also reflected a greater environmental consciousness and acceptance of recycled tissue paper products on the part of consumers worldwide. Sales of our virgin pulp tissue paper products decreased by 48.1% to HK\$95.2 million in FY2009 from HK\$183.6 million in FY2008, reflecting our shift towards producing more recycled tissue paper products in response to market demand. The increase in revenue of tissue paper products was partly offset by a decrease in average selling prices by 3.1% to HK\$7,604 per tonne in FY2009 from HK\$7,837 per tonne in FY2008, reflecting the general trend of decreasing recovered paper and virgin pulp prices. Tissue paper products that sold particularly well in FY2009 as compared to FY2008 included our jumbo rolls, bathroom tissue and paper towels.

*Recycled Greyboard and Confidential Materials Destruction Services.* Revenue from our sales of recycled greyboard decreased by HK\$65.4 million, or 62.5%, mainly due to (a) the decommissioning of a greyboard production line in January 2008 in preparation for the installation of new production equipment for the manufacture of tissue paper products, which had a full-year impact in FY2009, and (b) the economic downturn leading to a significant decrease in demand for products that use recycled greyboard such as packaging materials, gift boxes and magazine covers. Revenue from confidential materials destruction services increased by HK\$0.5 million to HK\$3.9 million in FY2009 as we expanded our business.

### **Cost of Sales**

Cost of sales decreased by HK\$69.5 million, or 8.9%, to HK\$715.5 million in FY2009 as compared to HK\$785.0 million in FY2008 primarily due to decreased sales of recovered paper. As a percentage of revenue, cost of sales decreased to 65.1% in FY2009 from 66.6% in FY2008. Raw material costs as a percentage of revenue decreased to 47.8% in FY2009 from 51.3% in FY2008, mainly reflecting a decrease in virgin pulp costs as we shifted more of our production towards recycled tissue paper products. The average purchase cost of waste paper decreased slightly by 0.25% to HK\$1,197 per tonne in FY2009 from HK\$1,200 per tonne in FY2008. Utility expenses as a percentage of revenue increased to 6.1% in FY2009 from 4.5% in FY2008 primarily due to increased production and sale of tissue paper

products in FY2009. As a percentage of revenue labor costs also increased to 3.4% in FY2009 from 3.1% in FY2008, mainly reflecting a full year impact of new labor laws in the PRC that became effective on January 1, 2008, which was partially offset by staff reductions as a result of lower sales. Among other things, the new labor law required that we pay greater overtime expenses and increase benefits to our production workers.

### ***Gross Profit and Gross Profit Margin***

As a result of the foregoing factors, our gross profit decreased by HK\$10.8 million, or 2.7%, to HK\$383.1 million for FY2009 as compared to FY2008. Our gross profit margin, however, increased to 34.9% in FY2009 from 33.4% in FY2008, mainly reflecting a lower cost of recovered paper and an improved sales mix towards higher margin tissue paper products.

### ***Other Income***

Other income decreased by HK\$0.8 million, or 19.5%, to HK\$3.3 million for FY2009 as compared to HK\$4.1 million in FY2008. This decrease is mainly attributable to a decrease in sales of other non-paper recyclable material, such as metal and plastic, that we collected as part of our paper collection efforts.

### ***Other Gain/Loss, Net***

Other net loss was HK\$10.1 million in FY2009 as compared to a net other loss of HK\$7.4 million in FY2008. This difference was mainly attributable to different levels of foreign exchange loss on translation of Renminbi denominated trade and bills receivable and trade payables.

### ***Administrative Expenses***

Administrative expenses increased by HK\$18.3 million, or 18.7%, to HK\$116.2 million for FY2009 as compared to HK\$97.9 million in FY2008. As a percentage of revenue, administrative expenses increased to 10.6% in FY2009 from 8.3% in FY2008. The increase in administrative expenses between the periods was mainly due to the increase in bad debt expenses coupled with increased staff costs and other expenses. Bad debt expenses increased by HK\$7.3 million between FY2009 and FY2008 mainly due to increased write-offs and provisions resulting from the adverse effect of the economic downturn on some of the recovered paper customers and waste paper suppliers with whom we held receivables, deposits or prepayments. Staff costs increased by HK\$3.4 million mainly due to the hiring of additional senior management personnel.

### ***Selling Expenses***

Selling expenses increased by HK\$3.6 million, or 7.7%, to HK\$50.6 million for FY2009 as compared to HK\$47.0 million in FY2008. As a percentage of revenue, selling expenses increased to 4.6% in FY2009 from 4.0% in FY2008. Despite a decrease in fuel costs in FY2009, transportation and freight costs as a percentage of revenue increased to 3.6% in FY2009 from 3.0% in FY2008 mainly due to increased import handling and inspection charges as a result of tighter security and other restrictions during the Beijing Olympics. The increase in selling expenses is also attributable to the increased production testing early in the 2009 calendar year of our new tissue production equipment, which was subsequently launched in July 2009, and the increased marketing expenses as we hosted several trade fairs and held promotional activities for our distributors relating to our new production equipment.

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### ***Operating Profit***

As a result of the foregoing factors, our operating profit decreased by HK\$36.2 million, or 14.7%, to HK\$209.5 million in FY2009 from HK\$245.7 million in FY2008. Our operating profit margin decreased to 19.1% in FY2009 from 20.8% in FY2008 primarily due to an increase in selling and administrative expenses as a percentage of revenue, which was partially offset by an increase in gross margin as discussed above.

### ***Finance Income***

Finance income was HK\$1.9 million in FY2009 mainly reflecting a foreign currency exchange gain of HK\$0.6 million on our bank deposits and borrowings as the RMB appreciated slightly against the HK\$ over the period, coupled with an increase in interest income on bank deposits of HK\$1.3 million due to a higher average cash bank balance as we increased our borrowings near the end of FY2008.

### ***Finance Costs***

Finance costs increased to HK\$11.1 million in FY2009 as compared to HK\$1.2 million in FY2008 mainly due to increased interest expense on higher total amount of bank borrowings. In FY2009, we increased our borrowings by HK\$103.6 million to finance our capital expenditures relating to our new tissue production equipment. As of March 31, 2009, the effective interest rate per annum for long-term borrowings was 7.76% and for short-term borrowings was 4.24%.

### ***Income Tax Expenses***

Income tax expense increased by HK\$17.8 million, or 179.8%, to HK\$27.7 million for FY2009 as compared to HK\$9.9 million in FY2008. Our effective tax rate increased to 13.8% in FY2009 as compared to 3.9% in FY2008 mainly due to the expiration of our tax exemption since January 1, 2008. We were not subject to PRC taxes in the 2007 calendar year, but under the PRC Enterprise Income Tax Law, we were subject to a preferential statutory tax rate of 12.5% starting from January 1, 2008. Accordingly, our PRC subsidiary, FWHZ, was subject to the preferential statutory tax rate of 12.5% throughout FY2009 and for three months during FY2008. Our Hong Kong subsidiaries were also subject to income taxes in Hong Kong at a statutory rate of 16.5% and 17.5% during FY2009 and FY2008, respectively.

### ***Profit For the Year***

As a result of the foregoing factors profit for the year decreased by HK\$68.3 million, or 28.3%, to HK\$172.6 million in FY2009. Our net profit margin decreased to 15.7% in FY2009 as compared to 20.4% in FY2008 primarily due to lower revenues in FY2009 as well as a higher applicable tax rate in addition to increased selling and administrative expenses as a percentage of revenue, partially offset by the decrease of cost of sales as a percentage of revenue.

## **FY2008 Compared to FY2007**

### ***Revenue***

Our total revenue increased by HK\$221.3 million, or 23.1% to HK\$1,178.9 million in FY2008 as compared to HK\$957.6 million in FY2007, primarily due to an increase in sales of recovered paper coupled with an increase in sales of tissue paper products.

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*Recovered Paper.* Revenue from recovered paper products increased by HK\$177.0 million, or 35.1%, to HK\$681.8 million for FY2008 as compared to FY2007. This increase is mainly attributable to both increased demand and a higher average selling price. The volume of recovered paper sold increased by 27.6% between FY2007 and FY2008 primarily due to greater sales of recyclable black and white paper and old newsprint. Greater demand was also attributable to robust growth in the PRC economy during the period. The average selling price of recovered paper increased by 5.8% to HK\$1,796 per tonne in FY2008 from HK\$1,697 per tonne in FY2007, reflecting the general trend of increasing recovered paper prices during FY2008, as recovered paper is often used as a substitute for manufacturing paper products made from virgin pulp and is the main raw material used in the production of recycled tissue paper products.

*Tissue Paper Products.* Revenue from our tissue paper products increased by HK\$57.0 million, or 17.2%, to HK\$389.2 million for FY2008 as compared to FY2007. This increase is mainly driven by an increase in the average selling price. The average selling price of tissue paper products increased by 17.0% to HK\$7,837 per tonne in FY2008 from HK\$6,696 per tonne in FY2007, reflecting the general trend of increasing waste paper and virgin pulp prices. Sales of our virgin pulp tissue paper products increased by 29.0% to HK\$183.6 million in FY2008 from HK\$142.3 million in FY2007 while sales of recycled tissue paper products increased by 8.3%, mainly due to greater demand for virgin pulp-based tissue paper products during the stronger economy.

*Recycled Greyboard and Confidential Materials Destruction Services.* Recycled greyboard sales decreased by HK\$12.5 million, or 10.7% mainly due to the decrease in production capacity of greyboards as a result of the decommissioning of a greyboard production line in January 2008 in preparation for the installation of new production equipment for the manufacture of tissue paper products. Confidential materials destruction services sales remained stable during the year.

### **Cost of Sales**

Cost of sales increased by HK\$158.0 million, or 25.2%, to HK\$785.0 million in FY2008 from HK\$627.0 million in FY2007 primarily due to increased sales. As a percentage of revenue, cost of sales increased to 66.6% in FY2008 from 65.5% in FY2007. Raw material costs as a percentage of revenue increased to 51.3% in FY2008 from 50.0% in FY2007, mainly reflecting the general trend of increasing waste paper prices. The average purchase cost of waste paper increased by 20.2% to HK\$1,200 per tonne in FY2008 from HK\$998 per tonne in FY2007. As a percentage of revenue, labor costs also increased to 3.1% in FY2008 from 2.7% in FY2007, mainly reflecting increased costs from the new labor laws in the PRC that became effective on January 1, 2008.

### **Gross Profit and Gross Profit Margin**

As a result of the foregoing factors our gross profit increased by HK\$63.3 million, or 19.1%, to HK\$393.9 million in FY2008 as compared to FY2007. Our gross profit margin decreased to 33.4% in FY2008 from 34.5% in FY2007, mainly due to the increase in the average cost of waste paper as discussed above.

### **Other Income**

Other income increased by HK\$2.1 million, or 105.0%, to HK\$4.1 million for FY2008 as compared to HK\$2.0 million in FY2007. This increase is mainly attributable to an increase in sales of other non-paper

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recyclable materials, such as metals and plastic, that we collected as part of our paper collection efforts. In FY2008, we increased our purchases of waste paper in order to meet demand, thereby increasing the amount of non-paper recyclable materials that we also collected.

### ***Other Gain/Loss, Net***

Other net loss was HK\$7.4 million in FY2008 as compared to net other gain of HK\$1.5 million in FY2007. This difference was mainly attributable to a HK\$1.5 million foreign exchange gain in FY2007, reflecting the relatively significant strengthening of the RMB against the Hong Kong dollar over the period and its effect on our balance sheet.

### ***Administrative Expenses***

Administrative expenses increased by HK\$18.2 million, or 22.8%, to HK\$97.9 million for FY2008 as compared to HK\$79.7 million in FY2007. The increase in administrative expenses between the periods was mainly due to increased administrative staff costs as we hired more personnel to support our business growth coupled with higher wages reflecting the tighter labor market during the period. As a percentage of revenue, administrative expenses remained stable at 8.3% in each period.

### ***Selling Expenses***

Selling expenses increased by HK\$10.6 million, or 29.1%, to HK\$47.0 million in FY2008 as compared to HK\$36.4 million in FY2007. As a percentage of revenue, selling expenses increased to 4.0% in FY2008 from 3.8% in FY2007. The increase in selling expenses is mainly attributable to the increased transportation and freight costs. As a percentage of revenue, transportation and freight costs increased to 3% in FY2008 from 2.8% in FY2007 mainly due to increased fuel costs in FY2008.

### ***Operating Profit***

As a result of the foregoing factors, our operating profit increased by HK\$27.7 million, or 12.7%, to HK\$245.7 million in FY2008. Our operating profit margin decreased to 20.8% in FY2008 from 22.8% in FY2007 primarily due to an increase in waste paper costs as discussed above.

### ***Finance Income***

Finance income was HK\$6.2 million for FY2008, mainly consisting of a foreign currency exchange gain of HK\$5.5 million relating to our bank deposits and borrowings as the RMB appreciated significantly against the HK dollar during the period. The remaining HK\$0.7 million in finance income related to interest income on bank cash deposits.

### ***Finance Costs***

Finance costs decreased to HK\$1.2 million for FY2008 as compared to HK\$1.5 million in FY2007 primarily due to the repayment of bank loans of HK\$21 million in late FY2007, despite the net increase in borrowings of HK\$139.3 million for FY2008 which was drawn in late FY2008.

### ***Income Tax Expense***

Income tax expense increased by HK\$8.2 million, or 482.4%, to HK\$9.9 million for FY2008 as compared to HK\$1.7 million in FY2007. Our effective tax rate increased to 3.9% in FY2008 as

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compared to 0.8% in FY2007 mainly due to the expiration of our tax exemption since January 1, 2008. We were not subject to PRC taxes in the 2007 calendar year, but under the PRC Enterprise Income Tax Law, we were subject to a preferential statutory tax rate of 12.5% starting on January 1, 2008. Accordingly, our PRC subsidiary, FWHZ, was subject to the preferential statutory tax rate of 12.5% for three months during FY2008. Our Hong Kong subsidiaries were also subject to income taxes in Hong Kong at a statutory rate of 17.5% for FY2008 and FY2007.

### **Profit For the Year**

As a result of the foregoing factors profit for the year increased by HK\$25.9 million, or 12.1%, to HK\$240.8 million in FY2008. Our net profit margin, however, decreased to 20.4% in FY2008 as compared to 22.4% in FY2007 primarily due to higher cost of waste paper and a higher applicable tax rate during the last three months of FY2008.

### **LIQUIDITY AND CAPITAL RESOURCES**

Our primary uses of cash are to invest in additional manufacturing facilities and equipment, service our indebtedness and fund working capital and other recurring expenses. We have historically funded our cash requirements principally from cash provided by operations and cash on hand, while raising the remainder of our requirements primarily through short-term and long-term debt and borrowings from banks and related parties.

The following table is a condensed summary of our combined cash flow statements and analysis of balances of cash and cash equivalents for the periods indicated:

	For the year ended March 31,			For the six months ended September 30,	
	2007	2008	2009	2008	2009
				(unaudited)	
	(HK\$'000)			(HK\$'000)	
Net cash generated from operating activities .....	52,142	213,577	200,721	56,429	101,670
Net cash used in investing activities .....	(11,763)	(224,130)	(372,776)	(171,231)	(151,161)
Net cash (used in) / generated from financing activities .....	(31,029)	138,732	54,115	85,605	60,496
Net increase /(decrease) in cash and cash equivalents.....	9,350	128,179	(117,940)	(29,197)	11,005
Effect of foreign exchange rate changes .....	1,263	8,496	2,776	439	253
Cash and cash equivalents net of bank overdrafts as of beginning of the year / period .....	18,224	28,837	165,512	165,512	50,348
Cash and cash equivalents net of bank overdrafts as of the year / period end .....	<u>28,837</u>	<u>165,512</u>	<u>50,348</u>	<u>136,754</u>	<u>61,606</u>
Analysis of balances of cash and cash equivalents and bank overdrafts					
Cash and cash equivalents .....	38,524	176,987	52,721	145,709	66,305
Bank overdrafts.....	(9,687)	(11,475)	(2,373)	(8,955)	(4,699)
	<u>28,837</u>	<u>165,512</u>	<u>50,348</u>	<u>136,754</u>	<u>61,606</u>



**Cash flows from operating activities**

Over the Track Record Period, we derived our cash inflow from operating activities principally from the receipt of payments for the sale of our products. Our cash outflow from operating activities was principally for the purchase of raw materials relating to the cost of production such as waste paper, packing materials, chemicals, consumables and utility expenses, payment of employees' compensation and expenses relating to distributing our products.

For the six months ended September 30, 2009, our net cash generated from operating activities was HK\$101.7 million, primarily reflecting gross cash generated from operations of HK\$118.2 million net of income tax payments of HK\$15.0 million during the period.

Cash generated from operations was HK\$118.2 million, while our operating profit before working capital changes was HK\$154.6 million. The difference of HK\$36.4 million represents working capital usage over the period, and was primarily due to (a) an increase in trade and bills receivables of HK\$63.9 million mainly due to recovery of recovered paper and tissue paper product sales from the economic downturn; (b) a decrease in amounts due to related companies and a Director of a total of HK\$7.5 million mainly due to repayment of loans; partially offset by (c) a decrease in prepayments, deposits and other receivables of HK\$17.7 million mainly due to using up prepayments to suppliers during the six months ended September 30, 2009 and (d) an increase in trade and other payables of HK\$10.7 million mainly due to longer credit terms and increased purchases reflecting the sales recovery.

For FY2009, our net cash generated from operating activities was HK\$200.7 million, primarily reflecting gross cash generated from operation of HK\$229.4 million net of net tax payments of HK\$29.5 million during the year.

Cash generated from operations was HK\$229.4 million, while our profit before income tax after taking into account non-cash adjustments was HK\$257.9 million. The difference of HK\$28.5 million represents working capital usage over the period, and was primarily due to (a) an increase in prepayments, deposits and other receivables of HK\$29.2 million mainly due to the increase in deposits paid to our waste paper suppliers during the first half of FY2009 and prepayments to our third party waste paper suppliers in Beijing and Shanghai; (b) an increase in amounts due from related companies of HK\$15.5 million mainly due to an increase in sales of semi-finished tissue paper products to a related company over the year; (c) an increase in inventories of HK\$9.6 million mainly due to a recovery towards normal inventory levels as compared to FY2008; and (d) a decrease in amounts due to related companies and a Director of a total of HK\$13.0 million mainly due to repayments made; partially offset by (e) a decrease in trade and bills receivable of HK\$41.1 million mainly due to decreased sales in the second half of FY2009.

For FY2008, our net cash generated from operating activities was HK\$213.6 million, primarily reflecting gross cash generated from operation of HK\$215.5 million net of net income tax payments of HK\$2.1 million during the year.

Cash generated from operations was HK\$215.5 million, while our operating profit before working capital changes was HK\$277.8 million. The difference of HK\$62.3 million represents working capital usage over the period, and was primarily due to (a) a decrease in amounts due to related companies and



a Director of HK\$94.6 million mainly due to repayments made during the period; (b) an increase in prepayments, deposits and other receivables of HK\$16.9 million mainly due to increased deposits paid to waste paper suppliers; (c) an increase in trade and bills receivables of HK\$15.5 million mainly due to increased sales in-line with our revenue growth; partially offset by (d) a decrease in inventories of HK\$31.1 million mainly due to higher than anticipated sales leading to a draw-down of inventories; (e) a decrease in amounts due from related companies of HK\$19.3 million mainly due to repayments received during the period; and (f) an increase in trade and other payables of HK\$14.3 million mainly due to an increase in our purchases of waste paper during the period.

For FY2007, our net cash generated from operating activities was HK\$52.1 million, primarily reflecting gross cash generated from operation of HK\$54.9 million net of net income tax payments of HK\$2.8 million during the year.

Cash generated from operations was HK\$54.9 million, while our operating profit before working capital changes was HK\$248.3 million. The difference of HK\$193.4 million represents working capital usage over the period, and was primarily due to (a) an decrease in amounts due to related companies and a Director of a total of HK\$174.9 million mainly due to repayments made during the period relating to capital expenditure borrowings; (b) an increase in trade and bills receivable of HK\$34.4 million in line with increased sales over the period; (c) an increase in inventories of HK\$8.1 million in anticipation of greater sales in FY2008; (d) an increase in prepayments, deposits and other receivables of HK\$8.0 million mainly due to an increase in deposits paid to waste paper suppliers; partially offset by (e) an increase in trade and other payables of HK\$21.0 million mainly due to an increase in our purchases of waste paper during the period and (f) a decrease in amounts due from related companies of HK\$11.0 million mainly due to repayments received during the period.

### **Cash flows from investing activities**

For the six months ended September 30, 2009, our net cash used in investing activities was HK\$151.2 million, which primarily reflected capital expenditures for equipment and facility upgrades for our new Machine 27 and Machine 28 tissue production lines. During the period, we made payments of HK\$120.6 million for equipment and facilities and also paid HK\$32.3 million in deposits for new equipment.

For FY2009, our net cash used in investing activities was HK\$372.8 million, which primarily reflected capital expenditures for equipment and facility upgrades for our new Machine 27 and Machine 28 tissue production lines. During the period, we made payments of HK\$160.7 million for equipment and facilities and also paid HK\$217.6 million in deposits for new equipment. This was partially offset by proceeds from our sale of used equipment relating to recycled greyboard production line in the amount of HK\$4.2 million.

For FY2008, our net cash used in investing activities was HK\$224.1 million, which primarily reflected capital expenditures for equipment and facility upgrades for our new Machine 27 and Machine 28 tissue production lines. During the period, we made payments of HK\$78.7 million for equipment and facilities and also paid HK\$146.6 million in deposits for new equipment. This was partially offset by proceeds from our sale of used equipment relating to recycled greyboard production line in the amount of HK\$0.5 million.

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## FINANCIAL INFORMATION

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For FY2007, our net cash used in investing activities was HK\$11.8 million, which primarily reflected payments for purchases of equipment in the amount of HK\$12.0 million for tissue paper production line accessories and parts for replacement purposes.

### **Cash flows from financing activities**

For the six months ended September 30, 2009, our net cash inflow from financing activities was HK\$60.5 million. During the period, we borrowed an additional HK\$77.5 million from various banks, paid HK\$4.0 million in interest related to our bank borrowings and HK\$3.7 million for transaction costs relating to the Listing and increased our restricted bank deposits by HK\$9.3 million to secure bank borrowings.

For FY2009, our net cash inflow from financing activities was HK\$54.1 million. During the period, we borrowed a facility of HK\$103.6 million from various banks and repaid HK\$33.6 million in loans, mainly for our new tissue production lines. In addition, we paid HK\$11.1 million in interest related to our bank borrowings and HK\$4.8 million for transaction costs relating to the Global Offering.

For FY2008, our net cash inflow from financing activities was HK\$138.7 million, mainly reflecting bank borrowing for our new tissue production lines. During the period, we borrowed HK\$139.3 million from various banks and paid HK\$0.6 million in interest related to our bank borrowings.

For FY2007, our net cash used in financing activities was HK\$31.0 million, mainly reflecting repayment of loans of HK\$21.0 million and the payment of HK\$8.6 million in dividends. In addition, we paid HK\$1.4 million in interest relating to our bank borrowings.

## FINANCIAL INFORMATION

### NET CURRENT ASSETS

	As of March 31,			As of September 30,	As of January 31,
	2007	2008	2009	2009	2010
	(HK\$'000)			(HK\$'000)	(unaudited) (HK\$'000)
<b>Current assets</b>					
Inventories .....	74,181	49,137	59,249	56,240	79,570
Trade and bills receivables .....	190,474	219,634	178,105	241,795	339,440
Prepayments, deposits, and other receivables .....	41,031	61,329	84,058	67,217	85,020
Amounts due from related companies .....	8,889	9,081	29,637	28,355	962
Tax recoverable .....	412	960	—	—	—
Cash and cash equivalents .....	38,524	176,987	52,721	66,305	68,037
Restricted bank deposits .....	—	—	—	9,294	9,294
	<u>353,511</u>	<u>517,128</u>	<u>403,770</u>	<u>469,206</u>	<u>582,323</u>
<b>Current liabilities</b>					
Trade and other payables .....	87,060	107,699	106,333	123,486	174,685
Short-term bank borrowings .....	9,687	86,106	160,683	172,629	174,431
Current portion of long term borrowings .....	—	13,333	13,483	13,636	23,237
Amounts due to related companies .....	360	1,563	1,568	—	—
Amount due to a Director .....	189,438	114,909	107,337	101,311	100,000
Current income tax liabilities .....	—	9,478	8,132	10,637	8,367
	<u>286,545</u>	<u>333,088</u>	<u>397,536</u>	<u>421,699</u>	<u>480,720</u>
<b>Net current assets .....</b>	<u><u>66,966</u></u>	<u><u>184,040</u></u>	<u><u>6,234</u></u>	<u><u>47,507</u></u>	<u><u>101,603</u></u>

### Inventories

Our inventories comprise of raw materials and finished goods. We monitor and control inventory levels of our raw materials and finished products to optimize our operations. We have an inventory management system that monitors the planning and allocation of warehouse space and stock of raw materials and finished products to coordinate with delivery requirements and schedules.

Our inventory of raw materials comprises predominately waste paper, recovered paper and virgin pulp. Our policy is to maintain on average 30 days' supply of raw materials in our warehouses. Our inventory of finished products comprises primarily tissue paper products. Recovered paper is classified as a raw material inventory. We generally keep 30 days' worth of finished products in our warehouses. We have not experienced any material shortage of inventory during the Track Record Period.

We did not experience any material impairment to our inventory, such as slow moving or obsolete inventory, over the Track Record Period and thus did not provide for any inventory impairment allowance during the Track Record Period.

## FINANCIAL INFORMATION

The following table sets forth our inventories as of the dates indicated:

	As of March 31,			As of September 30,
	2007	2008	2009	2009
			(HK\$'000)	
Raw materials <sup>(1)</sup> .....	46,502	35,349	42,511	35,988
Finished goods <sup>(2)</sup> .....	27,679	13,788	16,738	20,252
Total.....	<u>74,181</u>	<u>49,137</u>	<u>59,249</u>	<u>56,240</u>

### Notes:

- (1) Raw materials inventories mainly represent waste paper and recovered paper, and include waste paper and virgin pulp for use in our production of tissue paper products.
- (2) Finished goods inventories mainly relate to finished tissue paper products.

For the six months ended September 30, 2009, our inventories decreased slightly by HK\$3.0 million to HK\$56.2 million as of September 30, 2009 from HK\$59.2 million as of March 31, 2009, reflecting a decrease in raw materials partially offset by an increase in finished goods. The decrease in raw materials by HK\$6.5 million for the six months ended September 30, 2009 was mainly due to draw-down of inventories from higher than expected sales of recovered paper products. Finished goods increased by HK\$3.6 million as we increased our inventories of tissue paper products in anticipation of greater tissue paper product sales.

In FY2009, our inventories increased by HK\$10.1 million or 20.6%, to HK\$59.2 million as of March 31, 2009 from HK\$49.1 million as of March 31, 2008 primarily due to an increase in both raw materials and finished goods inventories. The increase in raw materials by HK\$7.2 million in FY2009 was mainly in anticipation for our launching of our new tissue production equipment during July 2009. Finished goods inventory increased by HK\$2.9 million over the period mainly due to a greater quantity of smaller orders as customers were reluctant to stock-up on inventories during the economic downturn. In addition, we increased production and inventories of finished goods to provide a greater buffer in anticipation of increased tissue paper product sales.

In FY2008 our inventories decreased by HK\$25.1 million, or 33.8%, to HK\$49.1 million as of March 31, 2008 from HK\$74.2 million as of March 31, 2007, reflecting a decrease in both raw materials and finished goods inventories. The decrease for both raw materials and finished goods inventories was primarily due to draw-down of inventories from higher than expected sales of both recovered paper products and tissue paper products in FY2008.

As of December 31, 2009, our inventories were HK\$70.8 million. The increase in inventories by HK\$14.6 million from September 30, 2009 to December 31, 2009 was primarily due to a larger number of orders as a result of the economic recovery. Furthermore, we increased production in anticipation of further increase of sales orders in FY2010. The subsequent usage/sales of inventories outstanding as of September 30, 2009 during the period from September 30, 2009 to January 31, 2010 was HK\$54.3 million, with approximately 96.6% of inventories outstanding as of September 30, 2009 having been sold during the same period.

## FINANCIAL INFORMATION

### Trade and Bills Receivables

Our net trade and bill receivables mainly represent the balances due from our distributors and retailers, to which we generally grant credit terms ranging from 10 to 90 days.

The following table sets forth our trade and bills receivables as of the dates indicated:

	As of March 31,			As of September 30,
	2007	2008	2009	2009
	(HK\$'000)			
Net trade and bills receivables.....	190,474	219,634	178,105	241,795

For the six months ended September 30, 2009, our net trade and bills receivables increased by HK\$63.7 million, or 35.8%, to HK\$241.8 million as of September 30, 2009 from HK\$178.1 million as of March 31, 2009, primarily reflecting a recovery of recovered paper and tissue paper product sales for the six months ended September 30, 2009.

In FY2009 our net trade and bills receivables decreased by HK\$41.5 million, or 18.9%, to HK\$178.1 million as of March 31, 2009 from HK\$219.6 million as of March 31, 2008, primarily reflecting our decreased sales during the period coupled with a greater tightening of credit limits and credit periods granted to customers reflecting the higher collection risk from the economic downturn. In particular, credit terms were often not given to new customers in FY2009 until they established a credit history with us.

In FY2008 our net trade and bills receivables increased by HK\$29.1 million, or 15.3%, to HK\$219.6 million as of March 31, 2008 from HK\$190.5 million as of March 31, 2007, primarily reflecting our increased sales during the period partially offset by a general tightening of our credit policies and increased collection efforts with our customers.

The following table sets forth the aging analysis of trade and bills receivables for the dates indicated:

	As of March 31,			As of
	2007	2008	2009	September 30,
	(HK\$'000)			2009
Current.....	131,045	143,486	107,358	149,219
0 to 30 days.....	30,409	29,926	25,623	52,527
31 to 60 days.....	15,722	19,658	15,892	19,688
61 to 90 days.....	5,550	12,831	12,133	5,716
91 to 120 days.....	1,319	4,504	5,757	3,259
Over 120 days .....	8,184	12,480	15,482	17,163
Gross trade and bills receivables .....	192,229	222,885	182,245	247,572
Less: Provision for impairment.....	(1,755)	(3,251)	(4,140)	(5,777)
Net trade and bills receivables.....	<u>190,474</u>	<u>219,634</u>	<u>178,105</u>	<u>241,795</u>

## FINANCIAL INFORMATION

We have evaluated the credit situation of the specific customers to which such receivables relate and expect to fully recover such receivables. Therefore, we believe our provision for impairment is sufficient. Our net trade and bills receivable balance as of December 31, 2009 was HK\$319.5 million. During the three months ended December 31, 2009, our net trade and bills receivables increased by HK\$77.7 million, or 32.1%, primarily reflecting the increase in our recovered paper and tissue paper product sales during the period. As of January 31, 2010, our net trade and bills receivable balance was HK\$339.4 million and we have collected approximately 89.5% of the trade and bills receivable that were outstanding as of September 30, 2009.

### Current Portion of Prepayments, Deposits and Other Receivables

Our deposits placed with suppliers mainly represent the amount of down payments placed with our suppliers at the time we enter into the relevant contracts with our suppliers, typically printer and printing factories. Certain of our suppliers require the placement of down payments to ensure settlement of payments due to them. We place down payments with our suppliers on the condition that the waste paper is supplied exclusively to us. Such down payments are refunded to us upon termination or renewal of our contracts with the relevant suppliers.

Our prepayments to suppliers mainly represent advance payments we make from time to time to our suppliers, typically printer and printing factories, for our purchase of waste paper. Payments due to our suppliers at the time we collect waste paper are then settled through deductions from such prepayments to our suppliers.

The following table sets forth our current portion of prepayments, deposits and other receivables as of the dates indicated:

	As of March 31,			As of
	2007	2008	2009	September 30,
	(HK\$'000)			2009
Deposits placed with suppliers .....	21,950	25,730	26,202	30,065
Prepayments to suppliers .....	14,785	28,415	31,596	8,165
Other receivables due from third parties .....	2,144	3,762	20,337	27,224
Others <sup>(1)</sup> .....	2,152	3,422	5,923	1,763
Total .....	<u>41,031</u>	<u>61,329</u>	<u>84,058</u>	<u>67,217</u>

Note:

(1) Consist mainly of cash advances to employees to purchase inventory.

The current portion of prepayments, deposits and other receivables decreased by HK\$16.9 million to HK\$67.2 million as of September 30, 2009 from HK\$84.1 million as of March 31, 2009. This decrease was due principally to the settlement of other receivable balances by our business partners during the six months ended September 30, 2009.

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The current portion of prepayments, deposits and other receivables increased by HK\$22.8 million to HK\$84.1 million as of March 31, 2009 from HK\$61.3 million as of March 31, 2008. This increase was due to increased deposits and prepayments placed with suppliers and other receivables due from third parties over FY2009. The prepayments to suppliers as of March 31, 2009 included prepayments of HK\$10.3 million to our third party waste paper supplier, Shanghai Fanbao Waste Materials Management and Recycling Company Limited (上海繁寶廢舊物資回收利用有限公司), and HK\$9.7 million to our third party waste paper supplier, Beijing Gangying Environmental Technology Company Limited (北京港盈環保科技有限公司). As of the Latest Practicable Date, the balance of these prepayments to our waste paper suppliers in Shanghai, Shanghai Fanbao Waste Materials Management and Recycling Company Limited, and Beijing, Beijing Gangying Environmental Technology Company Limited, were nil. Other receivables due from third parties increased by HK\$16.6 million in FY2009 primarily due to a partial deposit of HK\$11.4 million to Liang Wu Gao Tou Village Committee (博羅縣園洲鎮梁屋高頭村民委員會) in connection with our bid for the Land Parcels through the BAQ procedure, which was subsequently settled with the Boluo Land Resources Bureau (博羅縣國土資源局) as part of our successful bid on February 4, 2010.

The current portion of prepayments, deposits and other receivables increased by HK\$20.3 million to HK\$61.3 million as of March 31, 2008 from HK\$41.0 million as of March 31, 2007. The increase in FY2008 was mainly due to an increase in prepayment to suppliers of HK\$13.6 million reflecting increased sourcing from waste paper suppliers due to increased recovered paper sales over the period. In addition, other receivables from third parties increased by HK\$1.7 million as of March 31, 2008 from HK\$2.1 million as of March 31, 2007 primarily due to prepayments to our third party waste paper supplier, Shanghai Fanbao Waste Materials Management and Recycling Company Limited (上海繁寶廢舊物資回收利用有限公司).

### Trade payables

Our trade payables mainly relate to the purchases from our suppliers for raw materials. The credit period granted by our suppliers generally ranges from 30 to 90 days.

The following table sets forth our trade payables as of the dates indicated:

	As of March 31,			As of
	2007	2008	2009	September 30,
				2009
	(HK\$'000)			
Trade payables.....	46,034	59,236	45,357	56,226

Our trade payables increased from HK\$46.0 million as of March 31, 2007 to HK\$59.2 million as of March 31, 2008 but decreased to HK\$45.4 million as of March 31, 2009, primarily reflecting our increased sales in FY2008 and decreased sales in FY2009. Trade payables increased from HK\$45.4 million as of March 31, 2009 to HK\$56.2 million as of September 30, 2009 primarily due to increased purchases reflecting the recovery in sales.

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The following table sets forth the aging analysis of trade payables for the periods indicated:

	As of March 31,			As of
	2007	2008	2009	September 30, 2009
	(HK\$'000)			
Current.....	25,371	39,125	22,132	39,315
1 – 30 days <sup>(1)</sup> .....	12,549	13,279	6,825	4,765
31 – 60 days .....	2,248	337	5,429	968
61 – 90 days .....	1,685	3,138	1,215	3,733
91 – 120 days .....	817	600	3,801	2,181
Over 120 days .....	3,364	2,757	5,955	5,264
Total.....	<u>46,034</u>	<u>59,236</u>	<u>45,357</u>	<u>56,226</u>

Note:

(1) Includes amounts due to local waste paper suppliers that do not provide us with formal credit terms.

As of January 31, 2010, we had paid approximately 91.8% of our trade payables that were outstanding as of September 30, 2009.

### Turnover Analysis

The following table sets forth our inventories, net trade and bills receivable and trade payable turnover days for the periods indicated:

	Year ended March 31,			Six months ended
	2007	2008	2009	September 30, 2009
Inventory turnover days <sup>(1)</sup> .....	40	29	28	30
Net trade and bills receivable turnover days <sup>(2)</sup> .....	65	63	66	69
Trade payable turnover days <sup>(3)</sup> .....	24	24	27	26

Notes:

- (1) Calculated using the average of the beginning and ending inventory balances for the period, divided by cost of sales for the period, multiplied by 365 days for a year or 183 days for six months ended September 30, 2009 in respect of the periods indicated.
- (2) Calculated using the average of the beginning and ending net trade and bills receivable balances for the period, divided by revenue for the period, multiplied by 365 days for a year or 183 days for six months ended September 30, 2009 in respect of the periods indicated.
- (3) Calculated using the average of the beginning and ending trade payable balances for the period, divided by the cost of sales for the period, multiplied by 365 days for a year or 183 days for six months ended September 30, 2009 in respect of the periods indicated.



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The decrease in inventory turnover days from 40 days in FY2007 to 29 days in FY2008 was mainly due to a drawdown of inventories for higher than expected sales of recovered paper products. Our management decided to maintain lower stock levels in FY2009 (at around 30 days) in response to the economic downturn.

### WORKING CAPITAL

Taking into account the financial resources available to the Group, including internally generated funds, available banking facilities and the estimated net proceeds the Group expects to receive from the Global Offering, the Directors are of the opinion that the Group has sufficient working capital for its present requirements and for at least the next 12 months from the date of this prospectus.

### INDEBTEDNESS

As of January 31, 2010, which is the latest practicable date for determining our indebtedness, we had total borrowings of HK\$445 million. Of the total borrowings, HK\$345 million were bank borrowings obtained under committed banking facilities in the amount of HK\$361 million, and HK\$100 million were amounts borrowed from a Director.

#### Bank Borrowings

The following table sets forth our bank borrowings during the Track Record Period:

	As of March 31,			As of	As of
	2007	2008	2009	September 30,	January 31,
				2009	2010
					(Unaudited)
	(HK\$'000)				
Short-term bank borrowings and overdrafts <sup>(1)</sup> ....	9,687	86,106	160,683	172,629	174,431
Long-term bank borrowings <sup>(2)</sup> :					
Current portion of long-term bank borrowings .....	—	13,333	13,483	13,636	23,237
Long-term portion of long-term bank borrowings .....	—	53,333	40,449	109,091	147,491
Total <sup>(3)</sup> .....	<u>9,687</u>	<u>152,772</u>	<u>214,615</u>	<u>295,356</u>	<u>345,159</u>

#### Notes:

- (1) Short-term bank borrowings and overdrafts are arranged at floating interest rates and are secured by trade receivables and plant and machinery of certain companies of the Group, and land use rights and buildings of FWHZ. The effective interest rates of short-term bank borrowings were 6.21% per annum, 4.24% per annum and 5.20% per annum as of March 31, 2008 and 2009, and September 30, 2009, respectively.
- (2) Long-term bank borrowings are arranged at floating interest rates and are secured by land use rights and buildings in the PRC. The effective interest rates of long-term bank borrowings were 8.13% per annum, 7.76% per annum and 6.53% per annum as of March 31, 2008 and 2009 and September 30, 2009, respectively.
- (3) Borrowings totalling nil, HK\$141.3 million, HK\$212.2 million and HK\$281.4 million were secured by a corporate guarantee provided by a Director and certain companies comprising the Group as of March 31, 2007, 2008 and 2009 and September 30, 2009, respectively. The banks have agreed in principle that all personal guarantees and securities provided by the Directors will be released or replaced by guarantees or other securities from our Company and/or our subsidiaries upon Listing.

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## FINANCIAL INFORMATION

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As of January 31, 2010, the Group's total bank borrowings include approximately HK\$145 million due to ABN AMRO and its associates, which the Group intends to repay in full using the net proceeds from the Global Offering. See the section headed "Future Plans and Use of Proceeds — Use of Proceeds" in this prospectus for further details. The borrowings from ABN AMRO and its associates are (a) at interest rates ranging from its effective cost of funds +2.75% per annum to its effective cost of funds +4.25% per annum, (b) due in stages within the period from June 30, 2009 to March 31, 2011 or in full within five business days of the Listing Date, whichever comes first and (c) secured by a personal guarantee given by Mr. Leung Kai Kuen, corporate guarantees by Fook Woo Waste Paper, CMDs, Golddoor, Fook Woo Environmental and Fook Woo Assorted Paper, and pledges over the Group's machinery and equipment. In addition, if the Global Offering is not completed by June 30, 2010, a 1% flat fee will be charged on the outstanding amount at the time. The borrowings from ABN AMRO and its associates were used for the Group's general working capital purposes, and the effective annual interest rates over the Track Record Period were nil in FY2007, 6.5% in FY2008, 4.5% in FY2009 and 5.4% for the six months ended September 30, 2009. For the years ended March 31, 2007, 2008, and 2009 and the six months ended September 30, 2009, the amounts due to ABN AMRO and its associates were nil, HK\$75 million, HK\$145 million and HK\$145 million, respectively.

Our bank borrowings increased from HK\$9.7 million as of March 31, 2007 to HK\$152.8 million as of March 31, 2008 and further to HK\$214.6 million as of March 31, 2009 and HK\$295.4 million as of September 30, 2009, primarily due to additional borrowings to finance our capital expenditures in relation to the expansion of our tissue production facilities in Huizhou. In FY2008, FY2009 and the six months ended September 30, 2009, we added HK\$78.8 million, HK\$205.5 million and HK\$459.5 million, respectively, in equipment relating to new tissue paper product production lines.

The gearing ratio (calculated as net debt divided by total capital) decreased from 36.9% as of March 31, 2007 to 13.9% as of March 31, 2008 mainly due to the increase in equity generated from the profit from operations in FY2008. The gearing ratio increased from 13.9% as of March 31, 2008 to 26.8% as of March 31, 2009 and further increased to 27.6% as of September 30, 2009. These increases during FY2009 and the six months ended September 30, 2009 were mainly due to additional borrowings to finance capital expenditures relating to the expansion of our tissue production facilities in Huizhou as mentioned above. For details on how the gearing ratio is calculated, please refer to Note 3.2 to the Accountant's Report set out in Appendix I to this prospectus.

## FINANCIAL INFORMATION

### Amounts due to related parties

The following table sets forth our amounts due to related parties during the Track Record Period:

	As of March 31,			As of September 30,	As of January 31,
	2007	2008	2009	2009	2010
				(Unaudited)	
	(HK\$'000)				
Amounts due to related companies <sup>(1)</sup> .....	360	1,563	1,568	—	—
Amount due to a Director <sup>(2)</sup> .....	189,438	114,909	107,337	101,311	100,000
Total <sup>(3)</sup> .....	<u>189,798</u>	<u>116,472</u>	<u>108,905</u>	<u>101,311</u>	<u>100,000</u>

#### Notes:

- (1) Amounts were borrowed from related companies where Mr. Leung Kai Kuen, our founder, Chairman, Chief Executive Officer and one of our Controlling Shareholders, is a Director.
- (2) Amount was borrowed directly from Mr. Leung Kai Kuen.
- (3) The amount due to a Director as of September 30, 2009 included HK\$100 million which has been settled by the issuance of new Shares to Mr. Leung Kai Kuen as part of the Reorganization. The remaining balance of HK\$1,311,000 was fully paid as of January 31, 2010.

### Contingent liabilities

In April 2009, certain of our Hong Kong subsidiaries received notices of additional tax assessment dated March 30, 2009 from the IRD for the year of assessment 2002/2003, demanding additional profits tax payment in the aggregate amount of HK\$3,840,000. Notices of objection have been served and the IRD has granted unconditional holdover orders in respect of the entire amount of additional profits tax demanded for the 2002/2003 additional tax assessments. In addition, on March 15, 2010, we received notices of additional tax assessment for the year of assessment 2003/2004, in which the tax assessment notices demanded additional profits tax payments in the aggregate amount of HK\$7.7 million. We expect to file notices of objection against any such 2003/2004 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 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. Please also refer to the sections headed “Risk Factors — Risks Relating to Our Business — Our Hong Kong subsidiaries may be subject to additional tax liabilities.” and “Our Business — Legal, Administrative and Similar Proceedings” in this prospectus for further details. As such, the Group is of the view that there is no reliable basis for estimating, and thus making provision for the potential tax liabilities relating to the 2002/2003 and 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

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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.

Save as aforesaid and apart from intra-group liabilities and normal trade payables, we did not have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, pledges, charges, debentures, mortgages, loans, debt securities or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities or acceptances (other than normal trade bills), acceptance creditors or any guarantees or other material contingent liabilities outstanding as of the close of business on January 31, 2010.

### CAPITAL EXPENDITURES

#### Capital Expenditures over the Track Record Period

Our operations are capital intensive, and we regularly make capital expenditures to expand our operations, maintain our equipment, increase our operating efficiency and comply with environmental laws and regulations. The following table sets forth our historical capital expenditures for the periods indicated:

	Year ended of March 31,			Six months ended
	2007	2008	2009	September 30,
				2009
	(HK\$'000)			
Property, plant and equipment.....	14,957	18,250	73,071	228,793
Construction in progress.....	—	60,532	132,401	230,721
Total.....	<u>14,957</u>	<u>78,782</u>	<u>205,472</u>	<u>459,514</u>

#### Planned Capital Expenditures

For the six months from October 1, 2009 to March 31, 2010, we expect to incur capital expenditures of approximately HK\$190 million, primarily to pay off the balance of our purchase of Machine 28 and to fund the implementation of Machine 28 and related infrastructure. We expect to incur capital expenditures of approximately HK\$555 million in FY2011. Our principal expected capital expenditures include (a) the expansion of the confidential materials destruction services business, (b) expansion of our waste paper management business in the China Region, (c) the setting up of an integrated waste paper collection and confidential materials destruction facility in Hong Kong and (d) the expansion of recycled tissue paper product manufacturing in the PRC. The capital expenditures also include expanding our

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production capacity by purchasing additional production equipment, diversifying our product offering and adding additional production space. We further plan to enhance our research and development capabilities and facilities and upgrade our information technology systems. Our planned capital expenditures are subject to change based on business and financial conditions.

We expect to finance our capital expenditure through a combination of operating cash flows, the net proceeds from the Global Offering and/or bank loans. The cash requirement relating to our expansion plan may vary significantly based on market opportunities. Our ability to satisfy our capital expenditure requirements may be affected by our financial condition, results of operations, and the liquidity of the international and domestic financial markets. We cannot assure you that we will be able to complete our expansion plan on terms acceptable to us or at all, or that we will have sufficient financial resources to complete our expansion.

### CONTRACTUAL OBLIGATIONS

The following table presents the maturities of our contractual obligations and other commitments for which cash flows are fixed or determinable as of September 30, 2009:

As of September 30, 2009	Less than one year	One to two years	Three to five years	More than five years	Total
	(HK\$'000)				
Bank borrowings and overdrafts .....	186,265	30,682	78,409	—	295,356
Amount due to a Director .....	101,311	—	—	—	101,311
Non-cancellable operating lease obligations .....	4,891	4,611	2,515	1,287	13,304
Capital commitments .....	31,386	—	—	—	31,386
Total .....	<u>323,853</u>	<u>35,293</u>	<u>80,924</u>	<u>1,287</u>	<u>441,357</u>

### OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we did not have any material off-balance sheet arrangements or contingencies except as included under the sections headed “— Contractual Obligations” and “— Indebtedness” above.

### RELATED PARTY TRANSACTIONS

As of September 30, 2009, we had balances due to related parties in the amount of HK\$101.3 million. As of September 30, 2009, related parties had provided guarantees in the amount of HK\$281.4 million as security for our bank loans. These non-trade balances have been fully settled up to the date of this prospectus, and all the guarantees provided by related parties to us as security for our bank borrowings will be released upon Listing.

As of September 30, 2009, we had balances due from related parties in the amount of HK\$28.4 million, representing trade receivables and expenses paid on behalf of related parties during the Track Record Period. Transactions in respect of advances will discontinue after the Listing and all outstanding amounts due from related parties will be repaid prior to the Listing.

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For further details regarding the related party transactions, please refer to Note 33 of the Accountant's Report set out in Appendix I to this prospectus. The advances made by FWHZ were made to a third party on behalf of Quanta and our PRC legal adviser has advised that such payment does not violate the relevant PRC laws and regulations. The Directors have taken advice from our Hong Kong legal adviser and confirm that the advances made to related parties by Fook Woo Waste Paper, Fook Woo Assorted Paper, Golddoor, Fook Woo Environmental and CMDS do not appear to be contrary to the objects of the above-mentioned companies as set out in their respective memoranda of association or the provisions of the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong).

Our Directors have confirmed that all related party transactions during the Track Record Period were conducted on normal commercial terms.

### MARKET RISKS

We are exposed to a variety of market risks including foreign currency risk, credit risk, liquidity risk and interest rate risk. Our major financial instruments include cash and bank deposits, trade and bills receivable, other receivables, trade and other payables, borrowings and amount due to/from related companies and a Director. Details of these financial instruments are disclosed in the notes to the Accountant's Report set out in Appendix I to this prospectus. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. We manage and monitor our exposure to these risks to ensure appropriate measures are implemented in a timely and effective manner.

#### Foreign currency risk

As we mainly operate in the PRC and most of our transactions are denominated and settled in RMB, the functional currency of the Company and a subsidiary in the PRC is in RMB. Our financial information is presented in HK\$, which is our presentation currency. We are of the view that HK\$ is more relevant to our Shareholders, and as such have chosen HK\$ as our presentation currency.

We are exposed to foreign currency risk as the majority of our assets and liabilities are denominated in RMB, HK\$ and US\$. However, since the HK\$ is pegged to the US\$, we do not consider that there is any significant foreign currency risk to us between these two currencies. We are subject to foreign currency exchange rate risk arising from future commercial transactions and recognized assets and liabilities which are denominated in a currency other than HK\$. The following table provides a sensitivity analysis of our pre-tax profits if the HK\$ and US\$ weakened or strengthened by 5%, based on our assets and liabilities denominated in those two currencies, respectively, with all other variables held constant:

	As of March 31,			As of September 30,
	2007	2008	2009	2009
	(HK\$'000)			
For companies with RMB as their functional currency:				
<i>Change in pre-tax profits if:</i>				
HK\$ had weakened by 5% against RMB .....	934	3,286	3,281	7,430
HK\$ had strengthened by 5% against RMB.....	(934)	(3,286)	(3,281)	(7,430)
US\$ had strengthened by 5% against RMB .....	167	609	413	(362)
US\$ had weakened by 5% against RMB.....	(167)	(609)	(413)	362

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We do not have a foreign currency hedging policy. However, we monitor our foreign exchange exposure and will consider hedging significant foreign currency exposure should we believe that the need arise.

At present, the RMB is not freely convertible to other currencies. The conversion of the RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. Foreign investment enterprises must remit their net profit or dividends in foreign currencies out of the PRC or repatriate such profit or dividends after converting the same from RMB to foreign currencies through banks that are authorized to engage in foreign exchange business. There is no assurance that we will obtain sufficient foreign exchange for payment of dividends or other settlements in foreign currencies.

### Credit risk

We have no significant concentrations of credit risk. The carrying amounts of bank and cash balances, trade and other receivables, and amounts due from related companies represent our maximum exposure to credit risk in relation to financial assets. We have policies in place to ensure that sales of our products are made to customers with an appropriate credit history.

### Liquidity risk

Our policy is to regularly monitor current and expected liquidity requirements and our compliance with borrowing covenants to ensure we maintain sufficient cash from operating activities and the availability of funding through committed credit facilities. We monitor our liquidity by preparing and reviewing cash flow forecasts that cover (a) a monthly cash flow forecast for the coming month and (b) quarterly cash flow forecasts for the coming three month period. The following table provides our contractual undiscounted cash flows as of September 30, 2009 (including interest payments computed using contractual rates or, if the contractual rates are floating, based on rates at the balance sheet date). Balances due within 12 months are equal to their carrying balances, as the impact of discounting is not significant.

As of September 30, 2009	Less than one year	Between one and two years	Between two and five years	Total
	(HK\$'000)			
Short-term bank borrowings .....	178,390	—	—	178,390
Long-term borrowings, including the current portion and interest payable .....	21,236	37,162	86,244	144,642
Trade and other payables .....	123,486	—	—	123,486
Amount due to a Director .....	101,311	—	—	101,311
Total .....	<u>424,423</u>	<u>37,162</u>	<u>86,244</u>	<u>547,829</u>

### Interest rate risk

We are mainly exposed to interest rate risk resulting from fluctuations in interest rates from our variable rate borrowings. As of September 30, 2009, HK\$286.1 million of our borrowings were at variable rates. Increases in interest rates would increase interest expenses relating to our outstanding floating rate borrowings and increase the cost of new debt, including rolled over short term loans.



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We do not currently hedge any of our interest rate risk. We manage our interest rate exposure on a dynamic basis and will consider the interest rate exposure when entering into any financing, renewal of existing borrowings and alternative financing transactions. Although we intend to use a portion of the net proceeds from the Global Offering to repay a portion of our borrowings, a significant increase in prevailing interest rates could substantially increase our finance costs. Based on total bank borrowings of HK\$295.4 million as of September 30, 2009, an increase or decrease of the effective interest rate by 100 basis points with all other variables held constant, would increase or decrease our post-tax profits for the six months ended September 30, 2009 by approximately HK\$3.0 million.

### DISTRIBUTABLE RESERVES

As of September 30, 2009, our Company did not have any distributable reserves.

### DIVIDEND POLICY

In FY2007, we declared and paid a cash dividend of HK\$8.6 million to our Shareholders. However, we did not declare or pay any dividends in FY2008, FY2009 or the six months ended September 30, 2009. Past payments and non-payments of dividends are not indicative of our future dividend policy.

We currently do not have any plans to distribute regular dividends immediately after the Listing, although this is subject to change. Our Board may declare dividends in the future after taking into account our operations, earnings, financial condition, cash requirements and availability and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Cayman Companies Law, including the approval of our Shareholders. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of the Board.

Future dividend payments will also depend upon the availability of dividends we receive from FWHZ, our key operating subsidiary in the PRC. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in certain aspects from IFRS. PRC laws also require a wholly-owned foreign enterprise, such as FWHZ, to transfer at least 10% of its net profit (after offsetting prior years' losses) to statutory reserve until the reserve balance reaches 50% of the registered capital under the Implementation Rules on the PRC Law on Wholly Foreign-Owned Enterprises. The transfer to reserve must be made before distribution of dividends to equity holders. Distributions from our PRC operating subsidiaries may also be restricted if they incur losses or if required under any restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that we or our PRC operating subsidiary may enter into in the future.

### PROPERTY INTERESTS

A A Property Services Limited, an independent property valuer, has valued the Group's property interests as of February 15, 2010, and is of the opinion that the market value of the Group's property interests (including land and buildings) as of such date was approximately HK\$67.1 million on the basis that the Group only has land use rights in respect of land with a total site area of 64,781 square meters. Assuming the Group obtains land use rights in respect of all the land parcels occupied by the Huizhou production facilities (that is, assuming the Group has land use rights in respect of land with a total site

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area of 121,823 square meters and a tenancy on the piece of land on which our pier is situated, having a site area of 27,179 square meters), the market value of the Group's property interests (including all land, buildings and structures) as of such date would have been approximately HK\$234.3 million. See the section headed "Risk Factors — Risks Relating to Our Business — We have not obtained land use right certificates for certain parcels of land within our Huizhou production base. In addition, we lack certain permits and licenses for such parcels of land, which could subject us to penalties and adversely affect our rights to use such properties." in this prospectus. The full text of A A Property Services Limited's letter, summary of valuation and valuation certificates regarding such property interests are set out in the section headed "Property Valuation" Appendix IV to this prospectus.

### RECONCILIATION OF APPRAISED PROPERTY VALUES WITH NET BOOK VALUES

Disclosure of the reconciliation between the valuation of the interests in properties attributable to the Group and such property interests in the Group's combined balance sheets as of September 30, 2009 contained in the Accountant's Report set out in Appendix I to this prospectus as required under Rule 5.07 of the Listing Rules, is set forth below.

	<b>HK\$'000</b>
Buildings included in property, plant and equipment .....	196,891
Land use rights .....	<u>20,492</u>
Net book value as of September 30, 2009.....	217,383
Movement from October 1, 2009 to February 15, 2010	
Add: Additions during the period .....	18,230
Less: Depreciation and amortization during the period .....	<u>(4,291)</u>
Net book value as of February 15, 2010.....	231,322
Valuation surplus .....	<u>2,978</u>
Valuation as of February 15, 2010 .....	<u><u>234,300</u></u>

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### UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma statement of adjusted net tangible assets which has been prepared on the basis of the notes set out below, for the purpose of illustrating the effect of the Global Offering as if the Global Offering had taken place on September 30, 2009. This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the adjusted net tangible assets of the Group as of September 30, 2009 or at any future date.

	Combined net tangible assets of the Group attributable to equity holders of the Company as of September 30, 2009	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share
	HK\$'000 <sup>(1)</sup>	HK\$'000 <sup>(2)</sup>	HK\$'000	HK\$ <sup>(3)</sup>
Based on an Offer price of HK\$1.68 per Offer Share .....	<u>842,570</u>	<u>749,736</u>	<u>1,592,306</u>	<u>0.80</u>
Based on an Offer Price of HK\$2.30 per Offer Share .....	<u>842,570</u>	<u>1,047,309</u>	<u>1,889,879</u>	<u>0.94</u>

#### Notes:

- (1) The combined net tangible assets of the Group attributable to the equity holders of the Company as of September 30, 2009 is based on the audited combined net assets of the Group attributable to the equity holders of the Company as of September 30, 2009 of approximately HK\$842,570,000, as extracted from the Accountant's Report set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Prices of HK\$1.68 and HK\$2.30 per Offer Share, respectively, after deduction of the underwriting fees and commissions and other related expenses payable by our Company and take no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option or pursuant to the exercise of the options which may be granted under the Share Option Scheme.
- (3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in Note (2) above and on the basis that 2,000,000,000 Shares were in issue assuming that the Global Offering and the Capitalization Issue had been completed on September 30, 2009 but takes no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option or pursuant to the exercise of the options which may be granted under the Share Option Scheme.
- (4) As of February 15, 2010, the Group's property interests were valued by A A Property Services Limited, an independent property valuer, and the relevant property valuation report is set out in the section headed "Property Valuation" in Appendix IV to this prospectus. The revaluation surplus has not been included in the Group's combined financial information as of September 30, 2009. It is the Group's accounting policy to state its land use rights and property, plant and equipment at cost less accumulated depreciation/amortization and any impairment loss rather than at revalued amounts. Had the property interests been stated at such valuation, an additional depreciation/amortization of HK\$144,000 per annum would have been incurred.
- (5) No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading result or other transactions of the Group entered into subsequent to September 30, 2009.

### PROFIT FORECAST FOR THE YEAR ENDING MARCH 31, 2010

The Directors forecast that, in the absence of unforeseeable circumstances and on the bases and assumptions set out in Appendix III to this prospectus, the forecast of the Group's consolidated profit attributable to equity holders of the Company for the year ending March 31, 2010 will not be less than

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HK\$281.1 million. Please refer to the section headed “Profit Forecast” in Appendix III to this prospectus.

On a pro forma basis, the unaudited forecast earnings per Share for the year ending March 31, 2010 will not be less than HK\$0.14. This is made on the assumption that the Global Offering and the Capitalization Issue were completed on April 1, 2009 and a total of 2,000,000,000 Shares were in issue during the entire year. This calculation has not taken into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or pursuant to the exercise of the options which may be granted under the Share Option Scheme.

### **DISCLOSURE REQUIRED UNDER THE LISTING RULES**

The Directors confirm that as of the Latest Practicable Date, there were no circumstances that would give rise to disclosure requirements under Listing Rules 13.13 to 13.19 had the Shares been listed on the Stock Exchange.

### **NO MATERIAL ADVERSE CHANGE**

Our Directors confirm that there has been no material adverse change in our financial or trading position since September 30, 2009, being the date of the latest audited combined financial position of our Group as set out in the Accountant’s Report set out in Appendix I to this prospectus.