

## BUSINESS

### OVERVIEW

We are principally engaged in the manufacture and trading of hygienic disposables for household and clinical uses. Our products consist mainly of clinical waste bags, general waste bags, disposable film bags and aprons. For each of the three years ended 31 March 2010 and three months ended 30 June 2010, our turnover breakdown by sector, business model and product type is as follows:

	For the year ended 31 March						For the three months ended 30 June			
	2008		2009		2010		2009		2010	
	HK\$'000	% of turnover	HK\$'000	% of turnover	HK\$'000	% of turnover	HK\$'000	% of turnover	HK\$'000	% of turnover
Household sector										
Sales of manufactured products										
— Film bags	197,686	70.1	163,358	52.4	119,745	28.0	32,536	38.2	34,389	30.2
— General waste bags	52,663	18.7	95,689	30.7	105,424	24.7	34,164	40.1	19,009	16.7
Clinical sector										
Sales of manufactured products										
— Clinical waste bags	9,125	3.2	21,482	6.9	23,994	5.6	9,353	11.0	4,118	3.6
— General waste bags	4,119	1.4	384	0.1	1,112	0.3	398	0.5	18,965	16.7
— Aprons	18,487	6.6	30,694	9.9	37,785	8.8	8,688	10.2	4,849	4.3
Trading of products										
— General waste bags	—	—	—	—	139,056	32.6	—	—	32,376	28.5
<b>Total</b>	<b>282,080</b>	<b>100.0</b>	<b>311,607</b>	<b>100.0</b>	<b>427,116</b>	<b>100.0</b>	<b>85,139</b>	<b>100.0</b>	<b>113,706</b>	<b>100.0</b>

Given that our Directors considered a better growth potential in the clinical consumables market, our Group's future strategy will focus more on our products for clinical sector, while our Group will also maintain the sales effort in our products for household sector.

### Sales of self-manufactured products

A number of our products come with innovative designs which Mr. Chum, our founder, has successfully patented in different jurisdictions. Mr. Chum has entered into the Patent Assignments to assign his ownership in the EU Patents, the PRC Patents and the US Patents to the Group. The assignments of the EU Patents and the US Patents were completed. Pursuant to relevant PRC laws and regulations, the PRC Patents Assignment shall be registered with the competent patent administrative authority. The PRC Patents Assignment will come into force upon the date of such registration and Huizhou Junyang will become the registered owner of the PRC Patents accordingly. In addition, Mr. Chum and Huizhou Junyang also entered into the PRC Patents Licence Agreements, pursuant to which Huizhou Junyang has been licensed to use the PRC Patents. As advised by the PRC Legal Advisers, Huizhou Junyang is currently entitled to use the PRC Patents pursuant to the PRC Patents Licence Agreements. Mr. Chum and Huizhou Junyang are in the process of making such relevant registration and filing, and the PRC Patents Licence Agreements

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will cease to have effect upon the completion of the registration of PRC Patents Assignment. As further advised by the PRC Legal Advisers, there will be no material legal impediment for Mr. Chum and Huizhou Junyang to complete the aforementioned registration and filing procedures.

Certain of our products are made with oxo-biodegradable materials with our self-developed formulations in accordance with the specific requirements from our customers. The revenue of our products with oxo-biodegradable nature for the three years ended 31 March 2010 and three months ended 30 June 2010 were approximately HK\$4,152,000, HK\$37,139,000, HK\$29,048,000 and HK\$3,775,000, accounting for approximately 1.5%, 11.9%, 6.8% and 3.3% of our total turnover for the corresponding periods respectively.

Our production facility is based in Huizhou of Guangdong Province, the PRC, with a designed annual production capacity of 38,600 tons of hygienic disposables. A number of production technologies which we apply to our key production processes have been successfully patented. These patented technologies are designed to enable us to enhance our production efficiency and mass produce products with our patented designs. Our Huizhou production facility is also accredited with ISO9001:2008 and GB/T 19001-2008, demonstrating our commitment of high product quality.

### **Trading of products**

We successfully established significant presence in the US market in 2009 through the commencement of trading of general waste bags for clinical sector with a US customer, Spectrum Bags, Inc.. According to the information shown on its website, Spectrum Bags, Inc. was established in 1985 and is a manufacturer and importer of printed bags used in retail stores, restaurants, supermarkets, hospitals and for janitorial and industrial applications. The commencement of trading with this customer had mainly contributed to the substantial increase in turnover for the year ended 31 March 2010. We adopt a back-to-back trading model with this new US customer, whereby we would place purchase orders with our supplier for the finished goods with terms such as quantity, unit price, product description and payment terms against each of the orders placed by this US customer. A trading model was adopted with this US customer mainly because certain of the production equipment in our Huizhou plant would need to undergo adjustments, which would involve lengthy time, in order to produce products with specifications required by this particular US customer. In order to reduce the risk of failing to meet the delivery schedule due to unanticipated delays in equipment modifications and trial testings which would have an immediate adverse impact on the relatively new business relationship, our Group sourced those products from a third party with ready capability for on-sale to this US customer. Going forward, we intend to introduce more of our self-manufactured products, which are proven to be well received in the European markets, to the US.

### **Customers**

During the Track Record Period, our largest customer accounted for approximately 28.1%, 28.8%, 32.6% and 45.1% of our total sales respectively, whereas our five largest customers accounted for approximately 84.6%, 76.1%, 87.1% and 92.3% of our total sales respectively. Stenqvist AS, being our largest customer for the two years ended 31 March

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2009, accounted for approximately 28.1%, 28.8%, 19.0% and 24.5% of our total sales for the Track Record Period, whereas Spectrum Bags, Inc. was our largest customer for the year ended 31 March 2010 and the three months ended 30 June 2010. Stenqvist AS is a packaging producer in Europe. According to the information shown on the website of Stenqvist AS, its group was established since 1894 with production facilities in Sweden, parts of Scandinavia and Europe and the business activities of its group include supplying consumable materials in the form of cleaning articles such as refuse bags and in the form of high-class plastic bags and plastic carrier bags; while Spectrum Bags, Inc., according to the information shown on its website, was established in 1985 and is a manufacturer and importer of printed bags used in retail stores, restaurants, supermarkets, hospitals and for janitorial and industrial applications. Also, our major customers include HPC Healthline UK Limited, one of the authorized distributors of clinical disposables to clinics and hospitals operating under the National Health Service public healthcare system in the UK, and one of the largest supermarket chains in the UK. For the three years ended 31 March 2010 and three months ended 30 June 2010, the turnover generated from HPC Healthline UK Limited accounted for approximately 13.5%, 19.0%, 17.4% and 8.5% respectively of our total turnover.

### **Our financial highlights**

For the three years ended 31 March 2010 and three months ended 30 June 2010, we reported revenues of approximately HK\$282.1 million, HK\$311.6 million, HK\$427.1 million and HK\$113.7 million, respectively, whereas our net profit was approximately HK\$43.1 million, HK\$43.5 million, HK\$78.9 million and HK\$16.9 million, respectively.

### **Our growth strategy**

As part of our growth strategy, we plan to leverage on our product and market experience with the European and US markets of hygienic disposables, particularly the clinical and health-care sectors, and tap into the Chinese medical consumables market, given that the consumption rate of medical consumables in China is still far below those of the US and European markets. Also, we intend to commit significant resources to further expand our market share in other European countries such as France, Germany, Italy and Sweden. For more details, please refer to the paragraphs headed “Expand into the medical consumables market in China” and “Fortify our market share in the European and US markets” under the sub-section headed “Our strategies and future plans” below.

## **OUR COMPETITIVE STRENGTHS**

### **Strong customer base and reputation**

We have focused our sales and marketing activities on large-scale customers with whom we have built, and seek to maintain, long-term and close relationships. Our major customers include reputable disposable product suppliers in the medical and retail sectors such as Stenqvist AS, a packaging producer in Europe, HPC Healthline UK Limited, one of the authorized distributors of clinical disposables to clinics and hospitals operating under

the National Health Service public healthcare system in the UK and one of the largest supermarket chains in the UK, all of which were among our ten largest customers for each of the years ended 31 March 2009 and 2010.

Our customers typically demand a challenging combination of quality, specification and competitive pricing for the products, and one of which have acquired approved supplier status with medical/clinical/health-care regulatory bodies. As a result, some customers usually work with a group of preferred suppliers who have passed their stringent requirements, thereby increasing the barriers of entry for new participants. Preferred suppliers must satisfactorily complete their quality testing requirements and have a demonstrated track record for quality, price, financial strength and production capacity, as well as a good market reputation. Our ability to supply products with innovative designs and consistent high quality enhances our market reputation and builds customer loyalty. Some of our key customers rely on us to meet their requirements for specific hygienic disposables as we can provide “made-to-order” services in accordance with the specifications of our customers.

**Proven track record in developing innovative, patented production technologies and product designs**

Mr. Chum, our founder, has throughout his years of business venturing in the hygienic disposables industry developed and patented a number of production technologies which we apply to our key production processes, and product designs which we adopt in developing our products. Through application of these patented production technologies and designs, we have successfully modified the extrusion process and significantly enhanced our output efficiency and developed products with desirable material qualities and user-friendly characteristics for end users. Examples of such products include our disposable film bags with our innovative, user-friendly “easy-pick” design, our disposable clinical gloves with our patented “easy-wear” design and our disposable aprons with noticeably enhanced wearing comfort.

On 20 October 2010, 9 November 2010 and 13 December 2010, Mr. Chum, as the registered owner of the US Patents, the EU Patents and the PRC Patents, which are in aggregate 18 patents and in force for these production technologies and innovative product designs, executed the US Patents Assignment, the EU Patents Assignment and the PRC Patents Assignment respectively for the assignment of his ownership in the US Patents, the EU Patents and the PRC Patents.

Pursuant to relevant PRC laws and regulations, the PRC Patents Assignment shall be registered with the competent patent administrative authority. The PRC Patents Assignment will come into force upon the date of such registration and Huizhou Junyang will become the registered owner of the PRC Patents accordingly. In addition, Mr. Chum and Huizhou Junyang also entered into the PRC Patents Licence Agreements, pursuant to which Huizhou Junyang has been licensed to use the PRC Patents on a royalty-free basis. Please refer to the sub-paragraph headed “Our intellectual property rights” under the

paragraph headed “Further information about the business of our Company” set out in the section headed “Appendix VI — Statutory and general information” in this prospectus for further details.

### **Self-developed formulations on raw material composition to suit customers’ preferences and needs**

We have developed a knowhow, which is not patented, in formulating composition of raw materials to meet the desirable material characteristics preferred by our customers. Our formulations, coupled with patented production technologies, enable us to meet our customers’ specific requirements (including, as the case may be, inclusion of degradable additives) by adjusting our formulation.

### **Stringent quality assurance and control procedures**

We have established and adopted a stringent quality assurance and control procedures in compliance with ISO9001:2008 and GB/T19001-2008 standard. Our quality assurance and control team consists of 17 staff who are responsible for monitoring and executing quality examination and control procedures in various key stages of the production process. Our track record on quality assurance is evidenced by the fact that we had not experienced any product return by our customers during the Track Record Period, which further contributes to solidify our reputation and customer loyalty.

### **Experienced management team**

Our management team has extensive experience in the hygienic disposables industry. One of our founders and our chairman, Mr. Chum, has many years of experience in the hygienic disposables industry and was the registered owner of the EU Patents, the PRC Patents and the US Patents which are in force in different production technologies and product designs before assigning them all to our Group pursuant to the Patent Assignments, and which all assist in enhancing the production efficiency and competitiveness of our products. In addition, Mr. Chum was accredited with the “Sixth National Science and Technology Progress Achievement — First Award” (第六屆國家科技成果「進步獎」一等獎) and the “Sixth National Patent Technology Invention — First Award” (第六屆國家專利技術「發明獎」一等獎) by Assessment Panel for National Science and Technology Progress Achievement Award\* (國家科技進步獎評審委員會) and Assessment Panel for National Technology Invention Award\* (國家科技發明獎評審委員會), respectively for our customized production equipment, “Automatic Continuous Band Sealer of Plastic Bags” (塑質膜袋連續封口製袋機), applying principally patented production technology in manufacturing film bags. Moreover, Mr. Desmond Chum, one of our executive Directors and our chief executive officer, has provided innovative ideas on product designs, the patent of which is in the process of application. Additionally, through the marketing efforts of Mr. Desmond Chum, we have successfully established and have since maintained close relationships with sizeable and reputable European and US customers.

## **OUR STRATEGIES AND FUTURE PLANS**

### **Expand into the medical consumables market in China**

We have many years of experience in the hygienic disposable industry. We have established a proven track record in the manufacture and sale of hygienic disposables for clinical and household uses in the European markets, and have successfully established a significant presence in the US hygienic disposables market through our trading business with one of our major customers. As part of our growth strategy, we plan to leverage on our product and market experience with the European and US markets and tap into the Chinese medical consumables market. Given the consumption rate of medical consumables in China is still far below those of the US and European markets, we believe the market potential for clinical disposables in China is tremendous. Despite the lower profit margin for our clinical products during the Track Record Period, our Directors consider that taking into account the anticipated increasing demand for clinical products in China, our Group is able to improve the profit margin for our clinical products in the future. With the view of establishing our presence and recognition in the PRC medical products market in an expedient and efficient manner and to pave the way of launching our own clinical products in the near future, we intend to have the following expansion plans into the medical market in China:

#### *Expansion plans into the medical market in China*

1. We intend to commence importing spine pressure reduction system (as a Category II medical device under the classification of “Medical Devices Classification Index”\* (醫療器械分類目錄) issued by the State Food and Drug Administration (formerly known as State Drug Administration) from overseas suppliers of medical products for on-sale to hospitals in Beijing, the PRC.
2. We plan to construct a new production facility in the PRC for the manufacture of medical products. We are currently looking into the market feasibility and business potential of a number of short-listed potential product candidates, including medical gloves (a Category I medical device under the classification of “Medical Devices Classification Index”\* (醫療器械分類目錄)) and clinical aprons (an existing product of the Group), to be manufactured in our new production facility and targeted for sales to clinics and hospitals in the Beijing areas in the PRC.

#### *Capital expenditure*

1. The capital expenditure for the development of distribution channels in the PRC is estimated at approximately HK\$23 million. The channels will be earmarked for distributing the planned medical products to be imported and self-manufactured by our Group.
2. The capital expenditure for the construction of new production facility is estimated at approximately HK\$224 million. Construction of the new production facility is currently planned to take two phases, with the first phase planned to be



completed before 31 March 2012. The Group estimates that the investment costs for the construction of the first phase production facility will be approximately HK\$68 million as compared to the estimated costs of approximately HK\$52 million that may involve if our existing Huizhou plant is being modified with the equivalent production capacity. The construction of the second phase is planned to be completed before 31 March 2013.

### **Fortify our market share in the European and US markets**

We manufacture and sell our hygienic disposables for clinical and household uses mostly to the European markets with a particular concentration in the UK. Leveraging on our success in servicing the UK clinical hygienic disposables market and our established relationships with well-established UK distributors of clinical and health-care disposables, we intend to commit significant resources to further expand our market share in other European countries such as France, Germany, Italy and Sweden as our Directors believe the market potentials for hygienic disposables in these markets are large. Moreover, with our success in establishing a significant presence in the US market initially using a trading model, we intend to introduce more of our self-manufactured products, which are proven to be well received in the European markets, to the US. To cope with our market expansion plan, we plan to expand our Huizhou production capacity for hygienic disposables such as clinical aprons, gloves, disposal bags (which do not fall within the classification of “Medical Devices Classification Index”\* (《醫療器械分類目錄》)) as and when necessary depending on its future utilization status.

### **Increase the production output of oxo-biodegradable hygienic disposables**

We currently produce and sell hygienic disposables made with oxo-biodegradable materials in accordance with the specific requirements from our customers, through our self-developed formulations on raw materials composition to alter the degradability of our products. We believe the global demand for degradable hygienic disposables will be on the uptrend in anticipation of the increase in market awareness on environmental concerns. We are capable of increasing our production output for oxo-biodegradable hygienic disposables based on our current production facilities and techniques. We will continue to put our resources on technological and product improvement and aim at pursuing a larger market presence in the global degradable hygienic disposable markets in the future.

### **Strengthen our research and development capability**

One of the keys to success in our corporate development is the application of custom-developed, patented production technologies in our production process and continuous success in developing innovative, patented product designs. We realize the importance of research and development in maintaining our competitive advantages and developing hygienic disposables with innovative, user-friendly designs. We plan to strengthen our research and development capability by hiring more professionals and/or researchers for the study and research on technological improvement for hygienic disposables.

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The following table illustrates our Group's current products and the respective geographical markets as well as our planned products and targeted markets going forward:

1. *Current operation*

Production base	Products produced	Targeted markets
Huizhou plant	Clinical waste bags, aprons, general waste bags, and film bags	Overseas markets (mainly include UK, Norway, Sweden, Germany and US)

2. *Future expansion plan*

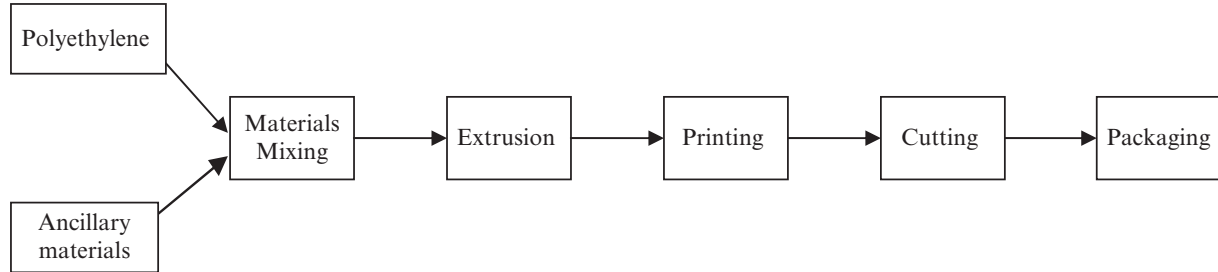
Production base	Products produced	Targeted markets	Time frame	Capital expenditure (HK\$ million)
New production plant to be constructed in the PRC	Medical gloves (a Category I medical device) and clinical aprons	Targeted for sales to clinics and hospitals in the Beijing areas, the PRC	First phase to be completed before 31 March 2012 and second phase to be completed before 31 March 2013	224
Huizhou plant with expansion and upgrading of production facilities	Clinical aprons, gloves and disposal bags (which do not fall within the classification of "Medical Devices Classification Index" *(《醫療器械分類目錄》))	Targeted for sales in the overseas markets and the PRC market	To be completed before 31 March 2012	34
Importing of medical devices from overseas suppliers	Spine pressure reduction system (a Category II medical device)	Targeted for sales in hospitals in Beijing, the PRC	To commence before 31 March 2011	—
Development of distribution channels in the PRC	The above planned importing and self-manufactured products	Targeted for sales in the PRC	To be completed before 31 March 2012	23



## OUR PRODUCTION AND TECHNOLOGIES

### Production Process

We use polyethylene as our major raw material for the manufacture of hygienic disposables and we may add other ancillary materials such as titanium dioxide (鈦白粉), calcium carbonate (碳酸鈣), polyethylene wax (聚乙炔蠟) and coupling agent (偶聯劑) to improve our products' degradability. The major steps in our production process are illustrated in the following flow chart:



#### Materials Mixing:



- Blending of raw materials in a predetermined formulation to form a polyethylene mixture. Raw material and ancillary materials including polyethylene, titanium dioxide (鈦白粉), calcium carbonate (碳酸鈣), polyethylene wax (聚乙炔蠟) and coupling agent (偶聯劑) will be stirred evenly in the blending machine and this polyethylene mixture will be inspected before passing to the next step of the production process

#### Extrusion:



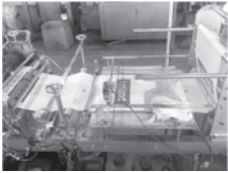
- The polyethylene mixture will be heated up and melt at the temperature of around 150 °C to 200 °C. The melted polyethylene mixture will pass through a filter in the extruder to remove impurities before being cooled down, which will then be inflated in the extruder and be extruded into a thin film layer. The extrusion process can be adjusted to produce thin film layer with various degree of tensile strength and thickness in accordance with the requirements of different types of products

### Printing:



- Printing on the thin film layer will be made by the gravure printers in accordance with clients' designs and requirements

### Cutting:



- Cutting the printed thin film layer into the required shape for different products according to the specifications required by our customers by the cutting machine under a specific temperature

### Packaging:



- The finished products will be packaged and sealed by the sealing machine

### Inventory:



- The packaged finished products will then be stored in the warehouse and arranged for delivery

**Key production technologies**

Patented technologies, which were originally developed and patented by Mr. Chum to significantly enhance our output efficiency and enable us to produce products in a mass scale with desirable material qualities and user-friendly characteristics for end users, are applied in our production process. On 20 October 2010, 9 November 2010 and 13 December 2010, Mr. Chum, as the registered owner of the US Patents, the EU Patents and the PRC Patents, which are in aggregate 18 patents and in force for these production technologies and innovative product designs, executed the US Patents Assignment, the EU Patents Assignment and the PRC Patents Assignment for the assignment of his ownership in the US Patents, the EU Patents and the PRC Patents respectively to our Group. The assignments of the EU Patents and the US Patents were completed. Pursuant to relevant PRC laws and regulations, the PRC Patents Assignment shall be registered with the competent patent administrative authority. The PRC Patents Assignment will come into force upon the date of such registration and Huizhou Junyang will become the registered owner of the PRC Patents accordingly. In addition, Mr. Chum and Huizhou Junyang also entered into the PRC Patents Licence Agreements, pursuant to which Huizhou Junyang has been licensed to use the PRC Patents on a royalty-free basis. The following sets forth some of the patents we consider crucial for the production of our products and products under pipeline:

<b>Patented technologies</b>	<b>Applications</b>
1. Mixing head device for extruding container of plastic injection molding machines* (注塑機擠壓筒的混煉頭裝置)	used together with screw extruding machine to enhance plastication quality and quantity of injection molding machine, especially for processing plastic products with various additives
2. Automatic continuous band sealer of plastic bags* (塑質膜袋連續封口製袋機)	a machine to sealing and shearing plastic film while they are continuously transmitted
3. Plastic bag with zip lock and the manufacture process* (塑料薄膜鎖口袋及其製造方法)	a double-layer composing plastic bag produced through the double-layer co-extrusion procedure/technique
4. Mixing extruding container of plastic injection molding machines* (注塑機混煉擠壓筒機構)	a part of injection molding machine to improve plastication quality and quantity of injection molding machine, especially for processing plastic products with various additives
5. Hot-melt possessing device of thermal cutting film molding machine with pushing equipment* (帶推料機的熱割薄膜成型產品熱熔加工裝置)	the hot-melt film process for single-use plastic gloves which are used widely in daily production

\* For identification purpose only

**Production facilities**

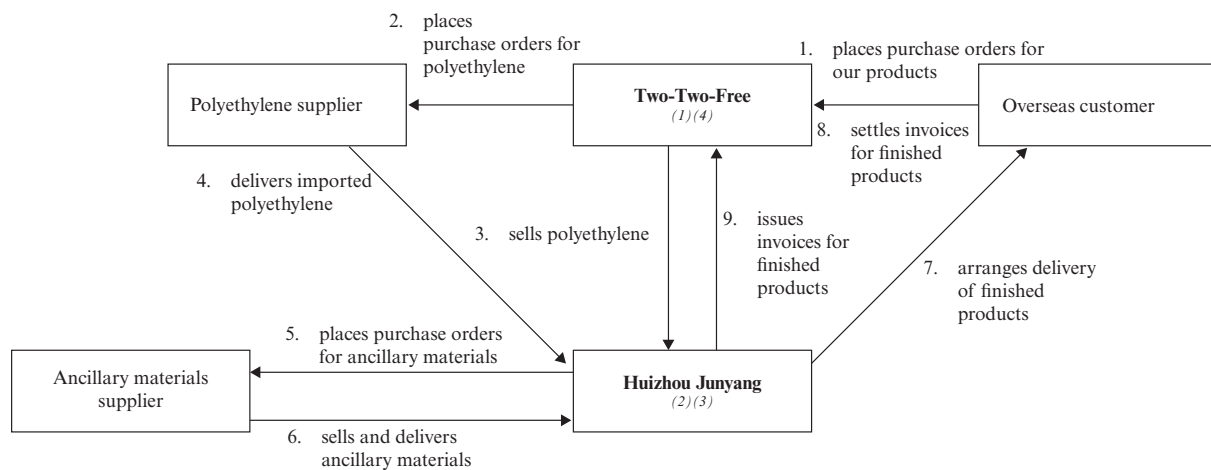
Our current production facilities are based in Huizhou of the Guangdong Province, the PRC, and the entire production complex consists of production premises, office building, dormitory building and catering building, and is located on two parcels of land with a total area of approximately 62,029 sq.m and we have a construction area of approximately 30,151 sq.m for which we have obtained buildings ownership certificates. The designed annual production capacity of our facilities is 38,600 tons of hygienic disposables, which is calculated based on the designed hourly output in the extrusion process times 24 hours a day times 353 days.

For the years ended 31 March 2008, 2009 and 2010 and the three months ended 30 June 2010, the overall utilization rate of our production facilities were approximately 59.6%, 63.1%, 60.1% and 67.8%, respectively. During the Track Record Period, our production outputs for products used in household sector were approximately 20,160 tons, 19,900 tons, 18,000 tons and 4,180 tons, respectively, and outputs for our products used in clinical sector were approximately 2,840 tons, 4,470 tons, 5,180 tons and 2,360 tons, respectively.

During the Track Record Period, we had not experienced any significant natural or other disaster or shortage of electricity involving our Group’s manufacturing facility which has harmed or disrupted our Group’s operations.

**Our typical transaction flow**

The typical transaction flow of our operation is illustrated in the diagram below:



Notes:

- (1) Purchase orders for finished products from overseas customers and purchase orders for polyethylene from overseas suppliers are negotiated and concluded by Two-Two-Free.
- (2) Huizhou Junyang purchases ancillary materials from domestic suppliers. Huizhou Junyang, as the production arm of the group, carries out production pursuant to the purchase orders placed by the overseas customers.





- (3) Upon completion of production for purchase orders, arrangement for delivery of finished products to the locations as specified by the customers will be made by Huizhou Junyang. Huizhou Junyang will also settle the invoices with Two-Two-Free for the purchase of raw materials and sales of finished products.
- (4) Two-Two-Free will source products from a third party for on-sale to a US customer.

## **OUR PRODUCTS**

Our hygienic disposables include clinical waste bags, general waste bags, disposable film bags and aprons, which have been widely used in the household and clinical sectors.

### **Major products**

#### *Clinical and household disposable bags*

1. 
  - Clinical waste bag for carrying clinical waste designed either for incineration or landfill or alternative treatment. The waste bags are tailored in various sizes with carrying weights ranging from five kilograms to 10 kilograms. The clinical waste bags are star-sealed for extra strength.
2. 
  - General waste bag for carrying waste is produced with a range from light to extra heavy duty, and can be generally used in household, clinical and other sectors. It provides a variety of colours and different sizes and thickness of the waste bags can also be made upon the specific request from our customers.
3. 
  - Disposable film bag that is commonly used in the daily household usage and retail sector such as supermarket chains. A patented “easy-pick” dispensing system is also offered which allows only one carrier bag to be dispensed at a time thereby reducing packaging waste.
4. 
  - Disposable film bag with our innovative, user-friendly “easy-pick” design. This product can be widely used in the household and clinical sectors.

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### *Aprons*



- Disposable aprons are designed with a high level of hygiene for clinical and other sectors.

Our hygienic disposables are sold for household and clinical uses. The Directors believe that there are no specific life cycles for the patented products and technologies. The life cycles for these patented products and technologies depend on a number of external factors such as demand and changes of preferences of our customers and the frequency of the change of any statutory or regulatory requirements applicable to our products. The following table sets out our turnover breakdown by sector, business model and product types during the Track Record Period:

	For the year ended 31 March						For the three months ended 30 June			
	2008		2009		2010		2009		2010	
	<i>HK\$'000</i>	<i>% of turnover</i>	<i>HK\$'000</i>	<i>% of turnover</i>	<i>HK\$'000</i>	<i>% of turnover</i>	<i>HK\$'000</i>	<i>% of turnover</i>	<i>HK\$'000</i>	<i>% of turnover</i>
(unaudited)										
Household sector										
Sales of manufactured products										
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During the Track Record Period, we had not experienced any product liability claim against us.



**CUSTOMERS**

We sell our products directly and primarily to hygienic and clinical disposable and packaging producers and/or distributors in Europe and the US, who purchase our products for onward supply mainly to customers in the medical sector, such as clinics and hospitals, as well as the retail sector such as supermarket chain operators. A significant proportion of our products are also sold directly to a supermarket chain operator located in the UK.

We believe that our ability to maintain customer loyalty is vital to our success. Some of our well-established customers include Stenqvist AS (being our largest customer for the two years ended 31 March 2009), a packaging producer in Europe. According to the information shown on the website of Stenqvist AS its group has been established since 1894 with production facilities in Sweden, parts of Scandinavia and Europe and the business activities of its group include supplying consumable materials in the form of cleaning articles such as refuse bags and in the form of high-class plastic bags and plastic carrier bags. Our major customers also include HPC Healthline UK Limited, one of the authorized distributors of clinical disposables to clinics and hospitals operating under the National Health Service public healthcare system in the UK, and one of the largest supermarket chains in the UK. Additionally, we successfully established a significant presence in the US market in 2009 through trading of hygienic disposables with Spectrum Bags, Inc. which, according to the information shown on its website, was established in 1985 and is a manufacturer and importer of printed bags used in retail stores, restaurants, supermarkets, hospitals and for janitorial and industrial applications.

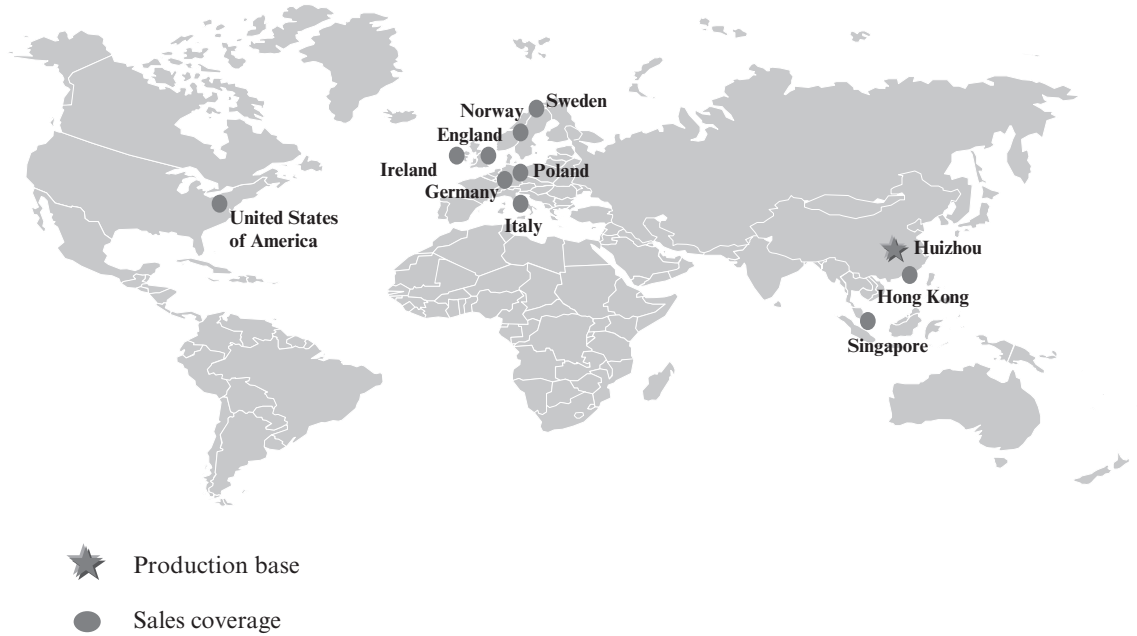
We have established a good and long-term relationship with our major customers (which, on average, has been with our Group for around three and a half years) and our business relationship with three of our five largest customers for the year ended 31 March 2010 started from 2006. Sales to our five largest customers accounted for approximately 84.6%, 76.1%, 87.1% and 92.3%, respectively, of our total turnover during the Track Record Period. Sales to our single largest customer accounted for approximately 28.1%, 28.8%, 32.6% and 45.1%, respectively, of our total turnover during the Track Record Period.

To mitigate our credit risk in light of our relatively high customer concentration, we have delegated staff responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure follow-up action is taken to recover overdue debts. Our management also performs periodic evaluations and customer visits to ensure our Group's exposure to bad debts is not significant and adequate impairment losses are made for irrecoverable amount. In addition, it is part of our future plans to develop the PRC markets for hygienic disposables and medical products which will serve to broaden our customer base and reduce our reliance on any particular key customer.

Our Directors confirm that during the Track Record Period, all of our five largest customers were Independent Third Parties and none of our Directors, executive officers, associates or shareholders (who to the knowledge of our Directors owned more than 5% of our issued share capital) had any interest in any of our five largest customers.

**SALES AND MARKETING**

During the Track Record Period, a vast majority of our sales were made to European and US customers. The following diagram illustrates the sales coverage of our products.



## BUSINESS

The following table sets out our turnover breakdown by geographical regions during the Track Record Period:

	Year ended 31 March						Three months ended 30 June			
	2008		2009		2010		2009		2010	
	<i>HK\$'000</i>	<i>% of turnover</i>	<i>HK\$'000</i>	<i>% of turnover</i>	<i>HK\$'000</i>	<i>% of turnover</i>	<i>HK\$'000</i>	<i>% of turnover</i>	<i>HK\$'000</i>	<i>% of turnover</i>
	(unaudited)									
United Kingdom	124,013	44.0	127,771	41.0	151,424	35.5	46,123	54.2	26,345	23.2
Norway	79,317	28.1	89,600	28.8	81,228	19.0	21,969	25.8	28,304	24.9
Sweden	35,348	12.5	16,878	5.4	2,296	0.5	459	0.5	338	0.3
Germany	18,010	6.4	20,934	6.7	24,766	5.8	5,862	6.9	2,936	2.6
United States of America	10,924	3.9	9,254	3.0	141,203	33.1	904	1.1	53,544	47.1
Singapore	4,448	1.6	34,486	11.1	15,400	3.6	7,058	8.3	—	—
Others	10,020	3.5	12,684	4.0	10,799	2.5	2,764	3.2	2,239	1.9
	<u>282,080</u>	<u>100.00</u>	<u>311,607</u>	<u>100.00</u>	<u>427,116</u>	<u>100.00</u>	<u>85,139</u>	<u>100.0</u>	<u>113,706</u>	<u>100.0</u>

In 2009, we successfully established a significant presence in the US market through trading of hygienic disposables with Spectrum Bags, Inc. which, according to the information shown on its website, was established in 1985 and is a manufacturer and importer of printed bags used in retail stores, restaurants, supermarkets, hospitals and for janitorial and industrial applications. As a result, our percentage revenue generated from sales to the US market increased substantially from approximately 3.0% for the year ended 31 March 2009 to approximately 33.1% for the year ended 31 March 2010 and approximately 47.1% for the three months ended 30 June 2010. A trading model was adopted with this US customer mainly because certain of the production equipment in our Huizhou plant would need to undergo adjustments, which would involve lengthy time, in order to produce products with specifications required by this particular US customer. In order to reduce the risk of failing to meet the delivery schedule due to unanticipated delays in equipment modifications and trial testings which would have an immediate adverse impact on the relatively new business relationship, our Group sourced those products from a third party with ready capability for on-sale to our US customer. Going forward, as our business relationship with this US customer becomes more stable and secured, we intend to introduce more of our self-manufactured products.

The Group's sales contracts are concluded through Two-Two-Free since it assumed the role as our Group's principal trading arm. As at the Latest Practicable Date, our sales and marketing team located in Macau comprised four staff. Our sales and marketing team, which is led by our senior management, plays an important role in our business development and promotion of our products. Leveraged on the experience, knowledge and relationship network of our senior management, we have established close business relationship with our customers and secured reputable hygienic and clinical disposable and packaging producers and/or distributors as well as large-scale supermarket chain operator as our major customers.

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## BUSINESS

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Our sales and marketing team is responsible for promoting our Group's products to customers (and, where applicable, sales agents); maintaining customer relationships and negotiating and handling contracts and purchase orders with customers and suppliers; liaising with suppliers and clients on logistics and delivery arrangements; arranging with Huizhou Junyang in relation to customers' orders; and handling receivables and settlement of invoices from polyethylene suppliers. It is our strategy to secure and raise the demand for our products from our existing customer base through continuous introduction of new and enhanced product offerings. Our sales and marketing personnel visit our customers on a regular basis to maintain customer relationships, obtain feedbacks on the quality of our products and services, procure sales orders and keep abreast of the latest market conditions. Our production team hold regular meetings to improve our existing products and develop new products based on comments received from our customers and the latest market trend. We distribute samples of our products to our customers and obtain feedbacks from them subsequently. As part of our marketing initiatives, we also offer favourable terms to some of our customers in an effort to maintain a long-term business relationship with them.

Most of our Group's sales contracts have one-year duration to allow our Group flexibility to cope with price fluctuations and production scheduling. Our sales contracts usually set out the projected purchase quantity and contract price of our products which are subject to periodic reviews and subsequently confirmed by relevant purchase orders, thereby allowing our Group to maintain the assured quality and most competitive pricing. In addition, our Group's sales contracts in general do not provide for any specific terms on consequences for failure to meet the projected purchase quantity, nor any termination clauses. We believe that our pricing policy has generally enabled us to sell our products at a satisfactory profit margin. We set prices for our products based on a number of factors including manufacturing costs, price trend of similar products in the market and market supply and demand for our products, and this applies to both manufactured and trading products regardless of the type of products and type of the customers. The average selling price of our products were approximately HK\$12,400 per ton, HK\$13,400 per ton, HK\$12,700 per ton and HK\$13,100 per ton respectively during the Track Record Period.

We offer various sales terms to our customers which are arrived at after arm's length negotiations and with reference to a number of factors including size of order, production costs and credit-worthiness of a particular customer. Our sales are mainly settled by way of telegraphic transfers and letters of credit. We normally do not differentiate our credit policies based on the types of products and type of the customers, and the term of credit we grant to our customers are usually 30 to 60 days, apart from one of our US customers for the trading business which was granted the credit period of up to 90 days. For those customers who only have small transaction volume and/or are not eligible for a credit period, we generally request 30% of the purchase price as deposit and further request for the payment of the remaining 70% before delivery. We had not experienced any bad debt provisions and write-offs for impairment of trade and other receivables during the Track Record Period.

## **COMPETITION**

The disposable medical consumables industry serves price-sensitive markets and is highly competitive. In general, the industry has formidable barriers to entry due to several factors, including the presence of strong competitors, the price sensitivity of end-users and regulatory compliance standards. Key factors to success include the establishment of broad or unique product lines, efficient manufacturing systems and far-reaching distribution channels.

Competition involving disposable medical consumables occurs mostly within individual product segments, rather than in the industry as a whole. Within most product segments, the top three to five competitors account for a significant share of the market. Many top competitors in the disposable medical consumables industry achieved their leading positions by initially concentrating on one or two product lines of strength and then diversifying into new areas through internal development, acquisitions and/or collaborative agreements. Nevertheless, the commodity-like nature of lower-end offerings within product categories (eg, basic exam gloves or generic garbage bags) results in a fair amount of fragmentation and enables industry participation by a broad range of suppliers. In general, the disposable medical consumables industry is more fragmented in China than it is in the US or UK due to Chinese manufacturers' greater emphasis on low-end product types.

The degradable retail plastic bag industry is relatively concentrated at the top, dominated by multinational companies. However, because the industry is still evolving, it also supports a number of small and specialized players. Successful degradable retail plastic bag manufacturers stress how the performance, quality, environmental and other advantages of their products can offset their premium prices. For example, utilizing degradable retail plastic bags may be a means to presenting a favorable corporate image and preserving customer loyalty. In addition, the ability to optimize any comparative advantage in a company's products or services represents a key factor in this nascent industry.

Competition exists between degradable and non-degradable plastic bags, as degradable plastic bags are the substitutes to non-degradable plastic bags. Degradable retail plastic bags have higher penetration in the UK and Rest of EU markets compared to the rest of the world. In the UK, demand rose more rapidly in the past few years as large retailers voluntarily adopted degradable plastic bags. Also, the demand for degradable plastic bags in the Rest of EU has been driven by bans and taxes on non-biodegradable bag. Similarly in the US, with bans, taxes and usage reduction efforts on plastic bags being implemented more frequently than regulations pertaining only to non-biodegradable plastic bags, and comparatively low environmental concerns relative to other regions of the world, degradable retail plastic bag demand is suppressed. In China, retailers and consumers are generally less willing to pay a premium for degradable retail plastic bags over traditional plastic bags, but the demand for degradable retail plastic bag has been stimulated by environmental concerns.

**RAW MATERIALS**

The primary raw material for the manufacturing of our hygienic disposable products is polyethylene. Other ancillary materials are also added to the polyethylene granules according to our own formulae to produce hygienic disposables with different characteristics to suit customers' needs. During the Track Record Period, our cost of raw materials were approximately HK\$191.3 million, HK\$217.6 million, HK\$170.5 million, and HK\$52.9 million respectively, which accounted for approximately 87.0%, 88.0%, 51.0% and 59.4% of our cost of sales and approximately 67.8%, 69.8%, 39.9% and 46.5% of our turnover, respectively.

During the Track Record Period, the cost of polyethylene amounted to approximately HK\$147.1 million, HK\$181.4 million, HK\$132.1 million and HK\$44.9 million, respectively, which accounted for approximately 76.9%, 83.3%, 77.5% and 84.8% of our total cost of raw materials, respectively. We import polyethylene mainly through the Hong Kong sales office of plastic resin suppliers located in UAE, US and Japan, whose businesses include trading and/or manufacturing of polyethylene. In addition to the change of market supply and demand for polyethylene, as polyethylene is a by-product of crude oil, fluctuation in the price of polyethylene to some extent is affected by the price of oil. During the Track Record Period, our average purchase price of polyethylene were approximately HK\$11,100 per ton, HK\$10,800 per ton, HK\$9,500 per ton and HK\$10,600 per ton, respectively. The decrease in the average purchase price of polyethylene from approximately HK\$10,800 per ton for the financial year ended 31 March 2009 to HK\$9,500 per ton for the financial year ended 31 March 2010 was mainly resulted from the substantial decline in oil prices in the second half of 2008 and the lead time required for the shipment of polyethylene.

Other ancillary materials used in our production process include titanium dioxide (鈦白粉), calcium carbonate (碳酸鈣), polyethylene wax (聚乙烯蠟) and coupling agent (偶聯劑). We normally source these materials from local suppliers in the PRC. Costs of these materials tend to be more stable than that of polyethylene which in aggregate amounted to approximately HK\$44.2 million, HK\$36.2 million, HK\$38.4 million and HK\$8.0 million and accounted for approximately 23.1%, 16.7%, 22.5% and 15.2%, respectively, of our total cost of raw materials during the Track Record Period.

We do not enter into any hedging arrangements with respect to our raw material purchases during the Track Record Period. As the purchasing prices of our raw materials generally move in line with the price of oil and, in turn, the selling prices of our products generally move in line with the purchasing prices of our raw materials, we have been able to pass on most of the increased cost of raw materials to our customers during the Track Record Period.



**SUPPLIERS**

We procure polyethylene granules mainly from reputable plastic resin suppliers located in UAE, US and Japan and other ancillary materials used in our production process from local suppliers in the PRC. We have generally maintained a good relationship with our major suppliers and have established business relationship with four of our top five largest suppliers for the year ended 31 March 2010 for periods ranging from three to five years.

To ensure that quality of our raw materials meet our quality standards, we have implemented procedures for selecting qualified suppliers and maintained a list of approved suppliers for our raw materials. We select suppliers based on the quality and pricing of raw materials they supply, reliability and timeliness of their supplies, after-sale services they provide as well as their reputation in the market. Our Group does not enter into any purchase contracts with the suppliers. We usually place purchase orders with our suppliers for purchase of raw materials which normally set out the quantity, unit price, product description, delivery terms and payment terms (ranging from 30 days to 60 days on average or advanced payment before delivery), and have no terms in relation to termination. According to our internal policy, before we place our order with new suppliers or source new types of products from our existing suppliers, we will obtain samples from them for inspection to ensure that the raw materials meet our quality standards and requirements.

During the Track Record Period, purchases from our five largest suppliers amounted to approximately HK\$147.1 million, HK\$121.0 million, HK\$215.6 million and HK\$56.5 million, respectively, which accounted for approximately 66.9%, 48.9%, 64.5% and 63.5% of our total cost of sales, respectively. Purchases from our largest supplier amounted to approximately HK\$58.3 million, HK\$41.4 million, HK\$123.4 million and HK\$32.1 million, respectively, which accounted for approximately 26.5%, 16.7%, 36.9% and 36.1% of our total cost of sales, respectively, during the Track Record Period. Our Directors confirm that during the Track Record Period all of our five largest suppliers were Independent Third Parties and none of our Directors, executive officers, associates or shareholders (who to the knowledge of our Directors owned more than 5% of our issued share capital) had any interest in any of our five largest suppliers.

All of our five major suppliers, for the year ended 31 March 2009 were raw materials suppliers. Due to the commencement of our trading business with a new US customer in 2009, our largest supplier for the year ended 31 March 2010 and the three months ended 30 June 2010 (which has been one of our raw materials suppliers) also supplied us with hygienic disposables which we purchased for on-sale to our US customer. We adopt a back-to-back trading model with this new US customer, whereby we would place purchase orders with our supplier for the finished goods with terms such as quantity, unit price, product description and payment terms against each of the orders placed by our customer for the trading business. Such purchases contributed to the substantial increase in our total purchases from our suppliers for the year ended 31 March 2010.

Other than the supplier of our back-to-back trading transactions, generally we are granted an average credit period ranging from 30 to 60 days from our suppliers.

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During the Track Record Period, we did not encounter any substantial difficulties in sourcing our raw materials. As polyethylene, being the principal material used in our production process, is available from multiple suppliers in the market, we do not anticipate that we would experience any material disruptions or difficulties if we were unable to make purchases from any of our major suppliers.

### INVENTORY MANAGEMENT

We monitor and control the inventory levels of our raw materials and finished products to optimize our operations. As the majority of our products are “made-to-order” based on the product specifications provided by and the requirements of our customers, we usually base production of our finished products on the sales orders our customers place with us and in general, we do not maintain a steady inventory level of our finished products, which in turn has allowed us to maintain our inventory of finished products at low levels.

Our inventory of raw materials primarily comprises of polyethylene and a small proportion of other ancillary materials. Due to the lead time for the purchase of polyethylene from the overseas suppliers, we generally keep an inventory level of one to two months of supply of polyethylene to ensure that we are able to meet demands of our customers.

### TRANSPORTATION

We sell our products mostly to the European and the US markets with a small proportion to the South East Asia region. We principally deliver our finished products to our customers on FOB basis. We are responsible for the road transportation of our products from our production facility in Huizhou to the ports in the PRC. For the purchase of raw materials, the raw materials are delivered by our suppliers to us on CIF basis, whereby we are responsible for the road transportation of the raw materials from the ports in the PRC to our production facility.

We outsource the transportation services to a third party logistics company in the PRC. For the three years ended 31 March 2010 and the three months ended 30 June 2010, we incurred transportation expenses of approximately HK\$6.6 million, HK\$7.0 million, HK\$5.5 million and HK\$1.6 million, respectively.

### RESEARCH AND DEVELOPMENT

The ability to continuously develop products with innovative designs and the corresponding production technologies to mass produce them is important to maintain our competitiveness. We have a research and development team responsible for improving the efficiencies of our production equipment and manufacturing process, researching new product designs and improving our existing products.

As at the Latest Practicable Date, our research and development team consisted of three researchers led by Mr. Chum. Mr. Chum has many years of experience in the hygienic disposables industry and was the registered owner of 18 patents which are in force on production technologies and product designs, before assigning them all to us pursuant to

the Patent Assignments. The three staff in the research and development department, among other things, assist Mr. Chum in carrying out tests and recording works for the development of those patents. Mr. Chum has been accredited with the “Sixth National Science and Technology Progress Achievement — First Award” (第六屆國家科技成果「進步獎」一等獎) and the “Sixth National Patent Technology Invention — First Award” (第六屆國家專利技術「發明獎」一等獎) by Assessment Panel for National Science and Technology Progress Achievement Award\* (國家科技進步獎評審委員會) and Assessment Panel for National Technology Invention Award\* (國家科技發明獎評審委員會), respectively for our customized production equipment, “Automatic Continuous Band Sealer of Plastic Bags” (塑質膜袋連續封口製袋機). Our production team holds regular meetings to improve our existing products and develop new products based on comments received from our customers and the latest market trend and keeps abreast of the latest developments in production technology. During the Track Record Period, the cost incurred in relation to research and development was mainly cost of the three staff in the research and development department, which in aggregate did not exceed RMB100,000 for each of the three years ended 31 March 2010 and in this regard, the Directors consider that the amounts incurred on research and development were immaterial to the Group.

Since we realise the importance of research and development in maintaining its competitive advances, it is part of our plan to strengthen its research and capability by hiring more professionals and/or researchers for the study and research on technological improvement for the hygienic disposables.

To date, we have successfully designed new categories of hygienic disposable products such as hygienic gloves. The hygienic gloves adopt an “easy-wear” design to facilitate the medical and clinical staff to wear it easily and conveniently. We plan to commence commercial production of hygienic gloves utilising our existing production capacity in Huizhou plant with the addition of new machineries earmarked for the manufacture of hygienic gloves.

## **QUALITY AND SAFETY CONTROL**

We believe that delivery of hygienic disposables with reliable quality is critical to our success. Accordingly, we focus on achieving high quality standards by implementing quality assurance procedures throughout our production process, from the purchase of raw materials to the delivery of finished products. Due to our stringent quality assurance standard, we did not encounter any product return from the customers during the Track Record Period.

As at the Latest Practicable Date, our quality assurance team comprised 17 staff. Our quality assurance team is responsible for closely monitoring on the procurement of raw materials, the operation of production process, regular inspection on equipment and machinery, examination of finished products. On 17 January 2005, Huizhou Junyang obtained ISO9001:2008 and GB/T19001-2008 certification issued by China Quality Certification Centre\* (中國質量認證中心) for our ability to comply with applicable requirements relating to quality control.

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Our quality control system incorporates the following principal features:

- *Procurement of raw materials:* We maintain a qualified suppliers list on which suppliers are assessed regularly in respect of their ability to provide satisfactory quality of raw materials. Upon receiving the raw materials from our suppliers, our inventory management personnel would according to the supplier's invoice conduct quality check on the raw materials' product specifications, quantity, weight and packaging to ensure that they are consistent with our Company's purchase orders. They are then arranged to be put into storage. Sample tests on other ancillary raw materials are carried out before they are put into storage.
- *Production:* We have continuously monitored the key indicators of the production process. Comprehensive tests and examinations on the quality of the finished products are conducted with a view to ensuring that customers' specifications are adhered to.
- *Inventory storage:* We have established procedures to ensure a good inventory management that is able to keep abreast of the latest production planning and minimize derogation of the quality of raw materials and finished products during storage and transportation.
- *Machinery and equipment management:* We installed monitoring and measuring devices to carry out quality assurance work. We also conduct regular inspections and maintenance of our machinery and equipment to enhance reliability and product quality.

## INTELLECTUAL PROPERTIES

We use a number of patents in connection with our business. For details, please refer to the sub-paragraph headed "Our intellectual property rights" under the paragraph headed "Further information about the business of our Company" set out in the section headed "Appendix VI — Statutory and general information" in this prospectus.

On 20 October 2010, 9 November 2010 and 13 December 2010, Mr. Chum, as the registered owner of the US Patents, the EU Patents and the PRC Patents, which are in aggregate 18 patents and in force in different production technologies and product designs, executed the US Patents Assignment, the EU Patents Assignment and the PRC Patents Assignment respectively for the assignment of his ownership in the US Patents, the EU Patents and the PRC Patents respectively to our Group. The assignments of the EU Patents and the US Patents were completed. Pursuant to relevant PRC laws and regulations, the PRC Patents Assignment shall be registered with the competent patent administrative authority. The PRC Patents Assignment will come into force upon the date of such registration and Huizhou Junyang will become the registered owner of the PRC Patents accordingly. In addition, Mr. Chum and Huizhou Junyang also entered into the PRC Patents Licence Agreements, pursuant to which Huizhou Junyang has been licensed to use the PRC Patents on royalty-free basis.

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Details of our products, and the production method and operating conditions we employed form part of our technical knowhow. In order to protect the confidentiality of our research and development achievements, we require our senior staff to abide by the confidentiality clauses in their employment contracts with us. Some of our senior staff are subject to a three-year non-competition period after the termination of their employment contract with us. In addition, there is strict segregation of duties among our staff involved at the different stages of our production process to minimize the risk of any staff acquiring the technical knowhow of the entire production process of any of our products. During the Track Record Period, there was no breach of confidentiality and non-competition clauses by our senior staff.

### ENVIRONMENTAL PROTECTION

We consider the implementation of environmentally responsible practices and the maintenance of high environment standards to be valuable assets and among our competitive strengths. Our production facility is materially in compliance with applicable environmental regulations and standards in the PRC.

In addition, we place strong emphasis on maintaining a high environmental protection standard. We have a recycle system in place to re-collect our waste residual materials during each of the production processes and recycle the waste residual materials to form plastic granules. The reproduced plastic granules can be reused as raw materials for our production. As the production processes undertaken by us mainly involve physical reactions among the raw materials, the Directors believe that the volume of pollutants produced by our operation is therefore negligible and that the above measures will be sufficient to reduce the impact of the Company's operation on the environment.

As advised by our PRC Legal Advisers, Environmental Protection Bureau of Huizhou City\* (惠州市環境保護局) has issued a confirmation on 18 May 2010 and confirmed that we had been in compliance with the relevant material PRC environmental protection laws and regulations since 1 January 2007. We have obtained the relevant pollutants discharge permit as required by applicable environmental regulations in the PRC.

As at the Latest Practicable Date, we have not been subject to any material fines or legal action involving non-compliance with any relevant environmental regulations, nor are we aware of any threatened or pending action by any environmental regulatory authority in any of the jurisdictions where we operate.

We do not expect to incur any further significant capital expenditures in complying with the prevailing regulations and standards and hence our Directors are of the view that the existing regulations and standards would not cause material burden to our Company. Notwithstanding the aforesaid, in the event that changes to the existing regulations and standards require us to incur additional costs or require costly changes to our production process, our production costs could increase which may materially and adversely affect our business. Please refer to the paragraph headed "Failure to comply with environmental regulations may materially and adversely affect our business, financial condition and results of operations" under the section headed "Risk Factors" in this prospectus for further details.



## **PROPERTY**

### **PRC**

Our production base in Huizhou of Guangdong Province, the PRC, is located on two parcels of land with a total area of approximately 62,029 sq.m, of which we own the land use rights certificates and are entitled to use for the terms of approximately 50 years.

As at the Latest Practicable Date, we occupied a total of 11 buildings or units in the PRC with a total construction area of approximately 44,544 sq.m, all of which are situated on the two parcels of land we owned. We have obtained buildings ownership certificates for eight of the 11 buildings or units with a total construction area of approximately 30,151 sq.m, of which approximately 78.6% are used as our primary business premises, including as manufacturing facilities and offices, while the remaining approximately 21.4% are used mainly for staff quarters and canteen. The remaining three buildings or units are temporary structures (“**Temporary Structures**”), with a total construction area of approximately 14,393 sq.m, two of which having a total construction area of approximately 12,253 sq.m are used as our manufacturing facilities and the remaining one with a construction area of approximately 2,140 sq.m is used as our warehouse. At the time of construction of the Temporary Structures, our Group contemplated that such Temporary Structures were constructed on temporary basis, and therefore they were constructed as single storey with zinc roof, as opposed to the Group’s other permanent structures which were made of cement and of multi-storeys. Huizhou Junyang did not apply for real estate title certificates for these Temporary Structures principally for reasons that these structures were intended to be used as temporary back-up spaces from time to time and it is not required to apply for any real estate title certificate for temporary structures according to the relevant PRC laws and regulation, as advised by the PRC Legal Advisers.

We have obtained from the Huihuanjiedao Office of Huicheng District of Huizhou City\* (惠州市惠城區惠環街道辦事處) two approvals, namely “Approval for the Construction of Temporary Structure (Huihuan Linjian No. (2009) 003)” \* (《關於臨時報建的批復》(惠環臨建(2009) 003號)) and “Approval for the Construction of Temporary Structure (Huihuan Linjian No. (2010) 003)” \* (《關於臨時報建的批復》(惠環臨建(2010) 003號)) on 12 August 2009 and 28 May 2010 respectively, each with a term of two years starting from the date of the respective approvals, pursuant to which we are approved to have the Temporary Structures erected in the Shitanpai Area, Huihuan Xikeng of Huizhou City (惠州市惠環西坑石潭排地段) with a total construction area of approximately 2,140.8 sq.m and approximately 12,253 sq.m respectively. According to such approvals and relevant laws, we shall demolish the said Temporary Structures within their respective approved terms or unconditionally whenever urban planning demands.

We have further obtained a confirmation (the “**Confirmation**”) on 24 June 2010 issued by the Urban Management Administrative Law Enforcement Bureau of Huizhou City\* (惠州市城市管理行政執法局), the relevant administrative enforcement department in the subject matter, which confirmed that we would not be requested to demolish the Temporary Structures before 28 May 2012. Our PRC Legal Advisers have advised that the Huihuanjiedao Office of Huicheng District of Huizhou City\* (惠州市惠城區惠環街道辦事



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## BUSINESS

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處) and the Urban Management Administrative Law Enforcement Bureau of Huizhou City\* (惠州市城市管理行政執法局) have the power to issue the relevant approvals and Confirmation, and based on such approvals and Confirmation, the likelihood for us to be requested by such administrative enforcement department to demolish the Temporary Structures before 28 May 2012 is relatively low. It is our intention to relocate all operation activities, machineries, inventories and any other items in the Temporary Structures to two warehouse buildings within the premises of Huizhou Junyang, which are both granted with building ownership certificates. Subject to minor re-arrangements, the Directors believe that the two warehouse buildings will have sufficient free space to house all machineries, inventories and other items currently in the Temporary Structures. It is expected that the costs involved in the said relocation will not exceed RMB500,000 and it will be completed as soon as possible, in any event before 28 May 2012. The Directors are of the view that the said relocation will not result in any material adverse impact on our business and operations.

The relevant carrying cost was approximately HK\$4,637,000, HK\$10,431,000, HK\$10,598,000 and HK\$10,491,000 respectively as at 31 March 2008, 2009 and 2010 and 30 June 2010. The Directors estimate that the depreciation charges over the Temporary Structures for the three years ending 31 March 2011, 2012 and 2013 will be approximately HK\$4.1 million, HK\$5.5 million and HK\$0.9 million respectively.

For details of our properties, please refer to the section headed “Appendix IV — Property Valuation” in this prospectus.

### Macau

Two-Two-Free is the legal and registered owner of Flat L on 12/F, which is situated at the building named “Centro Financeiro”, in horizontal property system, with no. 202-A — 246 of Rua de Pequim and no. 619-A — 627 of Alameda Dr. Carlos D’Assumpção, Macau as described in the Macau Immovables Registry under no. 22058, with an area of approximately 69.40 sq.m, for office use. Our Macau Legal Advisers are of the view that Two-Two-Free has good and marketable title to own, use and dispose of the said property pursuant to its rights under the Land Lease Concession granted by the Macau government.

The said property is free from and clear of all claims, charges, liens, encumbrances and any other third party rights of whatsoever nature and so far as our Macau Legal Advisers are aware of, there is no other matter, event or circumstance (whether legal or otherwise) which may adversely affect Two-Two-Free’s title to the said unit, except the said unit is registered and permitted to be used only for the offshore activities of Two-Two-Free.

### INSURANCE COVERAGE

We maintain a range of insurance policies for our ongoing operations including property insurance on plants, machinery and vehicles, employer’s liability insurance and personal injury insurance. We also maintain social security insurance for our employees in the PRC as required by PRC social security regulations, such as pension insurance, unemployment insurance, work injury insurance and medical insurance. Under PRC laws and regulations, we are not compulsorily required to maintain any other insurance in relation to our business operations, such as product liability insurance against claims or

liabilities that may arise from products that we have sold. We believe that our insurance coverage is in line with industry practice in the PRC. We did not experience any material industrial accidents during the Track Record Period.

## **LICENCES AND REGULATORY APPROVALS**

### **PRC regulations relating to exporting business**

According to the Administrative Provisions of the Customs for the Registration of Customs Declaration Units\* (《中華人民共和國海關對報關單位註冊登記管理規定》), which was promulgated on 31 March 2005 and effective from 1 June 2005, enterprise engaging in import and export goods as consignee and consignor in the PRC is required to register with and obtain certificate from the relevant authority. In these regards, we have obtained the Registration Certificate for the Consignee or Consignor of Import or Export Goods\* (《中華人民共和國海關進出口貨物收發貨人報關註冊登記證書》) issued by the PRC Huizhou Customs\* (中華人民共和國惠州海關) with an effective period starting from 13 November 2001 and ending on 13 November 2013. According to relevant PRC laws and regulations, the enterprise engaging in import and export goods as consignee and consignor shall renew such certificate with relevant customs 30 days ahead of the expiry date. Huizhou Junyang is in the process of renewing such certificate with the authority. In addition, our PRC Legal Advisers has advised that based on the confirmation issued by the PRC Huizhou Customs on 17 June 2010, Huizhou Junyang, our principal operating subsidiary, has been in compliance with relevant material PRC regulations relating to import and export of goods including the registration, declaration and export verification since its establishment.

### **PRC regulations relating to printing business**

According to the Administration Regulation on the Printing Industry\* (《印刷業管理條例》) implemented on 2 August 2001, enterprise engaging in the printing of packaging and decoration products in the PRC is required to obtain license from the relevant authority. In this regard, we have obtained the Printing Business Licence\* (《印刷經營許可證》) issued by Guangdong Province Press and Publication Bureau (廣東省新聞出版局) on 1 January 2010, with an effective period ending on 31 December 2013.

### **PRC regulations relating to manufacturing of medical devices/appliances business**

According to the Administrative Provisions on Administration and Supervision of Medical Device\* (《醫療器械監督管理條例》) promulgated and implemented by the State Council of PRC on 1 April 2000 and other relevant regulations, medical devices are divided into three categories: Category I, Category II and Category III. Manufacturing such categorized medical devices shall be approved and registered with relevant drug administrative authorities of different levels and obtain the Medical Device Registration Certificate\* (《醫療器械註冊證書》) from the same. Manufacturing of Category I medical devices shall be approved by city level drug administrative authorities; manufacturing of Category II medical devices shall be approved by provincial drug administrative authorities; whereas manufacturing of Category III medical devices shall be approved by the drug administrative department of the State Council. Category II medical devices and Category III medical devices shall also pass the clinical verification. In addition, the

establishment of enterprises manufacturing Category I medical devices shall be recorded at the provincial drug administrative authorities, while the establishment of enterprises manufacturing Category II medical devices and Category III medical devices shall be approved by provincial drug administrative authorities and obtain the Licence for Medical Device Manufacturer\* (《醫療器械生產企業許可證》) from the same. The Medical Device Registration Certificate and the Licence for Medical Device Manufacturer shall be valid for 4 and 5 years, respectively.

According to the Administrative Regulations on Random Sampling for Medical Device Quality Supervision of PRC for Trial Implementation\* (《國家醫療器械品質監督抽驗管理規定(試行)》), the State Food and Drug Administration and relevant local food and drug administrative authorities in China shall conduct inspections on medical devices on a random basis. The products selected are required to comply with the relevant PRC laws, regulations and national standards then in force. The result will be released to the public.

As advised by the PRC Legal Advisers, pursuant to the confirmation letter issued by the Huizhou Food and Drug Administration Bureau\* (惠州市食品藥品監督管理局), the relevant plastic products manufactured by Huizhou Junyang do not belong to the Medical Devices Classification Index\* (《醫療器械產品目錄》) and Huizhou Junyang is not required to obtain relevant Medical Device Registration Certificate\* (《醫療器械註冊證書》) or other approvals from relevant drug administrative authorities for the manufacture and sale of such products.

As we intend to construct a new production facility in the PRC for the manufacture and sale of medical products which are classified as Category I medical devices and sell Category II medical devices, we will be required to apply for the requisite licenses and certificates from relevant drug administrative authorities and obtain such requisite licenses and certificates prior to the commencement of any business in relation to the sale or manufacture of such medical devices in the PRC.

### **PRC Regulatory Approval for the Listing**

As all the beneficial owners of the Company are not PRC individuals and the Company is not a special purpose company (特殊目的公司) under the Provisions Regarding Mergers and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) \* (the “M&A Rules”), the PRC legal advisers to the Company advised that the Listing of the Company is not subject to M&A Rules and no approval from CSRC, MOFCOM and other PRC governmental authority should be obtained for the purpose of the Company’s Listing.

### **TRANSFER PRICING ARRANGEMENT**

During the Track Record Period, the Group primarily conducted its sales activities through Two-Two-Free, the Group’s principal trading arm. When Two-Two-Free receives purchase orders from its customers, it will channel the relevant purchase orders to Huizhou Junyang, our manufacturing arm in the PRC (or, in the particular case of our US trading

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customer, to the designated supplier). All finished products manufactured by Huizhou Junyang (or, as the case may be, the designated supplier in respect of our US trading customer) are shipped to the locations specified by the customers.

Pursuant to the New Enterprise Income Tax Law and its implementation rules and the Implementation Regulations for Special Tax Adjustments (Trial) (特別納稅調整實施辦法(試行)), transactions in respect of the purchase, sale and transfer of products between, amongst others, enterprises under direct or indirect control by the same third party are regarded as related parties transactions. Given Two-Two-Free and Huizhou Junyang are wholly-owned subsidiaries of the Company, transactions between these parties are regarded as related parties transactions.

According to the New Enterprise Income Tax Law and the Implementation Regulations for Special Tax Adjustments (Trial) (特別納稅調整實施辦法(試行)), related parties transactions should comply with the arm's length principle (獨立交易原則); and if the failure of compliance with such principle results in reducing the income or taxable income of the enterprise or its related parties, the tax authority has the power to make an adjustment in accordance with reasonable methods.

Pursuant to such laws and regulations, any company entering into related party transactions with another company shall submit an annual related party transactions reporting form to the supervising tax authority.

Having taken into consideration of the relevant tax rules, the Directors consider that the first profitable year of Huizhou Junyang should start from the financial year ended 31 December 2007. Accordingly, Huizhou Junyang should enjoy full EIT exemption for the two years ended 31 December 2008 and is subject to EIT at 12.5% for the financial year ended 31 December 2009. As such, a tax provision based on the applicable EIT rate was made based on the estimated taxable profit of Huizhou Junyang for the year ended 31 December 2009. Having considered the transfer pricing report prepared for Huizhou Junyang revealing that its net cost plus ("NCP") margin of 3.62% for the year ended 31 December 2009 falls within the arm's length range established by comparable companies, and tax provision has been made thereon at 12.5%, the Directors are of the view that Huizhou Junyang's transfer pricing position should be considered to be in accordance with the requirements of the PRC transfer pricing regulations, and hence it should not have transfer pricing exposure for the financial year ended 31 December 2009. Based on the above calculation, the Directors are also of the view that the Group should have reasonable grounds to defend against possible challenge by the PRC tax authority on the Group's transfer pricing position.

As advised by the PRC Legal Advisers, Huizhou Taxation Bureau, as the competent authority, issued two written confirmation letters on 6 August 2010 and 18 November 2010 respectively to confirm that (i) Huizhou Junyang had submitted the annual related party transaction reporting form as required by relevant laws and regulations, and the circumstance in respect of the transaction between Huizhou Junyang and its related parties had been reported to Huizhou Taxation Bureau; (ii) all the transactions between Huizhou Junyang and its related parties had been in compliance with the arm's length

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principle (獨立交易原則), no adjustment needs to be made to Huizhou Junyang; (iii) Huizhou Junyang and its related parties should not be ordered to pay any outstanding tax, interest and fees; and (iv) no penalty had been or need to be imposed on Huizhou Junyang due to any non-compliance with respect to PRC tax laws and regulations, including without limitation, the PRC laws and regulations regarding transfer pricing. Based on such confirmation letters, the PRC Legal Advisers are of the view that the likelihood for Huizhou Junyang and its related parties to be penalized for such transactions or to be requested to make tax adjustment by Huizhou Taxation Bureau is relatively low. Further, as advised by the Macau Legal Advisers, there are no applicable Macau rules and regulations governing transactions among related companies in Macau, and therefore, the business arrangement of Two-Two-Free will not be subject to any transfer pricing exposure and the Group has not been subject to any investigation or challenge by the relevant authorities of the Group's Macau operations. As advised by the Macau Legal Advisers, Two-Two-Free has complied with the Macau laws and regulations relating to its operation and taxation in all material respects during the Track Record Period.

As of the Latest Practicable Date, the Directors were not aware of any enquiry audit or investigation by any tax authority in the PRC, Macau or Hong Kong with respect of transfer pricing procedures carried out by the Group since its establishment. The Directors have advised that in preparing the financial information, the Directors have reviewed and assessed the Group's transfer pricing arrangements in relation to intra-group services and considered that, although the Group is exposed to transfer pricing risk for the fact that it is possible that the PRC tax authority may challenge the Group's transfer pricing position, the Group has grounds to defend against the possible challenge.

Notwithstanding the aforesaid, as advised by the PRC Legal Advisers, according to the relevant PRC tax laws and regulations, the tax authority has the power to reassess the transactions entered into between Huizhou Junyang and its related parties for a maximum of 10 years' time. If Huizhou Junyang is deemed not to be in compliance with the transfer pricing rules, the tax authority has the power to order Huizhou Junyang to pay all outstanding tax and statutory interest and Huizhou Junyang may be subject to other penalties. There is no assurance that the tax authority will not make adjustment to the tax payable by the Group in respect of such related party transactions in the future, and as a result of which, the Group may be required to change its transfer pricing practices or operating procedures. In such event, the Group may be required to pay additional taxes and the Group's profitability may be affected. For further details of the transfer pricing arrangement, please refer to the paragraph headed "Our operations may be subject to transfer pricing adjustment by competent authority" under the section headed "Risk Factors" in this prospectus.

## LEGAL COMPLIANCE AND PROCEEDINGS

As at the Latest Practicable Date, save as disclosed below, we were not aware of any current, pending or threatened litigation, arbitration, proceedings or administrative proceedings against us or any of our subsidiaries or any of our Directors which could have a material adverse effect on our financial condition or results of operation.



### **Personal injuries proceeding**

An ex-employee of Tary made a claim for employees compensation (“**EC Claim**”) as a result of an accident which happened when the plaintiff was driving a golf cart within the area of the production facilities upon the instructions of her supervisors on 23 September 2004. The plaintiff alleged to have suffered from cervical vertebra bifacet dislocation and has developed into certain other illnesses as a result of the accident. The plaintiff further alleged to have become tetraplegic and totally dependent, and that she is not able to engage in any kind of work. The EC Claim was settled in or about November 2005 in the sum of approximately HK\$1.7 million. On 13 September 2007, such ex-employee commenced a further common law claim against Tary and Huizhou Junyang in a legal proceeding (HCPI 805/2007). Her pleaded claim is approximately HK\$24 million or alternatively approximately HK\$27 million. The common law claim against Huizhou Junyang was discontinued by such ex-employee pursuant to an order dated 7 April 2009. As at the Latest Practicable Date, the common law claim against Tary has been settled (except the legal costs claimed by plaintiff which is in the amount of approximately HK\$1.9 million and is subject to negotiation of the parties (but in any event it will be covered by the insurer of Tary)). Pursuant to an employee compensation insurance policy taken out by Tary, the insurer has provided full indemnity to Tary in respect of the common law claim. Upon review, the Directors consider that as the insurer of Tary has confirmed that it has provided full indemnity to Tary in respect of this claim in accordance with the terms and conditions of the employees’ compensation insurance policy taken out by Tary, no provision should be made in this respect. Accordingly, the Directors consider that there will not be any material impact, both legally and financially, on the Group’s results and operations.

The Directors believe that the accident does not reflect any internal control weakness in the Company’s occupational safety policy, and that the accident was an isolated case and was not related to operational and general safety in the workplace.

As advised by the Directors, the Company believes that they have in place adequate measures and procedures in dealing with safety in the workplace.

The Company has implemented a safety manual since 15 August 2004 which contains a number of safety measure and guidelines for its employees of all production departments and warehouses. Copies of the safety manual are readily available to the employees from the respective department head whom will enforce the compliance of these safety procedures. In addition, there are guidelines in relation to the operations of individual machinery and equipment such as the operation of forklifts and lathes or in relation to the procedure of each department, such as the departments of recycling, printing, packaging and extrusion as well as warehouses.

Moreover, the Company provides training for its employees in respect of safety in the workplace. According to the safety manual and relevant safety guidelines, the employees are required to study the safety guidelines and pass relevant tests before they take up any job duties. Employees are also supervised by relevant department heads when operating certain machinery and equipments. Employee operating forklifts must obtain an operation certificate from local government authority after training and examination. The



Company also trains its staff on how to handle unexpected events and accidents, for example, fire or power failure. The Company also plans to provide periodic training for its employees on occupational safety.

We have designated our general manager to oversee the occupational safety described above. He is also the contact person whenever there are questions or issues with occupational safety and manage the Company's overall internal control and occupational safety procedures, including the constant review of and keeping up-to-date with the safety measures of the Company.

In view of the above measures, the Directors are of the view that the internal control system is sufficient to address the safety issue.

### **Failure to prepare audited accounts in compliance with Companies Ordinance**

Ramber is one of the investment holding vehicles of our Group. The existing directors of Ramber are Mr. Chum, Mrs. Chum and Mr. Desmond Chum and they were appointed as directors of Ramber on 6 December 2002, 6 February 2003 and 6 February 2003 respectively. Pursuant to sections 122(1) and 122(2) of the Companies Ordinance, the directors of Ramber must cause the profit and loss account and balance sheet of the company to be made up and laid before Ramber at each of its annual general meetings.

For each of the accounting years ended 31 March 2001 to 2010 (the “**Non-complied Period**”), the directors of Ramber relied on the staff member responsible for the accounting matters of Ramber to deal with the accounting matters of Ramber. Such staff member instructed Messrs. Richard S.K. Chan & Co., Certified Public Accountants (“**Richard S.K. Chan & Co.**”) from time to time to prepare audited accounts (the “**Accounts**”) for Ramber. However, during the Non-Complied Period, the relevant staff member failed to instruct Richard S.K. Chan & Co. to prepare the Accounts of the Non-Complied Period. On 11 January 2010, Greenstar appointed Deloitte Touche Tohmatsu (“**Deloitte**”) as the reporting accountants of our Group. Upon review of the relevant accounts of our Group, Deloitte advised the directors of Ramber that Ramber had failed to prepare any Accounts for the Non-complied Period as required under the Companies Ordinance. Accordingly, the directors of Ramber immediately instructed Richard S.K. Chan & Co. to prepare the Accounts of Ramber for the Non-complied Period.

As soon as practicable after the Accounts and other documents were prepared, the directors of Ramber, through independent legal advisers engaged by the Company to deal with the issue, have on 20 August 2010 applied to the High Court of Hong Kong to seek an order for Ramber to extend the period for laying the financial statements covering the Non-complied Period. On 16 September 2010, the Court of First Instance, the High Court of Hong Kong granted an order to extend the period for the laying of financial statements covering the Non-complied Period to 8 July 2010, being the date on which an extraordinary general meeting of Ramber was held and the Accounts were laid before the shareholders of Ramber.

Pursuant to section 122 of the Companies Ordinance and Schedule 12 thereto, if a director of a company fails to take all reasonable steps to comply with the requirements under the said section, such person is liable on conviction to a maximum fine of HK\$300,000 and imprisonment for up to 12 months. Further, it is a defence to prove that he or she had reasonable grounds to believe and did believe that a competent and reliable person was charged with the duty of overseeing that the provision of section 122 of the Companies Ordinance is complied with. However, under section 122(3)(b) of the Companies Ordinance, a director will not be sentenced to imprisonment unless the court finds that he or she committed the offence willfully. The Directors understand and the Hong Kong legal advisers of the Company to this non-compliance issue, Tony Au & Partners, confirmed that, while the grant of a court order in relation to section 122 of the Companies Ordinance may not by itself bar criminal enforcement by the Companies Registry of possible offences arising from past default, the likelihood of criminal enforcement by the Companies Registry as well as the likelihood of conviction are low given that the Court of First Instance, the High Court of Hong Kong granted an order mentioned above based on its acceptance of the explanations as set out in the Affirmations submitted for the court application of the directors of Ramber, including the submissions that the non-compliance was merely inadvertent and was definitely not willful. On such basis, our Directors consider that the above non-compliance is not likely to have any material adverse effect on our business or financial conditions.

To avoid future occurrences of such non-compliance, and to strengthen the ways in detecting potential breaches in the future as well as enhancing the effectiveness of our corporate governance, our Group has taken and will take the following steps to incorporate corporate governance practices to ensure compliance with the applicable rules and regulations:

- we have established an internal audit function, which is independent of the Company's management and reports directly to the Audit Committee, to assess and monitor the internal controls of our Company;
- our audit committee will oversee the financial reporting and internal control procedures of our Company;
- our company secretary, Mr. Chan Shiu Yuen Sammy, who is an associate member of the Hong Kong Institute of Certified Public Accountants, will assist our Group in ensuring compliance with section 122 of the Companies Ordinance;
- we will engage a Hong Kong legal adviser to provide training on the latest developments of various compliance matters that relate to our Group including the Listing Rules and the Companies Ordinance; and
- our Company has undertaken to the Sole Sponsor to engage a professional appraisal company as determined by the audit committee to conduct an assessment over the effectiveness of the internal control systems of our Group during each of the first two years after Listing (and thereafter on a need basis) and to include the material findings of such assessment together with other appropriate disclosure in our Company's annual reports.