Prospective investors should, before making any investment decision in relation to the Offer Shares, consider all the information set forth in this prospectus carefully and, in particular, consider the following risks and special considerations in connection with an investment in our Company. The occurrence of any of the following risks may have a material adverse effect on the business, results of operations, financial conditions and future prospects of our Group. Additional risks not currently known to us or that we now deem immaterial may also be detrimental to our Group and may affect your investment.

This prospectus contains certain forward-looking statements regarding our plans, objectives, expectations, and intentions which involve risks and uncertainties. The actual results our Group obtained could differ materially from those discussed in this prospectus. Factors that could cause or contribute to such differences include those discussed below as well as those discussed elsewhere in this prospectus. The trading price of the Offer Shares could decline due to any of these risks and you may be deprived of all or part of your investment.

RISKS RELATING TO OUR BUSINESS

Changes in revenue mix and major cost components may impact our Group's operations and financial performance.

Our growing emphasis on promoting paper-based packaging products has brought a number of new challenges and risks in our operation. We purchase raw paper from third parties for our production of paper-based packaging products. The total purchase of raw paper amounted to approximately RMB178.6 million, RMB150.1 million and RMB244.8 million, respectively, which accounted for approximately 32.4%, 34.4% and 36.7%, respectively of our total cost of raw materials for the three years ended 31 December 2010. As these purchases comprise a substantial portion of the production costs of our paper-based packaging products, any increase in the cost of raw paper will have a negative impact on our results of operations and prospects.

Furthermore, we granted to our paper-based packaging products customers 30 to 120 days of credit period, as opposed to 30 to 75 days that we granted to our corrugated medium paper customers, following the date of delivery of our products. With the rising portion of revenue generated from our paper-based packaging products, the longer credit period we offered to those customers will likely to have an adverse impact on our working capital position.

Also, as our Group has plans to establish new production plants for our paper-based packaging products in Zhengzhou, Henan Province and Hefei, Anhui Province the PRC, we would face further challenges as we would need to source raw materials from new suppliers around the regions, at least at the initial stage. While we have internal procedures to ensure the reliability of our suppliers, the quality and stability of raw materials to be supplied by these new suppliers could not be guaranteed.

In addition, to cater for the needs of our paper-based packaging products customers, we started the production of honeycomb paper-based products in December 2010. Although we purchased honeycomb paperboard from third parties for further processing and sold the processed honeycomb paper-based products to third parties for the year ended 31 December 2010, such sales only accounted for approximately 1.0% of our total sales for such period. Due to the short operating history of our production of honeycomb paper-based products, we could not guarantee that such new ancillary products lines will succeed in the future.

Changes in prices for and availability of our raw materials and energy resources may have a material and adverse impact on our business.

We consume a large amount of waste paper as the principal raw materials in our paper production. We also purchase raw paper for the production of our paper-based packaging products, and consume energy resources such as coal and electricity to support our production. During the Track Record Period, the average purchase cost of waste paper per tonne amounted to approximately RMB1,258, RMB831 and RMB1,274, respectively, and the total cost of waste paper accounted for approximately 58.0%, 53.0% and 55.7%, respectively of our total cost of raw materials used during the Track Record Period. During the Track Record Period, the average purchase cost of raw paper per tonne amounted to approximately RMB3,687, RMB3,025 and RMB3,848, respectively. It accounted for approximately 32.4%, 34.4% and 36.7%, respectively of our total cost of raw materials used for the Track Record Period. In addition, during the Track Record Period, energy cost accounted for approximately 13.6%, 14.1% and 11.7% of our total cost of sales respectively. Our success greatly depends on our capability to source from our suppliers adequate quantities of raw materials and energy supplies at satisfactory prices and quality in a timely manner. Any disruption in the supply or increase in price of raw materials or energy could adversely affect our business and results of operations.

As waste paper and raw paper procurement costs comprise a substantial portion of our Group's costs of sales, any increase in the cost of waste paper and raw paper will have a negative impact on our Group's results of operations and prospects. For the analysis regarding our Group's sensitivity to a 5% increase in the purchase costs for raw paper and waste paper, please refer to the paragraph headed "Financial information — Major factors affecting our Group's results of operations and financial conditions — Raw materials costs" in this prospectus.

We had net current liabilities as at 31 December 2008 and 31 December 2010.

We had net current liabilities of approximately RMB4.3 million as at 31 December 2008, which was mainly due to our current liabilities outweighed our current assets. Our current liabilities mainly included the short-term bank and other borrowings while our current assets mainly included trade and bill receivables. Such position was primarily driven by: (i) the increase in short-term bank loans to support our capital expenditure on the increased production capacity in 2008.

We had net current liabilities of approximately RMB51.6 million as at 31 December 2010. Our net current liabilities position was principally attributed to the utilisation of short-term bank and other borrowings from licensed banks in the PRC to support our capital expenditure in 2010 for the addition and enhancement of production facilities in the amount of approximately RMB81.9 million in total, to cope with the increasing demand of our paper-based packaging products. The borrowings were also used to finance our unsettled trade and other payables as at 31 December 2010.

As we may continue utilising short-term banking facilities from licensed banks in the PRC to fund our operations and business expansion, if there is any failure to generate current assets to the extent that the aggregate amount of our current assets on any given day exceeds the aggregate current liabilities on the same day, we will continue to record net current liabilities. For further details of our Group in this respect, please refer to the section headed "Financial information" in this prospectus.

We rely on the PRC market.

During the Track Record Period, all of our products were sold to customers in the PRC. In the foreseeable future, we expect that the PRC market will continue to be our principal market. Should there be any material adverse change in the political, economic, legal or social conditions in the PRC and our Group is unable to divert sales to other markets outside of the PRC or the demand for our products does not grow at a rate we expect or at all, our sales, profitability and prospects may be adversely affected.

We derive a significant portion of our total revenue from a few customers.

Our ability to maintain close and mutually beneficial relationships with our customers is important to our ongoing growth and profitability. Although our Group's sales to specific customers vary from year to year and our customer base is diverse and broad, we derive a significant portion of our total revenue from a few major customers. During the Track Record Period, our five largest customers accounted for approximately 31.1%, 40.6% and 44.8%, respectively, of our revenue of the corresponding period. During the Track Record Period, our largest customer accounted for approximately 12.3%, 14.3% and 19.3% of our revenue of the corresponding period respectively.

As we do not normally enter into long-term sales contracts with our customers, there is no assurance that any of our major customers will continue to purchase products from us at the same level, or at all, as they have done so historically. Should any of our major customers materially reduce their purchases from us or terminate their business relationships with us, our business and financial performance may be adversely affected.

We are exposed to payment delays and/or defaults by our customers.

We generally offer our paper-based packaging products customers and corrugated medium paper customers credit periods of 30 to 120 days and 30 to 75 days, respectively following the date of delivery of our products, with the exception of new customers or those without an established or a proven credit history. There is no assurance that our customers will meet their payment obligations on time or in full or that our average trade receivables turnover days will not increase. Any failure on the part of our customers to settle or settle on time the amounts due to us may adversely affect our financial performance and operating cash flows, which could have a material adverse effect on our business and results of operations. Our Group's trade receivables amounted to approximately RMB156.4 million, RMB199.9 million and RMB289.6 million as at 31 December 2008, 2009 and 2010, respectively. There is no assurance that we can collect any or all of the debts successfully. During the Track Record Period, we have made provisions for bad debts for RMB0.2 million, RMB1.0 million and nil as at 31 December 2008, 2009 and 2010, respectively. Up to the Latest Practicable Date, we have written off doubtful debts of approximately RMB1.0 million due to the default of a customer of Yong Fa Paper in December 2010.

Sale of our products is subject to fluctuations in our customers' business cycles and the PRC and global economic conditions.

Sale of our products is subject to fluctuations in our customers' business cycles. As the quantity and product mix ordered by our customers may vary from period to period, it may be difficult for us to anticipate customers' demand correctly. Further, as our products mainly serve the manufacturers in the PRC, who would ship their goods within and outside the PRC, our customers' demand for our products during a global economic downturn could decrease. Due to the global financial crisis in the fourth quarter of 2008, our business was adversely affected and our revenue decreased from

RMB836.4 million for the year ended 31 December 2008 to RMB743.4 million for the year ended 31 December 2009. Our average selling price of both paper-based packaging products and corrugated medium paper were affected by the weakened market demand after the outburst of global financial crisis. The average selling price per sq.m. of our paper-based packaging products dropped from approximately RMB3.4 in 2008 to RMB3.0 in 2009, while the average selling price per tonne of our corrugated medium paper dropped from approximately RMB2,626 in 2008 to RMB1,939 in 2009. However, our sales volume of both paper-based packaging products and corrugated medium paper was not seriously affected since our Group focused on promoting our products to our customers. Sales volume of paper-based packaging products and corrugated medium paper recorded an increase of approximately 15.9% and 3.4% from 2008 to 2009, respectively.

In addition, our Group's gross profit margin for corrugated medium paper was relatively low, of approximately 7.4% for the year ended 31 December 2008 as compared to that for the year ended 31 December 2009. It was mainly attributable to the increase in purchasing cost of waste paper during the first half of 2008, and higher utilities cost in 2008. During the same period, the average selling price of our corrugated medium paper were approximately RMB2,626 in 2008 and RMB1,939 in 2009. Since the average cost of waste paper and utilities cost were higher than the average selling price of corrugated medium paper, our Group gross profit margin was relatively low. For details of the gross profit margin, please refer to the section "Financial information — Description of certain components of statements of comprehensive income — Gross profit and gross profit margin" in this prospectus. Should there be deterioration of the global economy in the future which impacts our customers' business cycles, our business may be adversely affected.

We rely on the expertise and experience of our executive Directors and senior management, and we may be unable to successfully recruit, train and retain our management and other highly skilled personnel.

Our ability to effectively implement our business plans and maintain continuous growth is dependent on the persistent and committed services of our executive Directors and senior management members. For details of credentials and experience of our executive Directors and senior management, please refer to the section headed "Directors, management and staff" in this prospectus. If any of our executive Directors or senior management members ceases to work for our Company, we may be unable to recruit and retain personnel with equivalent or comparable credentials in a timely manner. This may negatively affect the day-to-day management and development of our business. In addition, if any member of our senior management were to join a competitor or form a competing company, there is a possibility that we may lose some of our customers and know-how. The departure of one or more of our executive Directors or senior management may thus have a significant impact on the effective management of our business operations and adversely affect our operations.

Our smooth daily operations also depend on our ability to attract and retain management and technical personnel who possess the essential experience and expertise with respect to the papermaking and packaging business for our continuous growth and future success. If we fail to recruit the personnel with the relevant experience at a reasonable cost or at all, it may negatively affect our operations.

A material disruption to our operations may adversely affect our revenue and profits.

Our operations are subject to uncertainties and contingencies beyond our control that may result in material disruptions, which could prevent us from meeting customer orders, increase our costs of production and consequently adversely affect our revenue and profits. In particular, our operations require complex production facilities and specialised manufacturing equipment. Our production facilities require periodic shutdowns for regular maintenance, repair and mould and tooling changes to accommodate different specification of our products as required. Events such as industrial accidents, fires, floods, droughts, natural disasters, war and other catastrophes, equipment failures or other operational problems that increase our equipment downtimes, strikes or other labor difficulties and disruptions of public transportation infrastructure such as roads or ports may occur in our existing production lines housed in the factory premises at our principal production base in Zhongshan and Zhuhai, Guangdong Province, the PRC as well as our future production base in Hefei and Zhengzhou, the PRC or other areas. If any such events happen, our production may be materially disrupted, which may adversely affect our business and financial performance.

We may not be able to implement our future plans successfully.

We plan to expand our production capacity by establishing new production bases in Zhengzhou, Henan Province and Hefei, Anhui Province, the PRC. We also plan to upgrade our existing facilities for the production of corrugated medium paper and paper-based packaging products in order to seize the potential business opportunities in these areas. For details of our expansion plans, please refer to the sections headed "Business — Business strategies" and "Future plans and use of proceeds" in this prospectus. The successful implementation of such plans will depend on a number of factors that may be beyond our control, including but not limited to our ability to manage our expansion, our ability to achieve operational efficiency and any unforeseen difficulties which may arise in the relocation and setting up new production lines or the re-engineering and modification of our existing production facilities. Furthermore, we may need to relocate or establish a new production base if our major customers move into another area in the PRC. In light of this, we will incur additional start up costs and our cost of production may increase and thus adversely affect our profit margin in the short run.

Moreover, the implementation of our expansion plans is subject to other operational and market risks, including the inability to procure, or delays in receiving, the equipment and technology necessary for expansion, delays or complications in the design and roll-out of new technologies, or delays in obtaining or the inability to obtain government approvals or the requisite licenses. If we fail to effectively manage these risks, our ability to meet our expansion goals would be limited, and the implementation of such expansion plans may be delayed. Further, there may be an increase in costs, or an impediment with respect to our growth rate. Accordingly, our business operations and expansion plans could be materially and adversely affected, and we may not be able to sustain our historical rates of growth and maintain our position.

We relied on bank and other borrowings during the Track Record Period and may continue to depend on bank borrowings in the near future for our operations.

During the Track Record Period, our expansion in production capacity was principally financed by bank and other borrowings. As at 31 December 2008 and 2009 and 2010, our bank and other borrowings, which included both short-term and long-term borrowings, amounted to approximately RMB242.4 million, RMB261.9 million and RMB438.1 million, respectively. We expect to fund our business operations and capital expenditures through internally-generated cash flow as well as bank borrowings. There is no assurance that we will always be able to borrow from banks and other financial institutions to finance our business operations and capital expenditure. In the event that the banks and other financial institutions providing existing banking and credit facilities do not continue to extend similar or more favourable facilities to us and we fail to obtain alternative banking and credit facilities on comparable terms or at all, our business and financial positions will be adversely affected.

Our Group is exposed to interest rate risk in relation to variable-rate bank balances and short-term bank loans. For the sensitivity analysis regarding our Group's sensitivity to the interest rates on bank loans of 50 points higher, please refer to the paragraph headed "Financial information — Description of certain components of statements of comprehensive income — Finance costs".

We had net cash outflow used in operating activities for the year ended 31 December 2010.

We had net cash outflow of approximately RMB2.6 million for our operating activities for the year ended 31 December 2010, which was mainly due to a significant increase in trade and other receivables of approximately RMB207.7 million and partially offset by an increase in trade and other payables of approximately RMB112.8 million as at 31 December 2010, resulting from the significant increase in our sales in the year ended 31 December 2010 as compared to our sales for the year ended 31 December 2009.

Our business, financial position and development plans may be adversely affected if our Group does not generate sufficient cash flows from operations to meet our present and future financial obligations, or if we are unable to repay our loans and borrowings when they fall due. Adequate cash is expected to be required to fund the expansion of our operations. Hence, we may need to raise additional funds through debt or other forms of financing to finance our operations and/or to refinance our debts.

Our business operations may be affected by the interruption or shortage of supplies of water, electricity, steam and coal.

Steady supply of water, electricity, steam and coal play a critical role in our production processes. We rely partly on the local utility provider and partly on our heat and electricity co-generation plant for electric power and steam in Zhongshan, Guangdong Province, the PRC. In the event that the supply of water, electricity, steam or coal in Zhongshan and/or Zhuhai, Guangdong Province, the PRC, where our operations are based is interrupted, we may not be able to obtain alternative sources for these utilities at reasonable costs and in timely manner, or at all. As a result, our business operations may be adversely affected.

We rely on our major suppliers.

We are dependent on several major suppliers of raw materials such as raw paper and waste paper. Apart from Yong Fa Paper, we purchase our raw materials principally from Independent Third Parties. Our purchase from the top five suppliers accounted for approximately 40.6%, 52.5% and 49.8% of our total purchase for the three years ended 31 December 2010, respectively. If we cannot obtain an adequate supply of raw materials from these suppliers, we may be required to purchase from other more expensive sources. As we do not normally enter into long-term contracts with our suppliers, there is no assurance that we can obtain stable supply of raw materials or continue to maintain stable relationships with our suppliers in the future. Failure of our major suppliers to meet our demand or the loss of any of these key suppliers will disrupt our supply and have a material adverse impact on our business operations.

We may be subject to certain risks related to our business and operations that are not covered in whole or in part by our insurance policies.

We are subject to various risks associated with the operations of our business against which we cannot insure, or have not insured adequately or at all. We are not required by the laws of the PRC and have not maintained any product liability insurance coverage for products. Any liability and possible claims for product liability could affect our reputation and have a material and adverse effect on our business and results of operations.

Consistent with the customary practice in the PRC, we do not possess certain types of insurance in relation to our business operations, such as business interruption insurance, account receivable insurance, third party liability insurance for personal injury, and environmental damage. Should any accidents, natural disasters or similar events cause significant property damage or personal injury to our production facilities or employees, our business may be adversely affected, and a loss of assets, lawsuits, employee compensation obligations or other forms of economic loss may also be resulted which might cause an adverse impact on our business and results of operations.

We may not be able to effectively protect our intellectual property rights and industrial know-how, and we may be involved in costly or unsuccessful intellectual property disputes.

Our ability to compete with other industry players relies on our possession of or our exclusive right to use certain intellectual property rights, technology and know-how. It is possible that our competitors may gain access to our technology and know-how if we fail to effectively protect our intellectual property rights and industrial know-how. We are in the process of applying for registration for some of our intellectual property rights. We cannot assure that the relevant approval bodies will grant our intellectual property applications or confirm the scope of the granted intellectual property rights that we have applied for.

Unexpected costs and resources may be incurred when monitoring unauthorised use of our intellectual property, and we cannot assure you that applicable laws can fully protect our proprietary rights and the steps we have taken will prevent unauthorised use of our technology and confidential information. Moreover, any significant infringement by other parties of any intellectual property which we have exclusive right to use in our business during the term of the exclusive right could lower our competitive position and have an adverse effect on our operations.

In addition, as we expand our business and increase our market coverage, we may assert claims against, or claims may be brought against us by, other parties arising from intellectual property rights disputes. Also, third parties may allege that our technology or products have violated their intellectual property rights. Resolution of claims may require us to redesign our technology, to obtain licenses to use intellectual property belonging to third parties, which we may not be able to obtain on reasonable terms, or at all, or to cease using the technology covered by those third party rights. If such claims cannot be resolved through negotiations, we may face legal proceedings which may be costly and time consuming, and thereby adversely affect our business and results of operations. Furthermore, if we are not successful in these proceedings, we could lose our proprietary rights to our intellectual property, which prevent us from operating our business in whole or in part. Any of these events could adversely affect our business and results of operations.

We face certain risks relating to the real properties we owned or leased.

We have failed to obtain the relevant planning permits, construction commencement permits for the construction projects and failed to submit the construction projects for quality check and acceptance procedures for 45 buildings and structures that are owned by us with a total gross floor area of approximately 42,066 sq.m. The said buildings have been used by us mainly for storage and other ancillary facilities which are not directly related nor critical to our production process and no revenue and profit contributions were generated from these properties during the Track Record Period. As advised by our legal advisers as to PRC law, we could be ordered by the relevant PRC authorities to demolish these buildings. We could be liable to a fine of: (a) up to a maximum of 10% of the construction costs in respect of the buildings that we have failed to obtain the planning permits; (b) up to a maximum of 2% of the contractual price in respect of buildings that we have failed to obtain the commencement permits; and (c) up to a maximum of 4% of the contractual price in respect of buildings that we have failed to undertake the completion acceptance checks. In this connection, we have on 30 November 2010 undertaken to the relevant PRC authorities that we will demolish 26 buildings with a total gross floor area of approximately 17,105 sq.m. by 31 December 2012; for the remaining 19 buildings we will apply for the planning permits, commencement permits and submit the buildings for planning and quality check and acceptance procedures. If we fail to obtain the planning permits, commencement permits or the planning and quality check and acceptance from the relevant PRC authorities for any of these 19 buildings, we will demolish such building by 31 December 2012. We received two confirmation letters issued by the competent authorities, Zhongshan City Huangpu Town Planning Management Centre (中山市黃圃鎮規劃管理所) and Zhongshan City Huangpu Town Construction Management Centre (中山市黃圃鎮建設管理所) dated 30 November 2010, confirming that no action will be instituted against us and no penalty will be imposed on us for the above irregularities subject to us fulfilling the aforesaid undertakings. We have further obtained a confirmation letter from 中山市城鄉規劃局 (Zhong Shan Shi Cheng Xiang Gui Hua Ju*) confirming it has no objection to the decision of Zhongshan City Huangpu Town Planning Management Centre (中山市黃圃鎮規劃管理所) and a confirmation letter from 中山市住房和城鄉建設局 (Zhongshan City Housing and Urban and Rural Construction Bureau*) confirming it has no objection to the decision of Zhongshan City Huangpu Town Construction Management Centre (中山市黃圃鎮建設管理所), both dated 14 February 2011.

We have failed to obtain the planning permit and submit the construction works for quality check and acceptance procedures for a canteen owned by Zheng Ye Packaging (Zhongshan), which is an ancillary facility and thus not crucial to our Group's production process and no revenue and profit contributions were generated from the said property during the Track Record Period. As advised by our legal advisers as to PRC law, we could be ordered by the relevant PRC authorities to demolish our canteen and could be liable to a fine of up to a maximum of 10% of the construction costs of our canteen which amounted to RMB1,015. We may also be ordered to take remedial action for our failure to submit the construction work for quality check and acceptance procedure and be subject to a fine of up to a maximum of 4% of the contractual price for the construction of the canteen which amounted to RMB406 and to make compensation if damages are caused to other parties. We intend to demolish such canteen before June 2011.

In addition, we have failed to undertake the quality check and acceptance procedures for a building owned by Zheng Ye Packaging (Zhuhai) that is used as mailroom, an ancillary facility. It is not crucial to our Group's production process as no revenue and profit contributions were generated from it during the Track Record Period. We may be subject to a fine of up to a maximum of 4% of the contractual price which amounted to RMB5,153 and to make compensation if damages are caused to other parties. Zheng Ye Packaging (Zhuhai) has submitted such construction project for quality check and acceptance procedures and is yet to obtain the approval certificate from the competent authority. We expect to obtain such certificate by 30 May 2011.

As at the Latest Practicable Date, we leased eight properties and six leases of our leased properties have not been filed with the competent authorities mainly due to the failure of the lessors to provide us with the relevant ownership certificates. Properties being the subject of five leases for which we have not filed with the competent authorities are used as warehouse, canteen, workshop and office; whereas that relating to the remaining one is used as our production plant for our honeycomb paper-based products and its ancillary facilities. As advised by our legal advisers as to PRC law, although such lease agreements are enforceable and valid, we may be subject to a fine of RMB1,000 to RMB10,000 for our failure to file each of these lease agreements in accordance with 《商品房屋租賃管理辦法》(Commercial Property Leasing Management Regulation*) effective on 1 February 2011.

Three of our leased properties that we have not filed with the competent authorities were built on rural collectively-owned land for construction purpose. Two of such leased properties are mainly used as our warehouse and thus are not crucial to our Group; while the remaining one is used as our production plant for our honeycomb paper-based products and its ancillary facilities such as boiler room, security office and general office, in which we commenced operation in December 2010. The planned annual production capacity for honeycomb paper-based products is 10,000,000 sq.m, representing approximately 3.2% of the total capacity of the packaging division of our Group. Under the relevant PRC laws and regulations, the lease of land use rights of rural collectively-owned land has to be approved by two-thirds of the village committee members or of the village representatives. However as the respective lessor has failed to provide us with the satisfactory evidence showing such requisite approval, the relevant lease agreement may be void and not enforceable. Our Directors do not foresee any major difficulties in finding suitable alternative premises in Zhongshan Guangdong Province, the PRC, if we are required to evacuate the properties. The estimated amount of relocation costs and time for our two honeycomb paper-based products production lines are approximately RMB500,000 and 30 days, whereas the relocation costs for each of the remaining leased properties is estimated to be approximately RMB50,000. No revenue and profit contribution were generated from the said properties during the Track Record Period.

Apart from the above, one of our lessors has not been granted the planning permit and construction commencement permit for two buildings we lease as workshop and canteen, respectively, as a result of which the relevant lease may be void and unenforceable. No revenue and profit contribution were generated from the said properties during the Track Record Period.

In regard to these four leased properties, we have obtained a confirmation from the respective lessor in which each lessor has undertaken to fully indemnify us for any penalties or losses arising from any disputes or punishment in relation to the use of the leased premises during the leasing period.

Furthermore, Zheng Ye Packaging (Zheng Zhou) has entered into a lease for an office premises. It is not crucial to our Group's production process as no revenue and profit contributions were generated from it as at the Latest Practicable Date. Zheng Ye Packaging (Zheng Zhou) could be subject to a maximum fine of RMB10,000 for the failure to file the lease contract with competent authorities under the PRC laws and regulations.

We cannot assure you that the relevant PRC authorities will not order the demolition of those properties we owned for the failure as mentioned above, or to vacate us from our leased premises if our lease agreement is declared void and unenforceable by the relevant PRC authorities, in which case we will need to relocate, but may not be able to successfully find alternative sites to locate our facilities on commercially reasonable terms, or at all. Our business operations, planned expansion and future growth may be adversely disrupted, and this could have a material adverse effect on our business and results of operations. The Controlling Shareholders have undertaken to indemnify our Group against any damages, losses or liabilities which are or will become payable by any members of our Group as a result of the above non-compliance by our Group in relation to our properties, which are owned by our Group and will not therefore be covered by the undertakings of indemnity by the lessors of our leased properties, particulars of which are set out under the paragraph headed "Other information — 16. Estate duty, tax and other indemnities" in Appendix V to this prospectus.

We have not effected registration with the relevant local housing provident fund management centers, maintained housing provident fund accounts in designated banks and made contributions towards payments of housing provident funds for our employees in the PRC prior to August 2010.

We did not register, open accounts or contribute towards payments of the housing provident funds as required by the PRC laws and regulation prior to August 2010. We have effected registration with the relevant local housing provident fund management centers and opened our housing provident fund accounts in designated banks in Zhongshan, Guangdong Province, the PRC, since August 2010 and Zhuhai, Guangdong Province, the PRC, since September 2010 and have been making contributions since then.

Each of the relevant local housing provident fund management centers of Zhongshan and Zhuhai, Guangdong Province, the PRC, has confirmed with us in writing that we will not be held liable for our failure to comply with the relevant laws and regulations regarding the housing provident funds in the past. We are advised by our legal advisers as to PRC law that each of the relevant local housing provident fund management centers of Zhongshan and Zhuhai, Guangdong Province, the PRC, is competent to issue the confirmations.

Despite obtaining the confirmations from the local housing provident fund management centers of Zhongshan and Zhuhai, Guangdong Province, the PRC, we cannot rule out the possibility of the PRC government authorities of a higher level taking enforcement actions against us in the future. We are advised by our legal advisers as to PRC law that in the event of enforcement actions being taken against us, we could be demanded to effect payment of the outstanding contributions that we should have made within a specified time as may be imposed by the relevant PRC authorities and could be facing court proceedings for specific performance of such payment if we fail to comply with the demand. We estimate that the outstanding amount of housing provident fund contributions that should have been made if we were in strict compliance with the relevant PRC laws and regulations prior to the date(s) of the above registration of accounts with the relevant local housing provident fund management centers is approximately RMB9.4 million. If any enforcement actions are taken against us as aforesaid, our business and results of operations may be adversely affected. As at the Latest Practical Date, no enforcement actions were taken by the relevant PRC authorities against us for the non-compliance as above mentioned. Our Controlling Shareholders have agreed to indemnify us for all amounts payable in respect of the outstanding payments and for all fines, penalties, damages, losses and liabilities which are or may become payable by us as a result of the non-compliance as above mentioned.

We have delayed in undertaking the environmental impact evaluation procedures for our expanded production capacity.

Compliance with environmental regulations is of vital importance to our business since our production generates wastes, including wastewater, noise, gaseous and airborne emissions, which are subject to stringent environmental regulations. We have delayed in undertaking the environmental impact evaluation procedures for the expanded production capacity of Zheng Ye Packaging

(Zhongshan) but have now obtained the relevant certificates or approvals, including the waste discharge permit and environmental protection confirmation. Our legal advisers as to PRC law have advised that our Group will not be subjected to any penalties or fines in this regard.

We failed to obtain the licence for the supply and sale of electricity to third parties during the Track Record Period.

At the request of the local government for the general benefits of the community, we supplied electricity to third parties where it is not practicable for the licensed power grid suppliers to provide the necessary electricity in these areas due to the failure and/or delay in the transformation of power grid operated by these licensed power grid suppliers. Zhong Tang Shi Ye (and after the merger by absorption, Yong Fa Paper) failed to obtain the licence for the supply and sale of electricity to third parties during the Track Record Period. As advised by our legal advisers as to PRC law, in the event that any enterprise that has not obtained an electric power business licence in accordance with applicable law engages in the provision of electricity business, the electric power regulatory body shall order the enterprise to make correction and confiscate earnings generated from such business, and may even concurrently impose a fine of not more than five times as much as such earnings. The maximum amount of the fines that may be imposed on our Group as a result of the non-compliance would be approximately RMB85.0 million. Yong Fa Paper has ceased the sales and supply of electricity and steam to third parties and the regional power grid since 1 January 2011.

We may not be able to pay any dividends on our Shares.

Dividends may be paid only out of our distributable profits as permitted under the relevant laws. Our ability to pay dividends will therefore depend on our ability to generate sufficient distributable profits.

Our Group declared a dividend of approximately RMB6.1 million, RMB13.5 million and RMB84.5 million, respectively to its then shareholders in respect of the financial year ended 31 December 2008, 2009 and 2010, respectively. For details of our dividends policy, please refer to the section headed "Financial information — Dividend policy" in this prospectus.

We cannot assure that in the future we will pay dividends at a similar level to the past or at all, and potential investors should be aware that the amount of dividends we paid in the past should not be used as a reference or basis upon which future dividends are determined. The payment and the amount of any dividends will depend on various factors, including but not limited to, the cash flows and financial conditions of our Company, the calculation of distributable profit under PRC GAAP and our future prospects. In addition, to the extent profits are distributed as dividends, such portion of profits will not be available for investment in our operations, which may in turn limit our further development.

Therefore, declaration and/or payment of future dividends, if any, will be at the discretion of the Board and will depend on our future capital requirements, general financial conditions, legal and contractual restrictions and other factors as the Board may deem relevant.

We are exposed to the risk of foreign exchange fluctuations.

We purchase some of our raw materials in US dollars and Hong Kong dollars and receive part of our sales in Hong Kong dollars. As such, we are subject to transactional currency exposures. The value of RMB against other foreign currency is subject to changes in the PRC Government's policies and international and economic developments. In July 2005, the PRC Government abolished the fixed exchange rate system, in which RMB was pegged against US$, and adopted a managed floating exchange regime. Further, it has been suggested recently that foreign countries are putting more pressure on the PRC Government to adopt a more flexible currency system, which could lead to a further appreciation of RMB. RMB may be re-valued further against US$ or other currencies or may be permitted to enter into a full or limited free float, which may could affect the value of RMB against US$ or other currencies. Depreciation in the value of RMB may lead to an increase in the cost of our raw materials and increase our cost of production. It may also materially and adversely affect the value, our earnings and assets as well as our ability to fulfil any of our foreign currency denominated obligations.

For the three years ended 31 December 2010, our Group's sales denominated in HK dollars were approximately HK$95.9 million, HK$18.4 million and HK$2.4 million, respectively. Such sales in HK dollars accounted for approximately 10%, 2% and 0% for our total sales for the three years ended 31 December 2010, respectively. Our Group has also paid part of its purchase in HK dollars and US dollars. It has paid approximately HK$132.9 million, HK$84.8 million and HK$62.6 million for the three years ended 31 December 2010, respectively, accounting for approximately 22%, 16% and 8% of our total purchase costs for the same period. Our Group paid approximately US$3.7 million, US$2.9 million and US$13.4 million, respectively for the Track Record Period, accounting for approximately 5%, 4% and 13% of our total purchase costs for the same period.

The following sensitivity analysis adjusts the translation at each of the three years ended 31 December 2010 for 10% depreciation in RMB against each of the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. A positive (negative) number below indicates an increase (decrease) in profit for the year where RMB depreciates against the relevant foreign currencies. For a 10% appreciation of RMB against the relevant currencies, there would be an equal and opposite impact on the profit before tax for the year.

	Year ended 31 December		
	2008	**2009**	**2010**
	RMB	*RMB*	*RMB*
Profit/(Loss)	(5,998,000)	(7,821,000)	(14,260,000)

RISKS RELATING TO THE INDUSTRY

The markets in which we operate are highly competitive.

We compete on the basis of our product quality, consistency, performance and price. If we are unable to control our costs in connection with our planned expansion or anticipate and respond to changing customer preferences, we may not be able to compete successfully. We cannot assure you that our competitors which are of larger sizes than us will not invest and successfully establish themselves as market leaders in the corrugated medium paper and paper-based packaging products segment. In addition, we cannot assure you that we will be able to compete effectively or gain market share in local markets where we are not currently a market leader or where we do not currently have an established presence. The inability to compete effectively in new local markets may adversely affect our expansion plans and future growth.

Under the PRC's foreign investment rules, foreign investment in paper manufacturing and paper-based packaging is permitted. A number of foreign companies have established paper manufacturing and paper-based packaging enterprises in the PRC, and we anticipate a growing number of foreign new entrants in the future, in which case we may face increasing competition from such enterprises. As these foreign companies may have greater access to financial resources, higher levels of vertical integration and longer operating histories, if we are unable to maintain our operating efficiency and economies of scale, we may not be able to compete successfully. Our failure to compete successfully against our competitors could have a material adverse effect on our business and results of operations.

Any employee injury claims or failure to comply with any present or future employee health and safety standards may materially and adversely affect our business, results of operations and financial conditions.

Since our Group's business involves the operation of heavy machinery, industrial accidents resulting in employee injuries or deaths may occur, and such potential industrial accidents may lead to significant property loss and personal harm. In such an event, our Group may be liable for loss of life and property, medical expenses, fines or penalties for violation of applicable PRC laws and regulations as well as subject to claims and lawsuits, business interruptions caused by equipment shutdowns for government investigation or implementation or imposition of safety measures as a result of the accidents. Accordingly, our profitability, relations with customers, suppliers, employees and regulatory authorities may be adversely affected. We cannot assure you that any preventive measures we have taken or may take will be adequate to prevent any industrial accidents in the future.

Further, we are required to ensure safety throughout our business operations in order to comply with rigorous PRC safety standards and pass routine safety inspections. In the event of a PRC government determination that our operations or products fail to meet, or are in breach of, national or local standards for safety, we could be subject to substantial amount of fines or penalties or be required to invest additional capital to carry out necessary improvements to meet such standards, and accordingly our business, results of operations and financial conditions would be significantly and adversely affected and we may not be able to implement our expansion plans as proposed. Moreover, should our products lead to harm or injury as a result of the failure to satisfy the relevant safety standards in the PRC, or result in non-compliance with the labour laws of the PRC, we could be subject to additional fines, penalties and lawsuits, which could increase our costs significantly and could potentially harm our business reputation, resulting in consumers being less inclined to purchase our products and services, thereby materially and adversely affecting our profitability and results of operations.

Our business operations may be affected by current or future environmental regulations.

The PRC government has enacted various national and local environmental laws and regulations, such as 中華人民共和國環境保護法 (Environmental Protection Law of the People's Republic of China*), 中華人民共和國水污染防治法 (Law of the People's Republic of China on the Prevention and Control of Water Pollution*), 中華人民共和國固體廢物污染環境防治法 (Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste*), 中華人民共和國環境影響評價法 (Law of the People's Republic of China on Environmental Impacts Appraisal*), and 中華人民共和國清潔生產促進法 (Law of the People's Republic of China on Promoting Cleaner Production*). These environmental laws and regulations impose rigorous standards on us regarding water discharge, airborne emissions, the use, handling, discharge and disposal of wastes, noise pollution, and remediation of environmental contamination. For details of how these laws and regulations affect our business, please refer to the section headed "Regulatory overview" of this prospectus.

In addition, environmental laws and regulations could become even more stringent in the future. Our operating expenses may increase if the standards for discharge, or interpretation or enforcement of such standards, become stricter. Moreover, we are liable for damages caused by pollutants generated during our production. We cannot assure you that we will at all times be in full compliance with all of the environmental laws and regulations that apply to our operations due to our negligence. Any failure, or any claim that we have failed, to comply with environmental laws and standards could cause delays in our production and capacity expansion, which may adversely affect our business and results of operations.

In view of the repercussion of the environmental protection rules and regulations, we incur costs on our facilities and equipment to ensure the compliance with the relevant rules and regulations. Approximately RMB6.9 million, RMB9.2 million and RMB13.0 million was incurred in this regard for the three years ended 31 December 2010 and the expected cost of compliance going forward is approximately RMB6.0 million per annum.

Any change in the PRC government's initiatives to encourage spending on household appliances could affect our results of operation.

The PRC government has implemented the Rural Appliance Rebate Program to boost rural consumption and to supply the rural market with reliable and affordable household appliances and consumer electronics since 2007. According to the statistics by MOFCOM, sales volume of household appliances under this program amounted to approximately 59.5 million units in the first ten months of 2010 with a total sales value of approximately RMB132.3 billion. For the figures in the first ten months of 2010, compared to the full year in 2009, such figures increased by approximately 90.6%. Apart from that, the PRC government has also implemented the Change of the Old for New Program in 2009. According to the Administration System of the Change of the Old for New Program, the accumulated sales volume and value of household appliances under such program was approximately 40.3 million units and RMB152.1 billion, respectively on 7 March 2011. Such programs have boosted the demand for household appliances, and have indirectly benefited our Group's operation. Approximately 68%, 69% and 80% of our revenue from the paper-based packaging product segment was derived from household appliances manufacturers for the three years ended 31 December 2010, respectively.

The Rural Appliance Rebate Program was planned to expire on 30 November 2012 and the Change of the Old for New Program is to expire on 31 December 2011. Upon the expiry of such programs and without the subsidies from the PRC government, the demand in household appliances within the PRC may decrease, which may also have an adverse impact on the demand of our Group's products accordingly.

Any change in PRC industrial policy could adversely affect our profitability and ability to implement our expansion plans.

With regard to the paper industry, the PRC government has implemented a policy to encourage the growth of larger enterprises by providing support, such as supply of materials and assistance with new product development, while restricting the establishment of smaller paper companies, in an effort to reduce pollution and save timber and energy. Any change in the PRC industrial policy could cause us to lose the governmental support we currently enjoy, which could lead to difficulty in adequately funding key projects or accessing the raw materials we need. Should this happen, our profitability and ability to expand our operation may be adversely affected.

The NDRC promulgated 造紙產業發展政策 (Paper Making Industry Development Policy*) (the "**Policy**") on 15 October 2007. The Policy provides that if an enterprise's production of a single type of paper product accounts for more than 35% of the domestic market share, filing for the approval of new construction projects related to that particular type of paper product shall be disallowed. Furthermore, it is stated that, for a paper company with a production capacity exceeding 20% of the total domestic market consumption volume, filing for the approval of new pulp and paper making projects shall be disallowed.

As at the Latest Practicable Date, we did not produce any single type of paper product (according to the classification in the Policy) that has a domestic market share exceeding 35% for any single type of paper product and we did not have an aggregate production capacity exceeding 20% of the total domestic market consumption volume. Therefore, we are not currently affected by the aforesaid provisions of the Policy. However, as our business and production capacity grows, we may become subject to the provisions described above and other restrictions contained in the Policy in the future. Should our market share and aggregate production capacity in the future require us to comply with the Policy and NDRC's standards, our business and results of operations may be adversely affected. The Policy may limit the growth of our Group in the future.

RISKS RELATING TO THE PRC

Changes in political or economic policies or a slowdown in the PRC economy may have an adverse impact on the demand for our paper products.

For each of the three years ended 31 December 2010, we generated all our revenue from sales of products in the PRC. We anticipate that revenues from sales of our products in the PRC will continue to represent a large proportion of our total revenue in the medium term as most of our customers are located in the PRC. As such, our results of operations and prospects are and will continue to be subject to economic, legal and political developments in the PRC to a significant extent. In the recent decade, the PRC government has implemented various measures in relation to the development of the paper industry, such as restructuring the fragmented paper industry and encouraging foreign investment, both of which have led to changes in market structure of the paper industry and paper prices. However, there is no assurance that policies and measures that were introduced and those that may be introduced by the PRC government in the future to benefit the PRC paper industry in general may not have a negative effect on us. Any adverse change in government policies that increases our cost of production could adversely affect our business and financial conditions.

In addition, although the PRC has gradually shifted from a planned economy toward a market-oriented economy, continued governmental control of the economy may adversely affect us. We cannot assure that the PRC government will not continue to pursue economic reforms. A number of policies and measures that could be taken by the PRC government to regulate the economy, including the introduction of measures to control inflation, deflation, or resulting in reduced growth, changes in the rates or methods of taxation, or the imposition of additional restrictions on currency conversions and remittances abroad, could materially and adversely affect our business, results of operations and financial conditions.

A change in the PRC tax policy could have an adverse effect on our tax liabilities.

Pursuant to 中華人民共和國企業所得稅法 (Enterprise Income Tax Law of the PRC*) enacted on 16 March 2007 and 中華人民共和國企業所得稅法實施條例 (Implementation Regulations of Enterprise Income Tax Law of the PRC*) enacted on 6 December 2007 (collectively the "**Income Tax Law**"), both of which took effect on 1 January 2008, a uniform tax rate of 25% is adopted for all enterprises, including foreign-invested enterprises. The Income Tax Law has revoked many previous tax exemptions, reductions and preferential treatments which were applicable to foreign-invested enterprises. However, foreign-invested enterprises that were entitled to fixed-term preferential tax treatment before the enactment of the Income Tax Law shall continue to enjoy such preferential tax policies in the same manner and for the duration as specified in relevant tax laws. Zheng Ye Packaging (Zhuhai) and Zheng Ye Alliance Packaging have obtained approvals from the relevant PRC tax authorities to enjoy preferential tax treatment in accordance with such laws and regulations. The state taxation authority has confirmed that each of Zheng Ye Packaging (Zhuhai) and Zheng Ye Alliance Packaging is entitled to an exemption from enterprise income tax for a period of two years starting from 1 January 2008, and an enterprise income tax rate of 12.5% for a period of three years starting from 1 January 2010. Our tax liability will increase following the expiry of the above preferential tax treatment.

As at the Latest Practicable Date, Yong Fa Paper and Zheng Ye Packaging (Zhongshan) were regarded as high-technology enterprises in 2009 and they were eligible to a preferential income tax rate at 15% for 2009, 2010 and 2011. In addition, Zhong Tang Recycling was exempted from the value-added tax for its trading of waste and old materials for the year 2008, and subsequently it enjoyed 70% and 50% rebate, respectively, of the valued add-tax for the years 2009 and 2010. We cannot guarantee that the effective tax rate applicable to us will not increase and the favourable tax treatment available to us will continue in the future, in which case our tax liabilities will increase accordingly and may have an adverse effect on our cash flow and financial conditions.

We may not be entitled to the preferential tax treatment under the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) (the "Tax Arrangement").

On 21 August 2006, Hong Kong and the PRC entered into the Tax Arrangement, which provides that the withholding tax rate for the dividends between Hong Kong resident enterprises and PRC resident enterprises is: (i) 5% of dividends in case that the enterprise of one side holds at least a 25% equity interest of the enterprise of the other side; or (ii) 10% of dividends in other cases. Pursuant to Circular of the State Administration of Taxation on Issues Relating to the Implementation of the Dividend Provisions in the Tax Treaties ("**Circular 81**"), the following requirements shall also be satisfied if the Hong Kong Shareholder is to be entitled to the preferential tax treatment under the Tax Arrangement: (1) it shall hold at least 25% equity interest and voting rights of the PRC resident enterprise; and (2) it shall hold at least 25% equity interest for at least 12 months prior to the receipt of the dividend. According to 非居民享受稅收協定待遇管理辦法(試行) (Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties*) (the "**Administrative Measures**") which came into force on 1 October 2009, where a non-resident enterprise (as defined under the PRC tax laws) receiving dividends from PRC resident enterprises wants to enjoy the favourable tax benefits under the tax treaties, it shall submit an application for approval to the competent tax authority. If the application for enjoying the favourable withholding tax under the Tax Arrangement is not approved, it may not enjoy the favourable withholding tax under the Tax Arrangement. Moreover, according to Circular 81, if the primary purpose of a transaction or an arrangement in relation to the reorganisation of PRC subsidiaries is deemed by the competent authorities to have been made for the purpose of enjoying favourable tax treatment, such favourable tax treatment may be adjusted by the competent authorities. As we may receive dividends from Zheng Ye Packaging (Zhuhai), Zheng Ye Packaging (Zhongshan), Yong Fa Paper, Zhong Tang Recycling, Zheng Ye Alliance Packaging, Zheng Ye Packaging (He Fei) and Zheng Ye Packaging (Zheng Zhou) through our Hong Kong subsidiaries, we cannot assure you that the Hong Kong subsidiaries can enjoy the favourable withholding tax rate of 5% as the reorganisation of the PRC subsidiaries may be deemed to have been made in order to enjoy favourable tax treatment. This may reduce the amount of our future distribution of profits to our Shareholders.

We may be deemed to be a PRC tax resident and we may be subject to PRC tax on our worldwide income.

Under the Income Tax Law, if a non PRC resident enterprise does not have any establishment in the PRC, or in case such non PRC resident enterprise has an establishment in the PRC, its income derived from the PRC is not related to its PRC establishment, its income derived from the PRC will be subject to a tax rate of 10%. However, if an enterprise incorporated outside the PRC has its "de facto management organisation" located within the PRC, the enterprise may be recognised as a PRC resident enterprise and thus may be subject to an enterprise income tax at the rate of 25% on its worldwide income, excluding equity-investment income such as dividends and bonus between qualified PRC resident enterprises. The term "de facto management organisations" refers to entities exercising overall management and control over issues such as operations, personnel, finance and assets. Substantially all of our management team members are residing in the PRC. If most of them continue to reside in the PRC, there is no assurance that our offshore companies will not be deemed as PRC resident enterprises under the Income Tax Law and therefore be subject to the PRC enterprise income tax at a rate of 25% on our worldwide income.

Dividends payable by us to our foreign investor, gains on sale of our Shares and our transfer of equity interests in our PRC subsidiaries may become subject to withholding tax under PRC tax laws.

Under the Income Tax Law, a PRC withholding tax at the rate of 10% is applicable to dividends payable to investors that are "non-resident enterprises", which do not have an establishment or institutions in the PRC, or with such establishment or institutions but the relevant dividend is not effectively connected with such establishment or institution, to the extent such dividends have their source within the PRC, unless there is an applicable tax treaty between the PRC and the jurisdiction in which the investor resides which reduces or exempts the relevant tax.

Furthermore, 《關於加強非居民企業股權轉讓所得企業所得稅管理的通知》 (the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprise*) (Circular Guoshuihan [2009] No. 698) issued by 國家稅務總局 (the State Administration of Taxation*) on 10 December 2009 and have a retrospective effect as from 1 January 2008, provides that where a foreign investor indirectly transfers the equity of a PRC resident enterprise by disposing the equity of an overseas holding company (the "**Indirect Transfer**") located in a tax jurisdiction that: (i) has an effective tax rate of less than 12.5%; or (ii) does not tax its residents on their foreign incomes, the foreign investor shall report the Indirect Transfer to the competent PRC tax authority within 30 days upon the conclusion of the equity transfer agreement. The PRC tax authority will examine the true nature of the Indirect Transfer. Should it deem the foreign investor to have made the transfer in order to avoid the PRC tax, the PRC tax authority may disregard the existence of the overseas holding company and re-characterise the Indirect Transfer. As a result, gains derived from such Indirect Transfer may be subject to the PRC withholding tax at the rate of 10%. 《關於加強非居民企業股權轉讓所得企業所得稅管理的通知》 (the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC

Resident Enterprise*) also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties and where the consideration is not based on arm's length principle, thus resulting in lower taxable income, the competent tax authority has the authority to adjust the amount of taxable income pertaining to the transaction.

If we are required to withhold PRC tax on dividends payable to our foreign Shareholders under the Income Tax Law, or if you are required to pay PRC tax on the transfer of your Shares, the value of your investment in our Shares may be materially and adversely affected. Further, there is no assurance that any direct or indirect transfer of our equity interests in our PRC subsidiaries through our overseas holding companies in the future will not be subject to examinations by our PRC subsidiaries' tax authorities and a withholding tax of 10% will not be imposed as a result thereof, even if we or our overseas subsidiaries are considered as non-PRC resident enterprises.

PRC regulations concerning direct investment and loans by offshore holding companies to PRC entities may delay or restrict us from funding our PRC subsidiaries.

Any capital contribution or loans that we, as an offshore entity, make to our PRC subsidiaries including from the proceeds of the Global Offering, are subject to requirements under the PRC laws. Such requirements provide, among others, that any of our loans to our PRC subsidiaries cannot exceed the margin between the total amount of investment that our PRC subsidiaries are approved to make under relevant PRC laws and the registered capital of those PRC subsidiaries, and any such loans must be registered with the competent SAFE branches. In addition, MOFCOM or its local counterpart must approve our additional capital contributions to our PRC subsidiaries. There is no assurance that we will be able to obtain these approvals on a timely basis, or at all. If we fail to obtain such approvals, our ability to make equity contributions or provide loans to our PRC subsidiaries or to fund their operations may be affected, which could adversely impact our PRC subsidiaries' liquidity and our overall business, results of operations and financial conditions.

Changes and uncertainties in the PRC legal system may have an adverse effect on our operations.

Unlike the adversarial legal system in Hong Kong, the PRC legal system is based on written statutes, and therefore prior court decisions may be cited for reference but have limited precedential value. Since 1979, the PRC government has been developing a comprehensive system of commercial laws and considerable progress has been made in introducing laws and regulations when dealing with economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, these commercial laws are not fully developed and are subject to change, making the interpretation and enforcement of such laws uncertain. These uncertainties limit the reliability of legal protections available to us, and may negatively affect our business and results of operations.

We cannot predict the effect of future developments in the PRC legal system, particularly with regard to property rights and intellectual property protection. Additionally, we may be required to obtain additional permits, authorisations and approvals for our existing business and future projects, which may affect our operations and future plans.

Changes in foreign exchange regulations may adversely affect our ability to pay dividends.

We receive all our revenue in RMB, which is currently not freely-convertible into other currencies. As a result, any restriction on currency exchange may limit the ability of our subsidiaries to use our revenue generated in RMB to pay dividends to us. Under existing foreign exchange regulations in the PRC, following completion of the Global Offering, our PRC subsidiaries may make payment of dividends without prior approval from SAFE by producing the following documents to the designated bank: (i) tax completion certificates and tax form; (ii) audit report in relation to profits or dividends; (iii) board resolution authorising distribution of profits or dividends; (iv) foreign exchange registration certificate; (v) capital contribution verification report; and (vi) any other documents that are required by SAFE. The PRC government has stated publicly that it intends to make RMB freely convertible in the future. However, uncertainty exists as to whether the PRC government may restrict access to foreign currency for current account transactions if foreign currency becomes scarce in the PRC, in which case our ability to pay dividends or satisfy other foreign exchange requirements may be adversely affected.

It may be difficult to effect service of process upon our Company or on our Directors who live in the PRC or to enforce judgments obtained from non-PRC courts against us.

Our operating subsidiaries are all incorporated in the PRC and all our assets are located within the PRC. It may not be possible for investors to effect service of process upon our operating subsidiaries within the PRC or to enforce any judgments obtained from non-PRC courts against any of such subsidiaries. The PRC does not have treaties or arrangements providing for the recognition or enforcement of civil judgments of the courts of Hong Kong (except pursuant to the arrangement between the Hong Kong government and the Supreme People' Court of the PRC as described in the following paragraph), the US or other western countries. Therefore, the recognition and enforcement in the PRC of judgments obtained in such jurisdictions may be difficult or even impossible. In addition, there are doubts as to the enforceability in original actions brought in the PRC of actions predicated on the laws of Hong Kong, the U.S. or most other western countries.

On 14 July 2006, the Hong Kong government and the Supreme People's Court of the PRC entered into the *Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned* (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排). Under such arrangement, which became effective on 1 August 2008, a party with a final judgment with enforceable effort rendered by a designated Hong Kong court requiring payment of money in a civil and commercial case pursuant to a written choice-of-court agreement may apply to the relevant People's Court in the PRC for recognition and enforcement of the judgment in the PRC and vice versa. A choice of court agreement in writing is any written agreement entered into between the parties after the effective date of such arrangement under which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute concerned. However in the case where a choice-of-court agreement is in place, the outcome of any action taken under such arrangement may still be uncertain as the interpretation of relevant cases has not been fully developed.

The enforcement of the Labour Contract Law and other labour-related regulations in the PRC may adversely affect our business and our results of operations.

On 29 June 2007, the National People's Congress of the PRC enacted 中華人民共和國勞動合同法 (the PRC Labour Contract Law*) (the "**Labour Contract Law**"), which was implemented on 1 January 2008. Compared to 中華人民共和國勞動法 (Labour Law of the PRC*), the Labour Contract Law contains more restrictions and increases an employer's costs when reducing its workforce. The Labour Contract Law includes specific provisions related to fixed-term employment contracts, temporary employment, probation, consultation with labour unions and employee general assemblies, employment without a contract, dismissal of employees, compensation upon termination and overtime work, and collective bargaining. According to the Labour Contract Law, where a labour contract has been renewed under circumstances that do not fall within those specified in the Labour Contract Law after the employer has concluded a labour contract for fixed term with such labour for two consecutive time, the labour contract then renewed shall be one with unfixed term. Either the employer or employee is entitled to terminate the labour contract in circumstances as prescribed in the Labour Contract Law or if certain preconditions is fulfilled, and in certain cases, the employer is required to pay a statutory severance upon the termination of the labour contracts pursuant to the standards stipulated in the labour contract law. Further, under 職工帶薪年休假條例 (Regulations on Paid Annual Leave for Employees*), which was implemented on 1 January 2008, employees who have served more than one year with an employer are entitled to paid vacation ranging from five to 15 days, depending on their length of service. Employees who waive such vacation entitlement at the request of employers shall be compensated at three times of their normal salaries for each waived vacation day. As a result of these protective labour measures, our Group's historical labour costs may not be indicative of our labour costs going forward. Compliance with the relevant laws and regulations may substantially affect our operating costs and thus may have a material adverse effect on our results of operations.

Our operations could be materially and adversely affected by severe communicable diseases, acts of war, terrorism or other incidents which are beyond our control.

Our business is subject to outbreak of severe communicable diseases, such as swine flu, avian flu, severe acute respiratory syndrome, natural disasters or other acts of God which are beyond our control and which may adversely affect the economy, infrastructure, livelihood and society in China. Acts of war and terrorism may also injure our employees, cause loss of lives, damage our production facilities, disrupt our distribution channels and destroy our markets, any or all of which could materially impact our revenue, costs, financial conditions and growth potentials. The potential for these incidents may also cause uncertainty leading to our business as well as those of our customers and suppliers to suffer in the ways that we cannot predict. Our business and operating results may materially and adversely be affected as a result.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for the Shares, and an active trading market may not develop.

There was no public market for the Shares prior to the Global Offering. You should not view the Offer Price as any indication of the price that will prevail in the trading market. The market price for the Shares may drop below the Offer Price upon commencement of dealing in Shares on the Main Board. In addition, a listing on the Stock Exchange does not guarantee that an active and liquid trading market for the Shares will develop or be sustained following the Global Offering or in the future.

The trading volume and market price of our Shares may be volatile.

The trading volume and market price of the Shares could be subject to significant volatility in response to, among other factors, (i) investors' perceptions of our Group and our future plans; (ii) variations in our Group's operating results; (iii) changes in pricing made by us or our competitors; (iv) technological innovations; (v) changes to senior management; (vi) the depth and liquidity of the market for the Shares; and (vii) general economic and other factors. Any material changes in the above factors could cause the market price of the Shares to change substantially.

Due to the time lag between pricing and trading of the Shares, there is a risk that the price of our Shares may fall before trading begins.

The Offer Price is HK$1.43. However, trading of the Shares on the Main Board will not commence until the Shares are delivered, which is expected to be on Friday, 3 June 2011. During this period, investors may not be able to sell or otherwise deal in the Shares. Accordingly, holders of the Shares are subject to the risk that the Shares' trading price could fall before trading begins resulting from adverse market conditions or other adverse developments that could occur between the time of the sale and the time trading begins.

Concentrated ownership and the Controlling Shareholders may exert substantial influence over us and may not act in the best interests of our independent Shareholders.

Immediately upon completion of the Global Offering, Hu Hanchao Investment, Hu Hancheng Investment, Hu Hanxiang Investment and Hu Zheng Investment (which are ultimately owned by the Hu Brothers) will collectively own 70% of our issued share capital, without taking into account of any Shares which may be allotted and issued pursuant to the exercise of any options that may be granted under the Share Option Scheme or upon the exercise of the Over-allotment Option. The Hu Brothers will then be in a position to exert significant influence over our affairs, and will be able to influence the outcome of any Shareholders' resolution, irrespective of how other Shareholders may vote. The interests of the Hu Brothers, as our Controlling Shareholders, may not necessarily be aligned with that of independent Shareholders, and this concentration on ownership may also have the effect of delaying, deferring or preventing a change in control of our Company.

Investors will experience immediate dilution and may experience further dilution in the value of their Shares.

Because the Offer Price of our Shares is higher than the net tangible book value per Share of our Shares immediately prior to the Global Offering, purchasers of our Shares in the Global Offering will experience an immediate dilution in pro forma combined net tangible assets value to RMB0.84 or HK$1.00 per Share, based on the Offer Price of HK$1.43, assuming that the Over-allotment Option is not exercised. In addition, our Board approved our Share Option Scheme on 19 May 2011, particulars of which are summarised under the paragraph headed "Other information — 15. Share Option Scheme" in Appendix V to this prospectus. The maximum number of Shares in respect of which options may be granted under the Share Option Scheme is 50,000,000 Shares, which represents approximately 10% of the total number of our enlarged share capital upon completion of the Global Offering, assuming the Over-allotment Option is not exercised. Any exercise of the options granted under the Share Option Scheme will result in a dilution in the earnings per Share and net asset value per Share.

There may be dilution of shareholding as a result of additional equity fund raising.

To finance the expansion of our new developments relating to our existing operations or new acquisition, we may need to raise additional funds in the future. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company in accordance with the Listing Rules but other than on a pro-rata basis to existing Shareholders, the percentage of ownership of our then Shareholders in our Company may be diluted, Shareholders may experience subsequent dilution and/or such securities may have rights, preferences and privileges senior to the Shares.

Statistics and industry information have come from various sources which may not be reliable.

Certain facts, statistics and data presented in the section headed "Industry overview" and elsewhere in this prospectus relating to the global and PRC markets of the paper industries have been derived, in part, from various publications and industry-related sources prepared by government officials or Independent Third Parties. We believe that the sources of the information are appropriate sources for such information and the Sole Sponsor and our Directors have taken reasonable care to extract and reproduce the publications and industry-related sources in this prospectus, and we have no reason to believe that such information is false or misleading or that any fact that would render such information false or misleading has been omitted. However, neither our Group, our Directors, the Sole Sponsor nor any of the parties involved in the Global Offering have independently verified, or make any representation as to, the accuracy of such information and statistics. It cannot be assured that statistics derived from such sources will be prepared on a comparable basis or that such information and statistics will be stated or prepared at the same standard or level of accuracy as, or consistent with, those in other publications within or outside the PRC. Accordingly, such information and statistics may not be accurate and should not be unduly relied upon.

There are risks associated with forward-looking statements contained in this prospectus.

Included in this prospectus are various forward-looking statements that are based on numerous assumption. For details of these statements including the associated risks, please refer to the section headed "Forward-looking statements" in this prospectus.

We strongly caution you not to place any reliance on any information contained in press articles or other media regarding the Global Offering.

There may have been, prior to the publication of this prospectus, and there may be, subsequent to the date of this prospectus but prior to the completion of the Global Offering, press and media coverage, regarding us and the Global Offering, such as reference to our Group's plan in establishing business alignments with some IT manufacturers and we plan to focus on IT-related packaging business in the upcoming years. You should rely solely upon the information contained in this prospectus, the Application Forms and any formal announcements made by us in Hong Kong in making your investment decision regarding the Global Offering. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding the Global Offering or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. Accordingly, prospective investors should not rely on any such information, reports or publications in making their decisions whether to invest in the Global Offering.

Prospective investors in the Global Offering are reminded that, in making their decisions as to whether to purchase our Shares, they should rely only on the financial, operational and other information included in this prospectus and the Application Forms. By applying to purchase our Shares in the Global Offering, you will be deemed to have agreed that you will not rely on any information other than that contained in this Prospectus and the Application Forms.