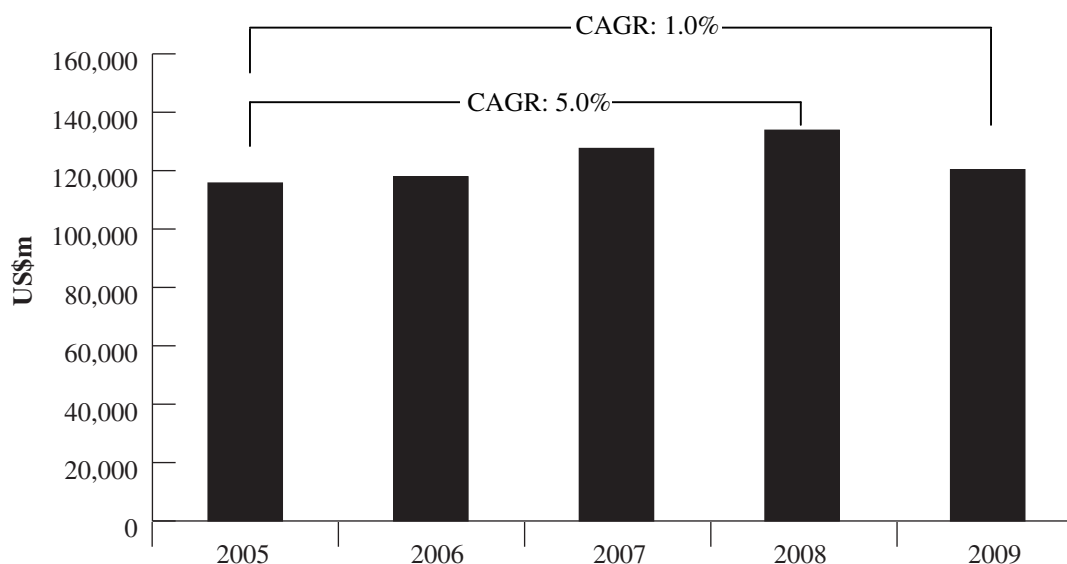

INDUSTRY OVERVIEW

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WORLDWIDE MARKET FOR PUBLISHING OF BOOKS AND OTHER PUBLICATIONS

The market for book printing services is principally driven by consumer demand for books and the offering of new titles or re-print of existing titles by book publishers. According to Euromonitor International, a provider of strategy research for consumer markets, the size of the market for publishing of books and other publications was approximately US\$120.3 billion in 2009.

Worldwide Market Size for Publishing of Books and Other Publications



Source: Euromonitor International

During the period 2005-2008, the market had grown at a CAGR of approximately 5.0%. However, according to Euromonitor, the market declined by approximately 10.1% from approximately US\$133.8 billion in 2008 to approximately US\$120.3 billion in 2009. As such, the CAGR for the period 2005-2009 was approximately only 1.0%. The decline in market size in 2009 was principally due to the impact of the financial crisis on consumer spending, as well as the increase in electronic book sales over traditional printed copies.

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As further indicated in the chart below, North America represented the largest geographical market for book publishing and other publications, accounting for approximately 40.4% of the world market in 2009. North America was followed by Western Europe which accounted for approximately 31.1% and then Asia Pacific which accounted for approximately 22.9%.

Worldwide Market Size for Publishing of Books and Other Publications by Geographic Region



Source: Euromonitor International

SIZE OF AUSTRALIAN, U.K. AND U.S. MARKETS FOR BOOKS AND OTHER PUBLICATIONS

During the Track Record Period, Australia, the U.K. and the U.S. were the principal book markets for the Group. Each of Australia, the U.K. and the U.S. represented approximately 1.9%, 5.1% and 40.3%, respectively, of the world market for books and other publications in 2009. However, according to Euromonitor International, all three markets have experienced declines in overall size since 2005.

Market Size for Publishing of Books and Other Publications in Australia, the U.K. and U.S.

Amounts in US\$' million	2005	2006	2007	2008	2009	2010
Australia	2,383.5	2,436.2	2,237.6	2,352.5	2,337.0	2,371.9
U.K.	7,045.7	7,047.5	7,161.4	6,673.5	6,089.7	5,561.3
U.S.	45,050.4	45,895.9	49,159.0	50,656.2	48,533.1	43,826.7

Source: Euromonitor International

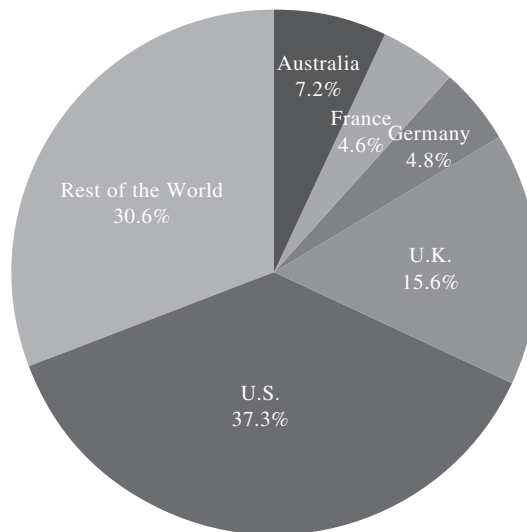
INDUSTRY OVERVIEW

HONG KONG EXPORT AND RE-EXPORT MARKET FOR PRINTED READING BOOKS AND SIMILAR PRINTED MATERIAL

Contrary to the slow overall growth in the size of the international publishing market, the total exports of printed reading books, brochures, leaflets and similar printed material and children's picture, drawing or colouring books from Hong Kong (which includes the re-export of such products) has grown from approximately US\$1,314.3 million in 2006 to approximately US\$1,488.5 million in 2010, representing a CAGR of approximately 3.2%.

Sales to the U.S. were Hong Kong's largest export and re-export market followed by the U.K. The following chart sets out the geographic distribution of total exports from Hong Kong for printed reading books and similar printed materials:

2010 market share of total exports of printed reading books, brochures, leaflets and similar printed materials and children's picture, drawing or colouring books from Hong Kong (including re-exports)



Source: United Nations Commodity Trade Statistics Database

INDUSTRY OVERVIEW

Set out below are the principal export markets for printed reading books, brochures, leaflets and similar printed material and children's picture, drawing or colouring books from Hong Kong for each of the years from 2006 to 2010:

Export of printed reading books, brochures, leaflets and similar printed materials and children's picture, drawing or colouring books from Hong Kong (including re-exports)

<i>Amounts in US\$</i>	2006	2007	2008	2009	2010	CAGR
Australia	73,180,587	88,742,256	102,223,804	91,035,982	106,729,446	9.89%
France	35,026,099	47,970,549	61,184,327	57,439,119	68,868,599	18.42%
Germany	46,403,393	61,451,413	78,937,246	69,294,469	71,006,144	11.22%
U.K.	181,280,612	242,157,552	268,920,327	211,594,254	231,758,688	6.33%
U.S.	625,575,148	662,621,350	669,404,855	521,301,605	555,360,740	-2.93%
Rest of the World	352,802,244	395,541,417	467,035,637	402,350,114	454,732,012	6.55%
TOTAL	1,314,268,083	1,498,484,537	1,647,706,196	1,353,015,543	1,488,455,629	3.16%

Source: United Nations Commodity Trade Statistics Database

As noted from the above, although the export market of book related printed products from Hong Kong experienced a decline in 2009 from 2008, the value of exports has generally been growing in most of Hong Kong's major export markets and grew from 2009 to 2010.

The export of printed reading books, brochures, leaflets and similar printed materials and children's picture, drawing or colouring books from Hong Kong is principally comprised of re-exported products, being foreign goods exported from the same state or territory as they were previously imported. Although the referred statistics do not qualify where such foreign goods are imported from, the Directors understand that such foreign goods are produced in the PRC for export from Hong Kong. As illustrated in the table below, the re-export market of book related printed products from Hong Kong has been increasing since 2006:

Re-export only of printed reading books, brochures, leaflets and similar printed materials and children's picture, drawing or colouring books from Hong Kong

<i>Amounts in US\$</i>	2006	2007	2008	2009	2010	CAGR
Australia	63,990,674	79,035,077	94,527,894	84,731,541	100,065,173	11.83%
France	33,174,494	44,313,502	59,455,088	56,024,908	67,733,423	19.54%
Germany	44,024,341	59,172,908	75,439,411	66,975,548	69,286,052	12.01%
U.K.	165,329,190	213,214,667	245,456,024	197,915,609	219,025,866	7.28%
U.S.	583,621,485	608,395,855	630,911,801	491,472,009	527,604,656	-2.49%
Rest of the World	284,391,536	336,435,872	412,281,535	356,063,926	408,625,648	4.34%
TOTAL	1,174,531,720	1,340,567,881	1,518,071,753	1,253,183,541	1,392,340,818	9.48%

Source: United Nations Commodity Trade Statistics Database

INDUSTRY OVERVIEW

All books and printed products produced at the Processing Facility are first shipped to Hong Kong and re-exported to overseas customers. The total market for re-export of books, brochures and similar printed matter from Hong Kong has grown from approximately US\$1,174.5 million in 2006 to approximately US\$1,392.3 million in 2010, representing a CAGR of approximately 4.3%.

Recent industry developments

The book publishing industry is currently experiencing a rapid digital transformation. According to PwC Research, sales of electronic books in the U.S., which has pioneered the development of e-books, have grown from approximately US\$551 million in 2009 to approximately US\$1,518 million in 2010 representing an increase of 175.4%. By 2015, sales of e-books are expected to reach US\$5,571 million representing a CAGR for the period 2010-2015 of approximately 59.3%, whilst the impact on printed books and audio books is expected to be a CAGR in the same period of -1.5%.

U.K. and U.S. book sales forecast 2009-2015

U.K. (Amounts in US\$' million)

	2009	2010	2011	2012	2013	2014	2015	CAGR 2010-2015
e-books	8	52	121	214	320	427	534	59.3%
Print/audio	3,541	3,484	3,429	3,370	3,322	3,280	3,238	-1.5%
Total	3,549	3,536	3,550	3,584	3,642	3,707	3,772	1.3%
ebook %	0.2%	1.5%	3.4%	6.0%	8.8%	11.5%	14.2%	

U.S. (Amounts in US\$' million)

e-books	551	1,518	2,569	3,371	4,302	5,022	5,571	29.7%
Print/audio	19,890	19,620	19,359	19,224	19,110	19,113	19,169	-0.5%
Total	20,441	21,138	21,928	22,595	23,412	24,135	24,740	3.2%
e-books %	2.7%	7.2%	11.7%	14.9%	18.4%	20.8%	22.5%	

Source: PwC: Global Entertainment and Media Outlook 2010-2014, PwC Research

Whilst the growth in e-books is notable, as noted by the forecasts above, printed books and e-books can co-exist, with e-books still representing less than one quarter of the forecasted market for books by 2015. In some situations, printed editions will be replaced by digital editions, principally paperback books and certain educational text books, readers and associated materials. However certain publications such as illustrated leisure and lifestyle books and children's books may be less likely to be transferred onto digital format.

INDUSTRY OVERVIEW

Competition

The Directors consider the commercial printing industry to be highly fragmented with an abundance of providers offering a wide range of printing services covering, among others, books and periodicals, newspapers and magazines, brochures, catalogues, manuals, stationery, labels, corporate or financial reports as well as packaging and advertising materials.

Whilst entry into the commercial printing industry can be obtained through the acquisition of printing machinery, equipment and facilities, the cost of purchasing the latest five or eight colour offset printing machines, such as those utilised by the Group, is expensive. As such, the Directors are of the view that the principal barrier to entry is the high capital expenditure required to acquire competitive printing equipment.

As a result of the relatively few barriers to entry, the Group faces competition from other printing services companies which have equal or higher production capacities to the Group. As a result of the fragmented markets, the Directors consider the Group's market share to be fairly minimal. Based on the latest available information from the United Nations Commodity Trade Statistics Database in 2009 and 2010, the value of printed reading books, children's books, brochures, leaflets, drawing or colouring books and similar printed materials and book products exported from Hong Kong (including re-exported products) was approximately HK\$10,485.9 million and HK\$11,535.5 million, respectively. During the same period, the Group's sales revenue was approximately HK\$447.3 million and HK\$522.0 million, respectively. As such, and based on the figures provided by the United Nations, the Group's market share of export and re-export of book related printed products in 2009 and 2010 may be considered to be approximately 4.3% and 4.5%. Given the relatively small market share, the Group is focused on providing its services to large and well known publishing conglomerates and media.

Publishing companies such as the Group's customers typically distribute production between a number of printing services providers in order to mitigate against risks in production and delivery. As such, the Directors consider the Group's principal competitors to be similar sized Hong Kong printing service providers with production facilities in the PRC, which possess financial resources, technical expertise and sales forces which are comparable to or better than those of the Group. The Group competes with these print services providers on price, quality, customer service and timeliness of delivery.

In order to maintain its competitive advantage, the Group relies on a number of key virtues including, among others, the technical skill and competence of its technicians, focus on customer service, the strength of its overall planning which is conducted through its in-house developed enterprise resources planning software and its efficient management of raw materials purchasing.

PRC EXPORT MARKET FOR BOOKS AND SIMILAR PRINTED MATERIAL

According to Print and Print Equipment Industries Association of China (中國印刷及設備器材工業協會), the total production value of the printing industry in the PRC amounted to approximately RMB515 billion in 2009, representing an increase of approximately 5.8% over 2008. The total export value of printed materials in 2009 was approximately RMB50 billion, an increase of approximately 9.7% over 2008.

INDUSTRY OVERVIEW

According to the United Nations Commodity Trade Statistics Database, the total export of printed reading books, brochures, leaflets and similar printed material, children's picture, drawing or colouring books from the PRC rose from approximately US\$856.0 million in 2006 to approximately US\$1,492.0 million in 2010, representing a CAGR of approximately 14.9%. Two of the largest export markets were Hong Kong and the U.S. which in 2010 represented approximately 32.9% and 30.3%, respectively, of export sales for book related products. The following table sets out the major export markets from the PRC for each of the years from 2006 to 2010:

Export of printed reading books, brochures, leaflets and similar printed materials and children's picture, drawing or colouring books from the PRC

<i>Amounts in US\$</i>	2006	2007	2008	2009	2010	CAGR
Australia	13,041,662	19,558,018	28,618,485	27,664,709	37,166,150	29.93%
France	10,347,666	18,743,841	30,777,871	37,719,807	42,573,087	42.42%
Germany	22,874,590	32,600,818	46,025,110	49,547,201	56,212,273	25.20%
Hong Kong	383,310,090	437,035,348	495,048,317	433,867,659	491,494,470	6.41%
U.K.	72,932,640	111,214,748	130,158,523	123,409,436	142,098,817	18.15%
U.S.	250,128,203	327,058,184	357,376,291	367,726,542	451,434,956	15.91%
Rest of the World	103,364,271	163,461,934	237,459,776	223,843,294	270,976,903	27.24%
Total	855,999,122	1,109,672,891	1,325,464,373	1,263,778,648	1,491,956,656	14.90%

Source: United Nations Commodity Trade Statistics Database