OVERVIEW

The Group is principally engaged in the provision of printing services to international book publishers, trade, professional and educational publishing conglomerates and print media companies. The Group's printed products comprise mainly illustrated leisure and lifestyle books (including photography books, cookbooks and art books), educational text books and learning materials (including primary, secondary and tertiary level school books) and children's books.

1010 Group was established in 2005 by Recruit in order to diversify from its business of recruitment magazine advertising, inflight magazine advertising and investment trading into the printing business. Production of printed products is carried out by the Processing Partner under the Processing Agreement at the Processing Facility in Boluo County, Huizhou City, Guangdong Province, the PRC. In accordance with the terms of the Processing Agreement, the Group places printing orders with the Processing Partner who then manufactures such orders at the Processing Facility and delivers the products to the Group in consideration for a processing fee. The Group is responsible for the provision of, among others, machinery, raw materials, technical know-how and training, whilst the Processing Partner is principally responsible for providing the manufacturing plant, ancillary facilities, labour force and carrying out print production. In accordance with the Processing Agreement, which requires approval by certain relevant PRC authorities, all of the printed products manufactured at the Processing Facility are required to be exported out of the PRC.

Whilst printing and book production is performed in the PRC, the Group maintains its principal sales office in Hong Kong, where its sales and customer services teams are situated to serve the Group's global customer base. The sales team is supported by sales offices in Australia and the U.K., the Group's second and third largest geographical market, respectively, whilst sales to the U.S., which represents the Group's single largest market, are principally managed in Hong Kong. According to trade statistics purchased, but not commissioned, by the Group from XPORT-IQ, the Group ranked seventh and sixth by volume of books shipped from Hong Kong to the U.S. for the period from January 2010 to May 2010 and January 2010 to December in 2010, respectively. XPORT-IQ is a trade information company, with a global marketing presence in the U.S. and the PRC, providing international commerce solutions to exporters, manufacturers, trading companies, shipping lines and freight forwarders. The Group purchased such trade statistics from XPORT-IQ covering the period from January 2010 to December 2012 at a cost of approximately HK$55,000.

The Directors expect there will be a wave of consolidation among medium sized book printers in the PRC and Hong Kong as the printing business may deteriorate. If the interest rate increases in the future from the currently low level, the industry shake out may begin with marginal players being bought out or forced out of business. The Directors are of the view that the Group is able to make use of its financial standing and customer portfolio and expand through acquisition.

For each of the three years ended 31 December 2010, the Group recorded turnover of approximately HK$331.2 million, HK$447.3 million and HK$522.0 million, respectively, representing a CAGR of approximately 25.5%. Profit attributable to owners of the Company was approximately HK$15.1 million, HK$55.1 million and HK$61.7 million, respectively, for each of the three years ended 31 December 2010, representing a CAGR of approximately 102.1%.

COMPETITIVE STRENGTHS

The Directors believe the following competitive strengths enable the Group to compete effectively in the printing services market which is characterised by keen competition between local and international printing products and services providers.

Established and long standing business relationships with reputable international customers

The Group has established long standing business relationships with its major customers, most of whom are reputable international book publishers, trade, professional and educational publishing conglomerates and print media companies. The Directors believe that the strength and depth of the relationships which the Group has built with its customers is a direct result of both its strong focus on customer and sales support and also its ability to manufacture and deliver high quality products in a consistent, timely and efficient manner. As such, by providing reliable quality printing services and maintaining supportive business relationships with its customers, the Group has been able to secure from them regular and repeat business. Furthermore, as a result of the importance which it places on customer support, the Group has acquired a solid understanding of its customers' needs, which in turn, has enabled the Group to not only further entrench itself with such customers but also to operate with greater stability through improved production planning and economies of scale in raw materials procurement.

Advanced international printing equipment and machinery

In order to ensure that the Company is able to manufacture and deliver printed products to its customers at competitive prices and in a timely manner, the Group has strived to ensure that its books are produced cost effectively and efficiently whilst maintaining the quality at all times. During the Track Record Period, the Group has sought to ensure that the production process was maintained at a high efficiency through the purchase and update of leading commercial printing equipments. As at the Latest Practicable Date, the Group had installed offset printing machinery ranging from two-colour offset press to eight-colour offset press and three casing-in production lines in the Processing Facility which allows the Group to produce approximately 726.9 million impressions (with plate changes) per annum. In addition to printing machinery, the Group has also adopted computer-to-plate systems in the Processing Facility, of which the images in electronic files are directly converted into images to print. The Directors consider that the Group's printing system is competitive, flexible and scalable to meet the changing requirements that may arise throughout the expansion of the business. The Group will from time to time enhance the production efficiency in the Processing Facility in order to provide effective and scalable printing solutions to its customers.

Self-developed ERP system

The Group has developed and operates its own in-house ERP system, which facilitates the flow of real-time information between all the Group's business functions. Effective planning is essential in the printing and publishing industry, especially during time critical peak periods and the ERP system enables the Group to maximise operational efficiencies. It integrates and centralises the information across the Group's entire operation from sales, production, purchasing, inventory, accounting and shipping in order to streamline the internal workflow and enhance the Group's scheduling and production capacity. It offers management key statistics on a real time basis which alerts the Group to any changes in the business and more importantly, to respond accordingly. The ERP system has been entirely developed in-house and enables the Group to operate a platform that is customised for the Group's own business. The Group retains full ownership and control of the source code, which ensures that the system is robust, fully scaleable and can be customised and enhanced in order to reflect the specific needs and requirements of the business. The functionality of the ERP system can further be developed or adapted by the Group's IT team in order to meet any new challenges and changes in business model with minimal loss of continuity to the operation of the system.

Furthermore, the Group offers limited access to information generated from the ERP system to its customers so that they can monitor the production progress of their specific orders and also plan and schedule future production and work to be conducted by the Group. By offering such information and access to its customers, the Group is able to offer its customers a sense of involvement, security and confidence in the production process. Such transparency and improved access serves to further foster the trust and working relationship with its customers.

Emphasis on international standards

Since most of the Group's customers are international book publishers, the standards usually expected of printed products and print services providers are typically of international standards. As such, the Group and the Processing Facility endeavour to ensure that their business and operations are fully compliant with all standards typically required or expected from its international customer base in respect of operational effectiveness, environmental control and social accountability. During the Track Record Period, 1010 PIL and the Processing Facility were both certified to FSC-STD-40-004 (V2-0) FSC Standard for Chain of Custody Certification and Integrated Management System compliant in respect of the ISO 9001:2008, the ISO 14001:2004 and OHSAS 18001:2007. FSC certification provides the business with a credible link between responsible production and consumption of forest products, enabling consumers and businesses to make purchasing decisions that benefit people and the environment as well as providing ongoing business value. ISO certification enables the Group to reach a consensus on solutions that meet both the requirements of business and the broader needs of society. IMS is a consolidated management approach to enable the Group to integrate and monitor three key areas of concern, work procedures, environmental protection and workplace health and safety. The ultimate benefits are improved effectiveness and efficiency and higher standards for the Group's customers. In addition, the Processing Facility was certified as to the ICTI Code of Business Practices (2009 version). The ICTI program promotes ethical standards of manufacturing, in respect of fair labour treatment, as well as employee health and safety, worldwide. These accreditations are not only essential for the Group's compliance with the environmental and social responsibility standards expected by the Group's international customer base but also demonstrate that the overall quality of the products and the management of the Group are well positioned in the competitive printing industry.

Experienced management, technical and sales team

Mr. Yang Sze Chen, Peter, who is an executive Director, is the founder of Leefung Holdings Limited, a book printing company in Hong Kong, which was established in 1960 and had previously been listed on the Stock Exchange of Hong Kong before its privatisation in 2006, and has since engaged in the printing industry. Mr. Lau Chuk Kin, the founder and an executive Director of the Company, has over 17 years of experience in the printing industry and has played a key management and leadership role in the development of the Group. Senior management of the Group also possesses extensive experience in the printing industry.

The Directors are of the view that since the Group's establishment, the pool of valuable knowledge and skills in the management team has been critical to the efficiency of the production process and the development of the business as a whole. With their experience and technical expertise in printing services and production, the Directors believe that the Group's management possesses the depth of industry knowledge and market and vision required to anticipate and adapt to changes in the printing industry. The Directors further believe that, with the knowledge and experience in international sales and understanding of and focus on customers' needs, the Group's management team will be able to lead the Group to expand its services successfully. The Group will continue to formulate sound business strategies and execute them in an effective manner.

SALES AND MARKETING

For each of the three years ended 31 December 2010, the Group's total turnover amounted to approximately HK$331.2 million, HK$447.3 million and HK$522.0 million, respectively. Most of the Group's sales were made to overseas customers which include international publishers, trade, professional and educational publishing conglomerates and print media companies. During the Track Record Period, the Group's largest customer accounted for approximately 10.4%, 11.2% and 9.2% of the Group's total revenue, respectively, and sales to the Group's top five largest customers amounted to approximately HK$110.4 million, HK$141.2 million, and HK$142.3 million, representing approximately 33.3%, 31.6% and 27.3% of the total turnover of the Group, respectively. During the Track Record Period, the top five customers of the Group comprised six different companies, three of which were trade publishers, two of which were providers of educational content and materials and one of which was a printing broker for international book publishers.

The following table sets out a summary of all the companies which featured as one of the Group's top five customers in any of the three years ended 31 December 2010.

Company	Principal business activity	Years of relationship with the Group
A	Independent publisher with sales offices in Australia and the U.K.	6
B	Printing broker firm based in the U.S.	4
C	Publisher of non-fiction books and a wholly-owned subsidiary of a U.S.-listed book retailer	4
D	Publisher of educational text books and reference materials in Australia and New Zealand and a subsidiary of a U.S.-based publisher of print and digital information services to the educational sector	6
E	UK-based publisher and member of a London listed publishing group	4
F	Australian publishing group which is the subsidiary of a U.K.-listed international media business covering education, business information and consumer publishing	6

The prices of the Group's products are generally based on order sizes, prevailing costs of raw materials and the production costs involved in the corresponding sales orders given that all cost of raw materials would be shifted and to be borne by the Group's customers.

Volume rebates are offered to customers which manage to achieve agreed annual sales turnovers. The turnover target and rate of rebate are determined on a case-by-case basis and settlements of the rebates are made through cash payment or direct reduction from accounts receivables. All of the five largest customers of the Group during the Track Record Period were independent third parties.

In addition, the Group's sales are denominated in a portfolio of major international currencies, primarily Australian dollars, Euro, Pound Sterling and US dollars, which are in the proportion of approximately 19.0%, 0.5%, 10.7% and 54.7% respectively for the year ended 31 December 2008, approximately 20.5%, 8.9%, 7.5% and 53.0% respectively, for the year ended 31 December 2009 and approximately 17.9%, 12.8%, 5.5% and 53.1% respectively for the year ended 31 December 2010. From time to time the Group enters into foreign currency exchange contracts to hedge its currency risk, the Board regularly reviews the Group's exposure to foreign exchange rate movements. Based on management's internal assessment or anticipation of currency movements which may impact the Group's business in the short term, the Group may buy or sell certain currencies in order to mitigate its foreign exchange exposure.

For each of the three years ended 31 December 2010 and as at the Latest Practicable Date, the Group entered into the forward contracts as follows:

		Value of Contracts sold				
Year	**Number of contracts**	**AUD (million)**	**EUR (million)**	**GBP (million)**	**NZD (million)**	**Number of banks**
2008	5	1.0	–	0.6	0.2	2
2009	7	4.5	–	0.3	0.3	2
2010	7	6.2	–	–	0.1	1
Latest Practicable Date	9	6.0	0.5	0.5	0.3	3

As mentioned in the above table, pursuant to the nine foreign exchange contracts (which remained outstanding as at the Latest Practicable Date), the Group has contracted to sell certain fixed amounts of foreign currencies in AUD, EUR, GBP or NZD to the respective banks at predetermined exchange rates on or before the expiration date of the contracts. None of these contracts were entered into for purposes other than hedging.

During the Track Record Period, the U.S., Australia and the U.K. were the largest geographic markets of the Group. Sales to each of the U.S., Australia and the U.K. represented approximately 30.5%, 28.1% and 24.6%, respectively, of the Group's turnover for the year ended 31 December 2008, approximately 33.7%, 27.4% and 21.3%, respectively, for the year ended 31 December 2009 and approximately 28.6%, 24.4% and 23.5% respectively for the year ended 31 December 2010. On the other hand, sales to other markets including other countries in Europe, Hong Kong and the rest of the world increased during the Track Record Period, rising from approximately 16.8% of total revenue for the year ended 31 December 2008 to approximately 23.5% of total revenue for the year ended 31 December 2010, representing a CAGR of approximately 48.7%. Set out below is the breakdown of the Group's turnover by geographical area during the Track Record Period:

	For year ended 31 December					
	2008		2009		2010	
Turnover	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
U.S.	101,172	30.5	150,758	33.7	149,169	28.6
Australia	92,977	28.1	122,699	27.4	127,211	24.4
U.K.	81,577	24.6	95,240	21.3	122,886	23.5
Hong Kong	18,672	5.6	10,788	2.4	19,082	3.7
Germany	15,894	4.8	25,669	5.8	39,238	7.5
New Zealand	9,212	2.8	11,685	2.6	22,771	4.4
Netherlands	8,207	2.5	8,630	1.9	13,201	2.5
Belgium	–	0.0	6,328	1.4	10,202	2.0
France	1,907	0.6	5,545	1.3	2,125	0.4
Others	1,622	0.5	10,001	2.2	16,104	3.0
	331,240	100.0	447,343	100.0	521,989	100.0

Currently, the customers of the Group are principally international book publishers, trade, professional and educational conglomerates and print media companies. Sales by the Group are conducted principally through 1010 PIL, which also maintains the relationship with the customers. 1010 PIL is based in Hong Kong but is supported by sales offices in the U.K. and Australia. Sales to the U.S. are typically conducted through 1010 PIL in Hong Kong.

During the Track Record Period, there were (i) no customers introduced by Recruit Group to the Group; and (ii) no customers introduced by the Group to Recruit Group.

During the Track Record Period, there were no compensations payable by (i) the Group to the customers; and (ii) the customers to the Group on cancellation of the purchase orders.

None of the directors of the Company, nor any of its subsidiaries, their respective associates, nor, so far as the Directors are aware, Shareholders, who own more than 5% of the issued share capital of the Company immediately following the completion of the Share Offer has any interests in the five largest customers of the Group for the three years ended 31 December 2010.

As at the Latest Practicable Date, the Group had a team of 36 staff members which is dedicated to the Group's sales and marketing activities and located in Hong Kong, the PRC, Australia and the U.K., covering more than 452 customers in over 21 countries. The sales and marketing team secures sales orders, identifies new business opportunities and promotes the Group's services. In addition, the sales and marketing team works closely with the customers on a regular basis to understand the customers' requirements, the projected sales schedules and to provide relevant industry information to the customers. Through this continual relationship development, the Group aims to attract further business from these customers.

As part of the Group's marketing and promotional activities, the sales and marketing team also participates in various international book fairs and exhibitions in order to better understand the market and industry trends as well as to establish relationships with new customers. During the Track Record Period, the Group exhibited at The London Book Fair in the U.K. and participated at The Frankfurt Book Fair in Germany, two of the largest book fairs in the world, as well as attended the Spring Fair, in the U.K. These trade fairs or exhibitions are important to the Group in that apart from being able to identify and reach new customers, they serve as a channel for the Group to obtain feedback from its customers. Such feedback provides opportunities for the Group to continuously improve its products in order to satisfy future expectations from its customers. Other benefits the Group has gained from participating in the exhibitions include promoting its corporate image and products, maintaining contact and relationship with its customers, and obtaining up-to-date industry information.

Based on the experience of the Directors and historical sales records of the Group, the Group's sales are subject to seasonal fluctuations. The peak season for the Group is usually in the second half of the year as books are produced and shipped overseas before the start of the new school year and before the Christmas period. In general, the Group experiences a peak in sales between June to September as well as in December. The first and larger peak is a result of publishers preparing books for Christmas sales, whilst the second peak in December is a result of the preparation of book sales for the new school year, as well as for Mother's Day celebrations. For each of the three years ended 31 December 2010, the Group's turnover was approximately HK$331.2 million, HK$447.3 million and HK$522.0 million, respectively. For the same period, the Group's turnover in the four months of June to September plus December, being the pre-Christmas and pre-school peak periods, accounted for approximately 51.9%, 56.4% and 51.7% of the Group's annual turnover, respectively.

For each of the three years ended 31 December 2010, sales and marketing expenses incurred by the Group accounted for approximately 0.5%, 0.3% and 0.4%, respectively, of the Group's total turnover.

BUSINESS STRATEGY

The long-term objective of the Group is to become a leading printing services provider to the export market and a PRC-focused book publishing broker and promoter. To this end, the management of the Company has developed a business strategy with the following key elements.

Increase production capacity and expand market share

The Group is focused on the provision of printing services to international book publishers, trade, professional and educational publishing conglomerates and print media companies. In order to capture greater market share in the export book publishing market from the world's leading book publishers, management believes that it needs to increase its production capacity. Given the seasonal nature of the publishing business, the development of the Group's business may be limited by the capacity available from its current printing set up. As such and in order to further expand the business, the Group intends to increase the production capacity offered to its customers through the upgrade of equipment and machinery. Based on the intended upgrade of equipment and machinery as detailed in the section headed "Future plans and use of proceeds", management plans to increase the printing capacity of the Processing Facility from a maximum rate of output (with plate changes) of approximately 694.1 million impressions per annum for the year ended 31 December 2010 to an anticipated capacity (with plate changes) of approximately 784.5 million impressions per annum for the year ended 31 December 2011 and approximately 854.5 million impressions per annum for the year ended 31 December 2012, being an expected year-on-year increase in capacity of approximately 13.0% and approximately 8.9% respectively. As noted in the sub-section headed "Processing arrangement – Processing Facility" in this section, the annualised utilisation rates (with plate changes) of the Processing Facility during the Track Record Period was approximately 60.5%, 101.0% and 94.1%. The maximum printing capacity (with plate changes) utilisation rate of the Processing Facility is based on a maximum rate of impressions of each printing machine as specified by the manufacturer, assuming that the printing machines are operating at maximum efficiency during their operating periods including downtime in operation (i.e. ink refills, plate changes) or need for usual maintenance. Given the high utilisation rate, the Group is typically required to subcontract during peak periods once the facility reaches capacity and to purchase additional machinery to increase actual production capacity. In addition, the Group will also focus on utilising the production capacity of preferred suppliers in the industry, both inside and outside of the PRC. This will be achieved by providing them with a committed flow of business throughout the year, assisting them with cash flow and lowering their materials procurement costs by leveraging on the more attractive trading terms and purchasing power enjoyed by the Group.

Expand customer base and strengthen sales and marketing force

In order to broaden the Group's sales network and customer base, the Group intends to expand and enhance its sales and marketing team by recruiting more experienced sales personnel in the future. The Group is currently witnessing a consolidation of the publishing customers worldwide and the introduction of preferred suppliers by major publishers. Those who are conferred the status of preferred supplier will gain share in a gradually declining market at the expense of small printers. The Group is currently either the top 1 or 2 supplier for the key customers that the Group serves. The Group will continue to strengthen existing business relationships with its customers and capture future business opportunities by coordinating closely with them to identify their needs.

Explore and develop the PRC book publishing brokerage and promotion business

As a result of the Group's long standing working relationships with many of the world's leading trade, professional and educational publishing conglomerates, and the experience which the Group has gained in producing book publications for the overseas market, management believes that it can leverage off these relationships to assist Chinese book publishers in the publication of Chinese language editions of English titles. The Group intends to establish a company based in Hong Kong which will acquire licences to English or western language book titles owned by its existing customers and in conjunction with PRC based book publishers, promote such books and titles in Chinese language for distribution in the PRC.

The Group intends to explore and develop the book publishing brokerage and promotion business in the PRC. As a publishing broker and promoter, the Group will act as an intermediary for international book publishers and relevant licenced parties in the PRC. The Group will be responsible for co-ordinating the translation, printing and distribution of books in the PRC but shall not be engaged in any activity which may require specific licences or authorisations in the PRC. The business will be carried through the following activities and arrangements:

- acquisition of foreign language book titles from overseas publishers by a Hong Kong–based subsidiary of the Group or acquisition of overseas publisher(s) which own(s) stock of book titles;
- translation of foreign language book titles into Chinese which will be carried out in Hong Kong or the PRC;
- registration of copyrights of the Chinese version of foreign language books under the Group's name in the PRC and other applicable markets (depending on the progress of the business);
- introduction of Chinese versions of foreign language books to licensed PRC publisher(s) for the latter to publish in the PRC;
- utilisation of the Group's expertise in book printing to assist PRC publisher(s) to identify suitable book printers in the PRC; and
- organisation of marketing and promotion activities of book products.

In the course of developing such operation in the PRC, the Group will not operate as a publisher/printer/distributor of books and will only operate as a promoter or broker. The publishing, printing and distribution of the books will be carried out by qualified PRC parties which hold specific licenses determined by the Regulations on Publication Administration (《出版管理條例》) of the PRC. All necessary formalities of book publishing in the PRC will be handled by licensed publishers who shall also appoint book printers and distributors based on the advice of the Group. The Group's cooperation with PRC publishers will be performed on a shared revenue basis whilst the Group will be responsible for the cost of translation, book printing, marketing, staffing and such other expenses in relation to the book publishing. However, since the revenue sharing model could vary significantly among different publishers and depending upon the book types, the Group is not able to provide an estimate of the substantial terms of any revenue sharing arrangements.

The Group will commence the acquisition of foreign language book titles immediately after the Listing and intends to build up a stock of 50 to 100 titles within 18 months following the Listing. The translation, copyright registration and identification of PRC book publishers will be carried out simultaneously with the book title acquisitions. The Group anticipates that the first batch of books could be published in the PRC within 12 months following the Listing.

Given the regulatory environment of the PRC publishing business, the Group would be required to work with PRC publishers who possess both the requisite experience and the relevant licences and approvals. The Group will also work with third party printers based in the PRC which hold the requisite licences and approvals for the printing of books for the domestic market. The existing legal requirements with respect to publishing businesses in the PRC as governed by Regulations on Publication Administration (《出版管理條例》) are set out in the section headed "Regulations – Laws and regulations relating to the printing industry in the PRC". Under such regulations, the publishing, distribution, printing and import of books, newspapers, periodicals, audiovisual products, electronic publications require special approval and qualifications. However, services (e.g. consultancy services) in relation to the publishing, distribution, printing and import do not require special approval and qualifications. Therefore, it is legal for the Company to establish cooperation with qualified local partners (in relation to the area of publishing, distribution, printing and import) in order to promote the publishing businesses. The Directors have advised that the Group intends to explore opportunities for publishing Chinese language versions of foreign language titles through cooperation with local PRC publishers and envisages a basic implementation plan, cost and time frame as follows:

Actions	**Estimated cost (HK$)**	**Time frame for implementation**
Acquire licences from overseas publishers to carry out translation work on foreign language books and to register the copyrights of the Chinese versions in the PRC	5,000,000	Within 18 months following Listing
Identify and liaise with local PRC publishers who will arrange for the formalities of book publishing. The printing of the books will be arranged (but not conducted) by the Group with costs of printing, marketing expenses, staff and other expenses to be covered by the Group	10,000,000	Within 18 months following Listing
Acquire overseas publisher(s) that own(s) book titles	15,000,000	Within 18 months following Listing

The Directors consider that the Group has the relevant expertise to act as a book publishing promoter and broker in the PRC based on the following reasons:

(i) good business relationships with international publishers and owners of original content. The Directors believe that the Group is able to leverage on the relationship of such publishers and owners to acquire book titles with commercial interest in the PRC market and assist them with printing and publishing their products in the PRC. As the Group has already been producing titles for such international publishers in English, the Group possesses the necessary technical expertise to produce the same books in Chinese;

(ii) the Group will collaborate with local PRC publishers who will assist with translation of such works and who hold the requisite licences to publish and distribute such printed products; and

(iii) the development of the book publishing promotion and brokerage business will be led by Ms. Choi Ching Kam, Dora, who has ample experience in publishing as an editor of several newspapers, magazines and book publishing businesses.

Gain traction with the Group's medium-sized publishing customers by offering e-book related products and value-added services

The Directors believe many of the Group's medium-sized publishing customers do not possess the requisite technical resources nor scale to convert their catalogue of book titles into the increasingly popular digital or e-book platforms. The conversion of physical books into electronic format requires some technical expertise and re-engineering, the complexity of which can depend on various factors ranging from the type and quality of the title and the program on which they are created down to the final format and devices to which the title will be made available. The process of converting titles can be complicated especially in respect of heavily illustrated titles, such as those printed by the Group. Currently, small to medium-sized publishers usually rely on outside vendors to provide such services, often at significant costs.

The Group's customers may require electronic book conversion services as the electronic files which the Group currently receives from its customers may not be compatible for distribution in the existing electronic book formats. The electronic files which the Group currently receives are specific for the purposes of physical book printing. In addition, there is no single universally-adopted format or platform for electronic books. As such, in order for publishers to convert their books into electronic copies for distribution across multiple electronic book stores and/or render them readable on different electronic book readers, the books must be converted into multiple formats so that they can be accessed by the widest possible readers.

The Group recognises that as a printing services provider, it is well positioned to provide such expertise and services. Given that the Group's production and technical teams already receive electronic files and films from its customers in order to manufacture books in physical copy, the Group believes that it can also offer such value-added conversion services to its customers. As new technology challenges and changes the publishing industry, the Group's management believes that the demand for such conversion services will be high and the ability to provide both conventional printing services as well as electronic book conversion services will further enable the Group to gain traction with its customers. In light of rapidly evolving technologies ushered in by products and platforms such as e-book readers and electronic tablets, the provision of such value-added services will provide the Group's smaller customers with the ability to compete in this new environment, whilst enabling the Group to deepen its relationship with such customers by addressing their business needs on both traditional and digital platforms. The e-book products will be sold to customers through a new sales and marketing team to be established. This sales and marketing team will comprise of four members, two of whom will be salesmen and the remaining two will be IT supporting staff. This sales and marketing team will provide the Group's electronic book conversion services requested by its existing customers. It will also secure sales orders, explore new customers and market the Group's electronic book conversion services through its customer networks. In addition, this sales and marketing team will work closely with the customers regularly to understand their needs and to provide customised electronic book conversion services to them.

Given the particular nature of certain of the Group's printed products (including glossy "coffee table" style art books, photography and lifestyle books, children's books and reference books), the Directors believe that the impact of e-books on the Group's business will be limited. Books produced by the Group are typically multi-coloured illustrated products, featuring strong visual content or definition, which current electronic reading platforms may not be able to capture. Current electronic book readers and tablets have their limitations in terms of colour capability, size, flexibility, visual resolution and functionality that certain products (such as art and photography books, children's and reference books (which may easily be annotated)) require and cannot yet be reproduced in electronic format with the same quality or functionality. However, it is anticipated that some publishers may in the future reduce the number of printed books (and hence the level of printing services and the Group's revenue) in favour of publishing in electronic formats. As such, the provision of electronic book conversion services not only offers the Group an additional revenue stream in light of the increasing popularity for electronic books but also offers the Group some defence against falling revenue as publishers substitute traditional printed books and printing services with electronic book products and electronic book conversion services.

Although the Group has yet to provide electronic book conversion services to its customers, the Group's management believes that the Group's IT personnel, who has accumulated such experience and applied almost exclusively to the book production industry, possess the relevant skills and technical know-how and expertise to provide such services. The Group's IT team, four of whom have been with the Recruit Group, will be led by the Chief Technical Officer ("CTO") who has approximately 13 years of experience as project manager and systems analyst. The CTO is supported by a senior analyst programmer with seven years experience as a programmer before joining the Recruit Group in 2007 and the Group's supply chain manager who has nearly 10 years of experience in the information technology field. The complexity and technical procedures for the conversion of book titles into electronic books varies for different book titles. For simple, purely text based book titles, the conversion process is relatively simple and can be done by, utilising "off-the-shelf" software to convert and trim the books to electronic format. In respect of illustrated book titles which may contain multi-coloured high resolution images, the Group's IT personnel may need to apply not only their technical experience and capabilities in certain commonly used "off-the-shelf" software but also their experience in book production and editing to ensure that such images are accurately and effectively converted into electronic format with desirable quality.

PRODUCTS

The Processing Facility is equipped to produce a wide range of book products and styles. However, the Group does not specialise in the production of any particular book styles, nor does it focus on any particular sector within the publishing industry (i.e. trade, professional or educational). The Group's products may therefore be considered to be both style and content agnostic. Common book styles typically requested by the Group's customers include:

Saddle stitch	A common way of binding pamphlets and booklets which may be less than 3 mm thick. The pages are bound together by thread or wire inserted through the spine, or folding line, and into the centre spread where they are clinched. As wire or thread may be used for the stitching, thus, saddle stitch may be saddle-wire stitch or saddle-thread stitch
Paper bound	A book bound with a paper or other non-board cover
Limp bound	A book with cloth or other type of flexible materials for covers and made without board

Hard bound	A book bound with a stiff or hard cover
Quarter bound	A binding in which the spine covering is made of one material and the sides are made of another
Wire-O	A method of loose-leaf binding in which a continuous double loop of wire runs through punched slots along the binding side of a booklet
Spiral	A method of binding in which a continuous wire is threaded through holes punched in the binding edge of the pages

For each of the three years ended 31 December 2010, the Company produced approximately 30.6 million, 39.4 million and 48.8 million books, respectively. During the same period, educational text books and materials accounted for approximately 9.9%, 17.1% and 20.9% respectively of total books printed with children's books accounting for approximately 38.2%, 25.3% and 24.6% respectively of total books printed and leisure and lifestyle books accounting for approximately 51.9%, 57.6% and 54.5% respectively of total books printed.

PROCESSING ARRANGEMENT

Since the establishment of the Group, production of books and printed products has been conducted at the Processing Facility, by the Processing Partner under the Processing Agreement. In 2005, when the Group commenced operations, it entered into the arrangement under the Processing Agreement as a result of its simplicity in the set-up procedures. At the time, the Group was determined to take advantage of the sufficient labour supply and low labour costs in the PRC in order to strengthen its competitiveness. With simple set-up procedures, the arrangement under the Processing Agreement enabled the Group to rapidly and efficiently establish its printing business and the Group continues to operate under this arrangement.

As advised by the PRC Legal Advisers, there are no material legal impediments which prevent the Group from establishing its own printing operations directly in the PRC, either through a wholly-owned foreign enterprise or with a joint venture partner.

Processing Facility

The Processing Facility occupies a gross floor area of approximately 74,000 sq.m. and is located at Xianan Industrial Area, Nangang Road, Yuanzhou Town, Boluo County, Huizhou City, Guangdong Province, the PRC. It was built in 2005 on land owned by the Processing Partner.

The Processing Facility is equipped with the following key machinery and equipment:

Machinery	Application
Sheeters	Devices used to cut paper rolling materials into individual sheets
Guillotine cutters	Devices used to cut and trim paper sheets into specified sizes
Offset printing machines	Machines which transfer an inked image from the printing plate to an intermediate blanket cylinder and then to the paper surface

Folding machines	Devices used in the binding and finishing phase which folds single sheets of paper one or more times to form a section
Gathering machines	Devices used in the binding and finishing phase which assembles printed pages in the correct sequence for binding
Sewing machines	Machines used in the binding and finishing phase which fasten the sections of a book together by passing thread through the centre fold of each section
Case making machine	Machines used to produce hard covers
Perfect binding/limp binding machine	Machines used in the binding and finishing phase, which secures book covers to the book block
Casing-in machine	Machines used in the binding and finishing phase, which apply adhesive to the spine of gathered pages and secures the book covers to the book block
Stitching machine	Machines used in the binding and finishing phase, which apply staples through the cover of a publication along the binding edge
Laminator	Machines which apply a thin clear plastic film by heat and pressure to a printed sheet for preservation, protection and enhancement of its appearance and durability
Endspaper tipping machine	Machines used in the binding and finishing phase, which tip end paper or dividers to the start or end of any section in a book block

The annual capacity of the Group's offset printing machines by number of impressions for each of the three years ended 31 December 2010 and the expected annual capacity for the years ending 31 December 2011 and 2012 is set out in the following table:

(in millions of impressions per annum)	**2008**	**2009**	**2010**	**2011E**	**2012E**
Maximum printing capacity (without plate changes) *(Note 1)*	779.5	1,009.2	1,152.7	1,239.2	1,341.6
Maximum printing capacity (with plate changes) *(Note 2)*	597.2	624.0	694.1	784.5	854.5
Actual printing output	361.6	629.9	653.1	N/A	N/A
Maximum printing capacity (without plate changes) – utilisation rate	46.4%	62.4%	56.7%	N/A	N/A
Maximum printing capacity (with plate changes) – utilisation rate	60.5%	101.0% *(Note 3)*	94.1%	N/A	N/A

Notes:

1. The maximum printing capacity (without plate changes) is calculated on the basis of total number of impressions per machine per hour at 16 hours per day and 322 working days per annum.

2. The maximum printing capacity (with plate changes) is calculated on the basis of the total number of impressions per machine per hour at 16 hours per day and 322 working days per annum taking into account the downtime caused by changing plates, being approximately 15 minutes per set of plates.

3. The maximum printing capacity utilisation rate (with plate changes) exceeds 100% as the maximum printing capacity is based on output assumptions to provide an illustration of the Group's typical capacity. In some situations, as in 2009, the machines may have been operating at more than 16 hours per day or more than 322 days per annum.

The maximum annual printing capacity (without plate changes) is an optimal rate of output and is calculated based on the number of printing machines in the Processing Facility and the rate of impression for each printing machine as specified by the manufacturer, assuming that the machines are operating at maximum efficiency at all times (without any downtime in operation for plate changes, ink refills or need for maintenance) and the operating period of each printing machine in each working day and number of working days in each year.

The maximum printing capacity (with plate changes) is based on the optimal printing capacity less the time in which machines may be idle due principally to plate changes, refill of ink cartons, and for repair and maintenance works. Whilst the maximum printing capacity (without plate changes) illustrates the ideal rate of output as specified by the machine manufacturers, the maximum printing capacity (with plate changes) offers a more accurate indication of the Processing Facility's actual capacity based on the usual course of printing activities and requirements.

As at the Latest Practicable Date, the number of staff employed at the Processing Facility was 996, 748 of whom were engaged specifically in production. Due to certain seasonality in the business, the number of staff employed at the Processing Facility, including management, administration, logistics, IT, QC, sales and customer services, may vary from approximately 600 to approximately 1,100. The salaries of the production staff employed at the Processing Facility and engaged by the Processing Partner is covered by the processing fee payable by the Group as detailed in the section headed "Processing fees" below.

The Processing Facility operates under a number of licences, approvals and permits including the Printing Licence issued by the Guangdong Province News and Press Bureau (廣東省新聞出版局). Details of such licences, approvals and permits are set out in the sub-section headed "Licences and certifications" in this section. As advised by the PRC Legal Advisers and confirmed by the Directors, the Processing Facility has obtained all the licences, approvals and permits from relevant regulatory authorities necessary for its operation in the PRC and all the required licences for the printing of foreign publications. In connection with the Printing Licence held by the Processing Facility, the scope of which covers the printing of print products for export, and according to the PRC Legal Advisers and the Directors, the Guangdong Province News and Press Bureau requires all such Printing Licences to be renewed on the expiry date, being 31 December 2013. The PRC Legal Advisers also advised and the Directors are of the view that they are not aware of any material legal impediments to the Group's renewal of its Printing Licence under the relevant prevailing rules and regulations.

Furthermore, the PRC Legal Advisers are of the opinion that the Processing Facility has been duly established and approved for engaging in the printing business, and all approvals, licenses and registrations required by applicable PRC laws and regulations for the establishment and operation have been obtained by the Processing Facility. The PRC Legal Advisers have also advised that according to all of the corporate filings of the Processing Facility registered at the Boluo County Bureau of the State Administration of Industry and Commerce as at 3 March 2011, there are no records or filings against the Processing Facility in respect of any material non-compliance of applicable laws and regulations.

Processing Agreement

During the Track Record Period, production of printed books and products was principally conducted by the Processing Partner in accordance with the terms of the Processing Agreement. The Processing Agreement was entered into among 1010 PIL, the Processing Partner and the Business Agent, on 7 March 2005 for an operating period of ten years ending in 7 March 2015.

During the Track Record Period and in accordance with the terms of the Processing Agreement, the Group placed printing orders to the Processing Facility and the Processing Facility manufactured and delivered the products to the Group in accordance with the printing orders' requirements. A summary of the principal terms of the Processing Agreement is set out below:

Parties

(1) the Processing Partner, the owner of the Processing Facility, an Independent Third Party and save for the Processing Agreement has no other past or present business relationship with the Group;

(2) 1010 PIL; and

(3) the Business Agent, an Independent Third Party and save for the Processing Agreement has no other past or present business relationship with the Group.

The Business Agent is neither a related party to the Processing Partner nor the Processing Facility and is a party to the Processing Agreement in accordance with certain local regulations as further detailed below.

Date of the Processing Agreement

7 March 2005

Duration

Ten years commencing on 7 March 2005 until 7 March 2015

Primary responsibility of the contracting parties

(a) 1010 PIL is responsible for:

(i) providing all machinery and equipment with aggregate value of not less than HK$107 million (measured at cost) for the manufacturing of products at the Processing Facility;

(The Processing Agreement is silent as to whether the level of such provision should be maintained throughout the term of the Processing Agreement. However, the Directors have confirmed that the spirit of the Processing Agreement was to provide this amount of machinery and equipment at the commencement of the working relationship so that the Processing Facility would be able to commence book printing as soon as possible. Furthermore, given the Group's continual investment in equipment and machinery, the aggregate value of equipment and machinery is expected to remain above HK$107 million during the term of the Processing Agreement and as such the Directors expect the Group to fulfil such condition.)

(ii) employing and providing technical personnel to the Processing Facility for the installation of machinery and equipment in the Processing Facility and technical training to the workers;

(iii) the provision of all necessary materials for production, including the delivery of the raw materials, ancillary materials and packaging materials required two days before production and in accordance with the schedules, time, quantities and specifications as agreed between 1010 PIL and the Processing Partner and fuel for the production process;

(iv) the legality of the trademarks used on the products;

(v) transportation costs between the Processing Facility and Hong Kong;

(vi) the insurance of the respective properties of each party to the Processing Agreement;

(vii) the provision of management expertise and control over the quality of the finished products by provision of manufacturing machinery, raw materials and technical support to the Processing Facility; and

(viii) payment of a processing fee for the operating cost, insurance, tax, handling fee, etc. incurred by the Processing Partner for the day to day operation of the Processing Facility. The amount of the processing fee was determined by the agreed prices on each production contract and with reference to wages for each employed worker.

(b) the Processing Partner is responsible for:

(i) providing the manufacturing plant, ancillary facilities and labour force;

(ii) the manufacturing of products for 1010 PIL;

(iii) upon completion of production, delivery of all finished products to 1010 PIL; and

(iv) obtaining all the licences, approvals and permits from relevant regulatory authorities necessary for its operation in the PRC and all the required licences for the printing of foreign publications.

(c) upon the establishment of the factory premises and until the expiry of the Processing Agreement, the Business Agent is responsible for:

(i) procuring the clearance for the export of finished goods; and

(ii) collecting the processing fee.

As advised by the PRC Legal Advisers and in accordance with the Interim Measures for the Administration of Examination and Approval of Processing Trade (《加工貿易審批管理暫行辦法》) and the Regulations of the Export-oriented Processing and Assembly Trade of Guangdong Province (《廣東省對外加工裝配業務條例》), the Business Agent is required to be involved in such processing arrangement. Such third party agents, which are qualified agents or entities, are typically required by government authorities to provide assistance with monitoring and oversight of such processing arrangements. The Business Agent is responsible for the export clearance and collection of the processing fees. No service fee is paid to the Business Agent by the Group.

Whilst the Processing Agreement does not provide for exclusivity in the processing arrangement, the Production Facility has not, during the Track Record Period, provided its book production services to any party other than the Group. Furthermore, the Processing Agreement does not specify details such as daily management of the factory's operations, legal liabilities in respect of accidents or breaches, payment terms of the processing fees and other operating costs, minimum production requirements, renewals, confidentiality, or insurance on inventories. In respect of matters which are not specified in the Processing Agreement, actions, responsibilities and liabilities are divided as follows:

– Daily management of the Processing Facility's operation is conducted by the Processing Partner with assistance from the Group's staff.

– As confirmed by the PRC Legal Advisers, legal liability arising from accidents or non-compliance during the production process, is borne by the Processing Facility, who shall be held liable for all results so occurred. In addition, the Processing Partner may also share some of the liability as the investor of the Processing Facility. The Group may also share some of the liability if such accidents or non-compliance are caused by the Group's breach of the Processing Agreement.

– Although there is no annual minimum processing fee, payment of the processing fee and reimbursement of other costs is paid to the Processing Partner on a monthly basis.

– Renewal and termination will be determined upon mutual agreement.

– Insurance in respect of inventories and other matters is maintained individually by the Group.

– Confidentiality of book content to prevent the unauthorised production and distribution is routinely monitored by the Group's employees. The Group employs the following security measures and procedures to ensure that customers' files and property are securely monitored and maintained:

  – All zinc plates are discarded when printing is completed;

  – All hard and soft copies of customers' products are filed individually and maintained in secure air-conditioned rooms which are monitored on a 24-hour basis. No unauthorised entry is permitted into such areas; and

  – The entrance of the Processing Facility is under 24 hour secured guard to ensure that the Group's property, including customers' files or books are not removed without authorisation.

  In addition, to further ensure that customers' products and files are protected against any illegal infringement, usage and leakage from the Processing Facility:

  – staff at the Processing Facility are bound by confidentiality agreements for the course of their employment; and

– Staff are provided with training in order to help them understand the importance of and compliance with intellectual property rights.

During the Track Record Period the Group has not experienced any leakage of customers' books, files or products.

Termination

The Processing Partner only has the right to unilaterally terminate the Processing Agreement in the event that 1010 PIL has not provided machinery and raw materials to the Processing Facility within three months of the date of signing of the Processing Agreement, i.e. 7 March 2005.

Processing fees

For each of the three years ended 31 December 2010, the processing fees amounted to approximately HK$26.5 million, HK$33.9 million and HK$42.7 million, respectively, representing approximately 10.0%, 10.1% and 10.2% of the direct operating costs of the Group for the respective years.

The processing fees payable by the Group are calculated based on key costs incurred by the Processing Facility in the production of books and printed products. In its daily operation, the Group places customer orders to the Processing Facility through the ERP system which includes all relevant production requirements. The customer orders are then confirmed by the Processing Facility once they are placed into the production schedule, again, through the ERP system. Each of the individual customer orders stipulates the product specifications, raw materials requirements, order delivery schedule and estimated production costs (and thus processing fees) attributable to such orders. In case the actual production costs (including but not limited to wages and other related expenses) incurred by the Processing Facility is higher than the expected amount, the Group will pay for the shortfall provided that (i) the Processing Partner shall provide information on the actual salaries and wages and its related expenses paid to the Processing Facility for the Group's review; (ii) the Group shall be entitled to verify the additional expenses incurred; and (iii) such shortfall shall be confirmed by the Group in writing as reasonable and shall be approved by the Group in writing. Should there be any costs not agreed by the Group, the Group may refuse to reimburse such costs to the Processing Facility and the Processing Facility cannot charge such costs to the Group as part of the processing fees. During the Track Record Period, there has not been any dispute between the Group and the Processing Facility on such reimbursement of costs. Save as the aforesaid, there are no other particular factors that the processing fees are based on.

Given the aforementioned cost reimbursement mechanism, the Group is able to manage and control all production costs incurred by the Processing Facility despite the fact that it does not directly control the production costs incurred or to be incurred by the Processing Facility. At the beginning of each month, the Group and the Processing Facility will, based on the orders processed and the expenses incurred in the previous month, mutually agree on an approximate budget for the processing fees. The Group also obtains and reviews the monthly report of production costs incurred by the Processing Facility. The Processing Facility sends debit notes for the actual costs incurred to the Group at the end of each month. If there are any irregularities noted, the Group will raise enquiries with the Processing Facility and investigate the reasons for such irregularities. Should the Group consider it necessary, the Group would examine the vouchers, suppliers' quotations and payment records of the Processing Facility. During the Track Record Period, no such irregularities have been identified.

Although the Processing Agreement has not stipulated a definitive formula for the determination of the processing fee, the fee is principally comprised of the costs in relation to the work force and a handling fee in respect of the provision of the manufacturing services. As advised by the PRC Legal Advisers, the pricing basis of the processing fees is, in general, a commercial term to be negotiated and concluded among the contracting parties, and is normally not subject to any pricing regulations prescribed by the PRC authorities or under the scrutiny of the PRC authorities. The Directors have confirmed that there has never been any dispute between the Group and the Processing Partner nor the Processing Facility in respect of the processing fees and that the pricing basis of the processing fees has never been challenged by any regulatory authorities in the PRC (including the tax authority).

Other operating costs related to the Processing Facility

In addition to the processing fees and in accordance with the terms of the Processing Agreement, the Group is responsible for other related production costs incurred in the operation of the Processing Facility. These other production costs cover a range of expenses including, among others, utilities, insurance, transportation, machinery maintenance, lease expenses, consumables and miscellaneous items. Costs which are related to the direct costs of book production, e.g. utilities, customs expenses, machinery maintenance, consumables and workers' transportation, may be incurred directly by the Group, whilst certain more general costs related to the overall running of the Processing Facility such as, insurance maintained by the Processing Facility and lease expenses are incurred by the Processing Facility but wholly absorbed by the Group. During the Track Record Period, other production costs amounted to approximately HK$23.7 million, HK$29.3 million and HK$37.4 million, representing approximately 9.0%, 8.7% and 8.9% respectively of the total direct operating costs.

Sub-contracting

During the Track Record Period, the Group was required from time to time to engage sub-contractors in the production of books and printed products. Sub-contractors were typically engaged in order to (i) carry out certain specialised processes which the Processing Facility was unable or unequipped to conduct due to the lack of requisite machinery or equipment; and/or (ii) carry out production due to over capacity during peak periods of production, when the annual production capacity of the Processing Facility is almost fully utilised.

As a result of specific requests by customers in respect of the look, feel or style of any given book title, the Group will, from time to time, engage sub-contractors to carry out specific processes or treatments. Specialised procedures which would require the services of sub-contractors include, among others, graining, water base varnishing, index cutting, embroidering, stamp plate and die-cut mould production, gold/silver gilding or dyed colour on three edges of book block and flocking. In general, these procedures did not form key parts of the production process and would only be carried out as and when required by the customers, in respect of certain book titles. Due to the specialised nature of such procedures and treatments, the management does not consider the investment of machinery, equipment and resources to the Group's production capabilities to be an effective application of funds and as such, considers the sub-contracting of such processes to be more cost-effective and time efficient.

In addition, the Group is often required to engage sub-contractors to carry out production due to over capacity at the Processing Facility during peak periods of production. As indicated in the table below, during the Track Record Period, the high utilisation rate illustrates the requirement for sub-contracting work:

(in millions of impressions per annum)	**2008**	**2009**	**2010**
Maximum printing capacity (with plate changes) (*Note 1*)	597.2	624.0	694.1
Actual printing output	361.6	629.9	653.1
Maximum printing capacity (with plate changes) – utilisation rate	60.5%	101.0% (*Note 2*)	94.1%

Notes:

1. The maximum printing capacity (with plate changes) is calculated on the basis of the total number of impressions per machine per hour at 16 hours per day and 322 working days per annum taking into account the downtime caused by changing plates, being approximately 15 minutes per set of plates.

2. The maximum printing capacity utilisation rate (with plate changes) exceeds 100% as the maximum printing capacity is based on output assumptions to provide an illustration of the Group's typical capacity. In some situations, as in 2009, the machines may have been operating at more than 16 hours per day or more than 322 days per annum.

Sub-contractors which provide printing services charge the Group for jobs based on the number of impressions. The price per impression charged to the Group by sub-contractors is typically higher than the price per impression charged by the Processing Facility as the Group has provided the machinery and material to the Processing Facility and therefore reduced the economics for the Processing Partner.

During the Track Record Period, the Group engaged the services of approximately 125 sub-contractors. The Group negotiates the terms and conditions of each of the sub-contracting orders with independent sub-contractors on a job-by-job basis with reference to the prevailing market terms and conditions. No long-term agreements were entered into by the Group in respect of such sub-contracting arrangements. The Group is responsible for ensuring that the sub-contractors are properly licensed, the selection of and entering into the sub-contracting agreements with the sub-contractors. As confirmed by the Directors there has been no material breach or failure to comply with the PRC Customs Supervision and Administration of Processing Trade Goods during the Track Record Period.

From time to time, the Group would require copies of the required licences and permits of the sub-contractors to be obtained. If the Directors were aware of any updates on relevant required rules and regulations, if applicable, the Group would require relevant licences and permits of the sub-contractors to be obtained to ensure the due compliance of the rules and regulations. As advised by the PRC Legal Advisers based on the disclosure and undertaking provided by the Processing Facility/Processing Partner all sub-contractors have obtained their business license and permits (if necessary) when they were assigned relevant sub-contracting jobs during the Track Record Period. To further ensure that the quality of the products is up to the requisite standard, the Group may supply the raw materials to these sub-contractors and, from time to time, the Group may send representatives to these sub-contractors to monitor the production, inspect and obtain samples of work-in-progress and finished goods. The Directors believe that sub-contracting arrangements during the peak season help to improve the Group's competitive position by enhancing the flexibility of production schedule and meeting customers' requirements.

In addition and in order to ensure that the customers' products and files are protected against illegal infringement, usage and leakage during the sub-contracting process, the Group employs the following measures in respect of its sub-contractors:

- Review and assess the sub-contractors' security procedures to ensure that there are adequate procedures in place before accepting such sub-contractor as an approved vendor of the Group;

- Ensure that print sub-contractors are never assigned whole or complete book printing orders, so that print sub-contractors would never have control over any complete book product; and

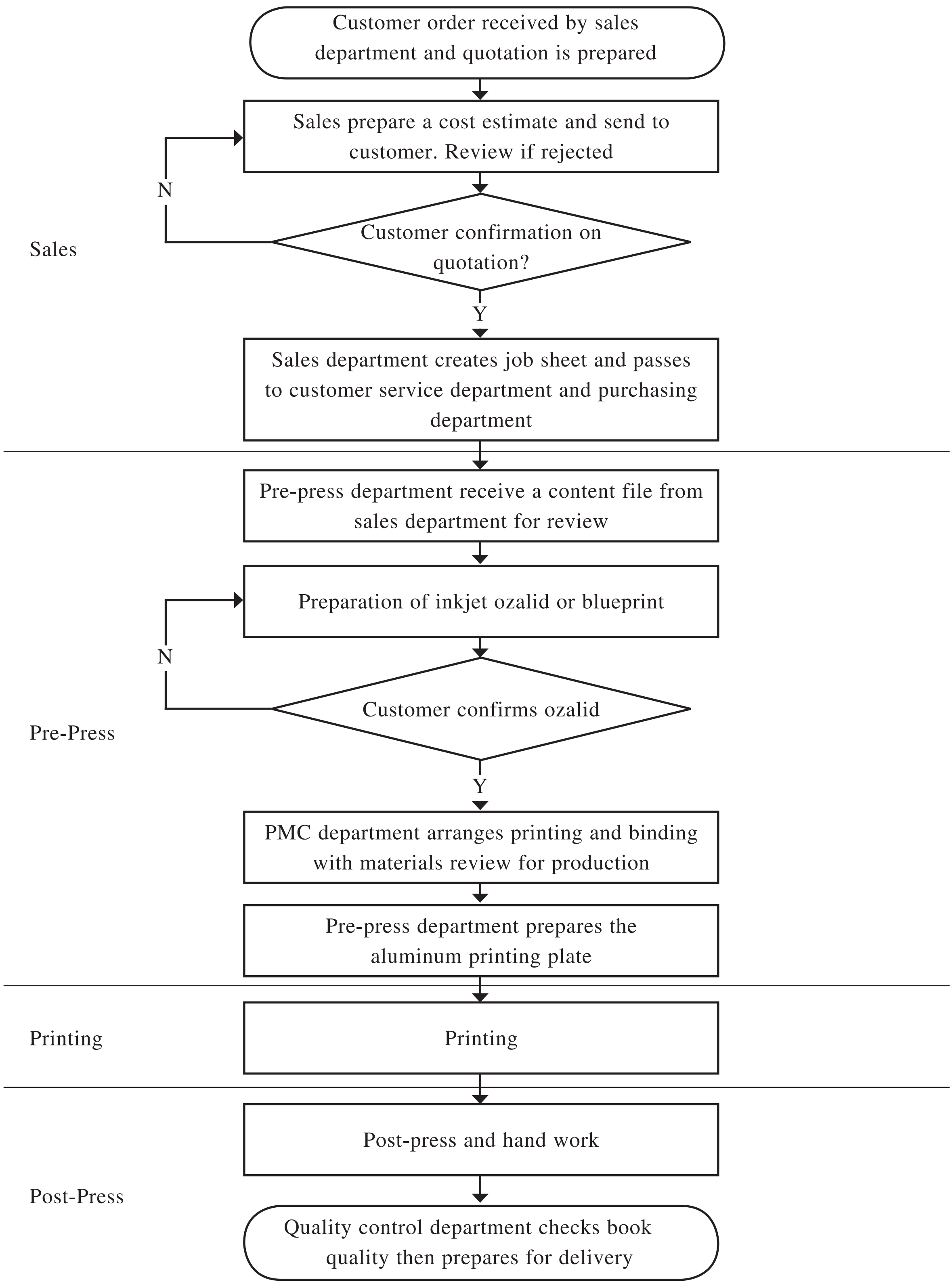
- Maintain a physical presence by assigning on-site staff at the relevant sub-contractor's facilities during the production process, which allows the Group to not only ensure that the book products are manufactured in accordance with the requisite standard and quality but also to ensure that printed products are adequately and securely stored.

For each of the three years ended 31 December 2010, the sub-contracting fees amounted to approximately HK$25.8 million, HK$10.3 million and HK$22.1 million, respectively, representing approximately 9.8%, 3.1% and 5.3% of the direct operating costs of the Group for the respective years. Such sub-contracting charges were included as part of the direct operating costs. Of the aggregate sub-contracting fees paid by the Group during the Track Record Period, approximately HK$4.9 million, HK$3.4 million and HK$13.1 million was attributable to print production due to over capacity during peak periods of production (as opposed to non-print sub-contracting fees), respectively. Based on the unit price of sheets produced and sold by the sub-contractor to the Company as compared to the unit price of sheets as produced and sold by the Group directly to its customers, the percentage of sales contributed by print sub-contractors amounted to approximately 1.5%, 0.9% and 2.9% for each of the three years ended 31 December 2010, respectively.

None of the sub-contractors engaged by the Group has or had any business or family relationship with any directors, senior management or shareholders of the Company or its subsidiaries, or their respective associates.

PRODUCTION PROCESS

The following flow chart is a general overview of the major steps involved in the production process:



(a) Receipt of customer orders

Customer orders and requests for quotations are received by the sales department which then prepares a cost estimate in accordance with the book specifications, special requirements, expected raw materials costs, processing fees to the Processing Facility, timing and delivery. In the event that the customer rejects a proposal, the sales department may review the estimate to provide a more accommodating offer. When the purchase order is confirmed, the sales department forwards the information to the purchasing department and the customer services department by creating job sheets in the ERP system, containing the customer's sales order and detailed specifications, to the production and materials control ("**PMC**") department.

The PMC department manages the overall production process. It works with the purchasing department, pre-press department, printing department and post-press department to ensure that every element of the printing process comes together efficiently and in accordance with the job sheet and schedule. Upon receipt of a job sheet, the department arranges the planning and scheduling of the production process. The job of the PMC department is to ensure that the Processing Facility has sufficient resources, raw materials, personnel, technical oversight, capacity and quality control in order to meet the requirements of the job. Where sub-contractors are required to perform specific jobs, the PMC department will arrange for quotations and planning into the overall production schedule.

In certain circumstances, the technical department may prepare dummies of the product for the customer to review before moving to the pre-press stage.

(b) Pre-press

The order enters the pre-press stage when the job sheet is sent by the sales department and the electronic content files from the customer arrives at the pre-press department. Pre-press typically includes a series of steps which are taken to prepare an electronic file or film for printing production.

Once the file has been checked and imposed, the pre-press department will prepare an inkjet ozalid or blueprint together with the colour proof of the product for the customer's review, comment and approval.

(c) Press

Once the ozalids or blueprints have been approved by the customer, the PMC department will transfer the images of each of the four film positives or negatives onto an aluminium printing plate for printing. The aluminium printing plates are then passed to the printing department for mounting onto a cylindrical blanket on the printing machine. After the machines have been set up and adjusted, the printed sheets will be checked against the colour proofs and blueprints. Once this has been approved, the job will commence its full print run. The machine leader will then randomly check the printed sheets to ensure the quality.

In the offset printing process, ink is applied on the plate and transferred to an intermediate blanket cylinder and then onto the paper that passes through the printing unit. When a sheet of paper passes through multiple printing units, different colours are printed on the paper. Most of the Group's sheet-fed printing machines are equipped with advanced computer devices and multiple printing units ranging from two-colour to eight-colour capacity. Two-colour printing machines are used for printing jobs with one or two colours such as manuals whereas four-colour printing machines are used for more complicated printing jobs such as posters and illustrated books. Five-colour printing machines are capable of printing one special colour such as metallic or fluorescent colour in addition to the four primary colours in one production run. Eight-colour printing machines are capable of printing four colours on both sides of the paper in one production run.

(d) Post-press

Once printing has been completed, the printed sheets must undergo post-press finishing so that it can take its final form. Post-press operations typically involve folding, collating, sewing and casing in of the individually printed sheets. In addition and depending upon the customers' specific requirements, further finishing of individually printed sheets such as, die-cutting, gold stamping and lamination may be required. For books, printed sheets of text are machine-folded to form a set of pages or a "signature". These signatures are collated in numerical order to be machine-sewn to form a book block, which is then glued with the cover and machine-trimmed to a specified size. The finished goods are inspected and compared with the blue print to ensure the required qualities and standards are attained.

In addition, decorative items or premiums are sometimes required to be inserted together with the book sets by manual procedures including hole-punching, case making, wire-O binding, box and bag gluing and assembling.

(e) Quality assurance

Quality assurance is performed to examine the product's quality against the acceptance quality level standard at every stage of the production process. Incoming raw materials, such as paper and ink, are periodically tested against customers' technical specifications. Colours are matched against the customer's approved blue print. Finished goods undergo a number of tests and visual inspections, before packaging and delivery to ensure the exact specifications of the customers are met.

(f) Packaging and delivery

The shipping department is responsible for the planning, coordination and overall logistics in relation to packaging and delivery of finished products. The department reserves vehicle/container space with freight forwarders according to the shipping information as set out in the customer order and coordinates with the relevant parties including the Group's warehousing and operations departments. The shipping department produces a loading list and packing list upon the loading of goods onto vehicles and distributes the documents to each of the clearing and sales departments.

The clearing department prepares the clearing form accordingly and together with the sales contract, invoice and goods information, submits all the relevant documentation to the local PRC customs office. Once PRC customs office verifies the goods against the clearing form, the vehicles are allowed to pass through Huizhou customs office where the goods and forms are then verified at Hong Kong's Huanggang border and customs station. Once cleared, the goods will be free to enter Hong Kong and the vehicle will either continue on to the designated container terminal or warehouse.

Once the goods are loaded onto the container ship, a bill of lading will be sent to the shipping department by the freight forwarder or shipping company and the bill of lading will then be sent to the customer by email or courier together with the invoice for the goods. The customer will then arrange for receipt of the goods at their own port.

The time span from the placement of orders by customers to the completion of production (and issuing of invoice to the customer) is typically three months. However, this is dependent upon customer's needs, requirements and planning of product launches, etc. As such, the entire process from receipt of orders to actual delivery may vary from as short as two weeks to as long as one year.

(g) Final quality control

All packaged finished goods are inspected again to confirm the acceptance before they are despatched to customers. The actual inspection standard varies subject to respective customer's requirements.

In order to ensure that the production process is conducted efficiently and cost effectively, the Group adopts certain measures, including (i) holding weekly meetings to review and monitor the production schedule and resources planning; (ii) reviewing daily production reports to update order status and ensuring on-time delivery; (iii) making prompt enquiry and investigation to ensure delivery dates are met; and (iv) reviewing various monthly reports such as work reports for quality assurance. The executive Directors and senior management of the Company closely monitor the operations at the Processing Facility to ensure that the Group's guidance and instructions are being followed. The Group also purchases and installs upgraded machineries and equipment in the Processing Facility to increase the production capacity and the level of automation and to enhance cost efficiency.

PURCHASING AND INVENTORY CONTROL

Purchasing

The main raw materials used by the Group include paper, ink, printing plates, chemical glue and plastic boards. Paper, however, is the Group's principal raw materials. Purchase requisitions are placed with paper vendors based on sales forecasts and orders which are developed with the Group's customers. The Group mainly purchases paper from paper manufacturers or trading companies in Hong Kong, the PRC and South Korea, which is delivered to the Processing Facility for processing.

The Group endeavours to work with FSC/CoC certified paper suppliers to ensure that all paper purchased and used in the production of books for its customers are in compliance with all standards of environmental care and social responsibility. In addition, suppliers are typically reviewed for their financial stability before they are accepted by the Group as a constant supplier.

At all times, the Group monitors the market price of pulp and paper and maintains inventory levels according to both projected production as well as trends in paper pricing. In order to ensure that purchasing is conducted efficiently and cost effectively, the Group's management relies on its ERP system to ensure that its production schedule and inventory of raw materials is aligned with market prices for raw materials. During the Track Record Period, the tonnage of paper purchased by the Group increased by a CAGR of approximately 48.1% from the year ended 31 December 2008 to 31 December 2010. For each of the three years during the Track Record Period, the average unit price of text paper per ton purchased by the Group was approximately US$987, US$835 and US$905, respectively. During the same period, the average unit price of paper per ton purchased by the Group fell in 2009 by 15.4% from its average unit price per ton in 2008 but increased by 8.4% in 2010 over its price in 2009. The Group typically purchases paper in reels or sheets depending upon the different sizes and weights of paper required. Reels of paper are purchased by weight (US$/ton), whilst sheets of paper are purchased in reams (HK$/ream) with each ream being 500 sheets of paper. During the Track Record Period, the annualised average price of reel paper purchased by the Group decreased at a compound average rate of approximately 6.8%. Likewise, the annualised average price of sheet paper decreased by approximately 1.8% between 2008 and 2010. This fall in prices in 2009 and increase in 2010 reflects the movement in the global pulp and paper prices during the Track Record Period.

As a result of the time gap between the placing of sales orders and the delivery of invoices, which is typically three months, the Group is able to anticipate any significant changes in the paper price and pass on to its customers any expected increases in paper costs. As such, the Group is largely able to mitigate any impact on profit margin as a result of changes in paper prices. As such, the fluctuations in paper prices have had no direct impact on the Group's gross profit margins. The percentage of raw materials purchased to total direct operating costs increased from 65.3% to 71.9% in 2009 even though paper costs decreased by over 18%, whilst the same percentage decreased to 69.3% in 2010 when paper costs increased by approximately 9%. The purchasing department also purchases supplementary materials based on the materials requisition plan from the customer services department. The Group maintains a list of suppliers and constantly reviews the quality, market reputation, pricing, delivery time and after sales services offered by them. The Company confirmed that the prices of the Group's products have taken into account the prevailing market prices of raw materials. Changes in the costs of raw materials would be shifted onto the customers.

For each of the three years ended 31 December 2010, the Group's five largest suppliers accounted for approximately 43.1%, 32.4% and 39.7%, respectively, of the Group's total purchases. In the same period, the single largest supplier of the Group accounted for approximately 15.9%, 11.4% and 12.5%, respectively, of the Group's total purchases. The Group has not entered into any long term contracts with its suppliers.

The following table sets out a summary of all the companies which featured as one of the Group's top five suppliers in any of the three years ended 31 December 2010:

Company	**Principal business activity**	**Years of relationship with the Group**
A	Hong Kong listed paper supplier engaged in the manufacturing, trading and marketing of paper products	6
B	Paper trader and subsidiary of a Hong Kong listed printing company	4
C	Hong Kong based paper agency and distribution company	2
D	Hong Kong based paper trading company	6
E	Hong Kong based paper manufacturing company	4
F	Hong Kong based paper trading company	5
G	Japan based supplier of printing machinery and materials	5
H	Hong Kong based printing services company providing subcontracting printing services	4

Credit terms typically granted by suppliers fall between nil days (cash upon delivery) to 90 days.

None of the directors of the Company or any of its subsidiaries, their respective associates or, so far as the Directors are aware, Shareholders who own more than 5% of the issued share capital of the Company immediately following the completion of the Share Offer has any interests in the five largest suppliers of the Group for the three years ended 31 December 2010.

For each of the three years ended 31 December 2010, creditors' turnover was about 27 days, 38 days and 40 days, respectively with fluctuation increases of approximately 40.7% and approximately 5.3% for 2009 and 2010 respectively.

Purchases are predominantly settled in US dollars and Hong Kong dollars with a lesser amount in Renminbi.

The Group has over three years business relationship with several of its major suppliers and the Directors believe that the stable relationship with those suppliers ensure that the Group can source quality raw materials at competitive prices. The Directors consider that the Group is able to maintain stable relationship with its suppliers and does not anticipate any major difficulty in sourcing raw materials for its production on the basis that the relevant raw materials are readily available and their prices are relatively stable over the last three years. During the Track Record Period, the Group has not encountered any difficulty in procurement nor experienced any production disruption due to shortage of supply of raw materials.

Inventory control

As the Group's business is made-to-measure book orders for its customers, there is little inventory of finished print products. However, the Group's principal raw material is paper and the Group has developed an inventory cycle plan which reflects both the Group's production requirements as well as global pulp and paper prices to ensure that it maintains a systematic and cost effective control over its level of paper inventory. Typically, the Group works with its customers to develop production programmes weeks or months in advance of their actual production and delivery dates. This allows the Group time to plan paper reservation or indents. The Group's sales and purchasing departments work together to implement such plans as well as preparing and reviewing the Group's production schedules. Both departments are able to monitor the sales orders received from customers and sales forecasts on the Company's ERP platform to ensure that the inventory levels can meet such orders and to ensure that no excessive stocks are retained. To avoid insufficient supplies to meet general and planned demand, the Group has also adopted a policy to maintain inventory of paper which will be sufficient for approximately 60 days of its production use under normal circumstances.

In addition, as paper prices are subject to fluctuations according to the overall global supply and demand for pulp or paper, the Group seeks to secure the cost of paper (as well as reduce the production lag time) by managing paper stock levels in advance of their production requirement.

As such, the Group performs regular reviews of the carrying amounts of inventories with reference to its production schedules, inventory status, estimation of expected future utilisation of inventories and expected paper prices. Management estimates net realisable value of inventories based primarily on the latest market prices and current market conditions at the end of each period. Inventories are written down when the carrying amounts of inventories decline below their estimated net realisable value or future utilisation was not expected.

At each half year period, the accounting department produces a stock ageing report to identify aged stock and the assistant general manager determines if specific provisions are required for the aged stock. The Group adopts the following policy for provision for inventory obsolescence and general provision for raw materials and work in process based on the following policy at period end:

Ageing	**Provision rate**
Within 2 years	Nil
Over 2 years	100%

As at 31 December 2008, 2009 and 2010, general provision for inventory obsolescence was approximately HK$1.1 million, HK$1.0 million and HK$0.1 million, respectively and full provision had been made for all obsolete inventories identified by specific review, amounting to nil, nil and approximately HK$3.9 million, respectively. The increased provision for obsolescence in 2010 was due to the increase in volume of stocks of unusable paper due to damage, such as deterioration and excess quantities of scrapped paper.

For each of the three years ended 31 December 2010, the provision for inventory obsolescence charged (credited) to profit and loss account was approximately HK$0.5 million, nil and HK$3.0 million, respectively.

CREDIT CONTROL

The Group uses its best endeavour to exercise tight credit control and the Group's finance and accounting department reviews the credit terms of each existing and prospective customer. The settlement and credit terms granted to any particular customer is determined with reference to, among other things, (i) length of business relationship; (ii) payment history; and (iii) financial strength and creditability of such customer.

The Group normally grants credit terms of up to 45 to 180 days to its customers. New customers may be required to provide a partial deposit of typically 50% of the total price but the Group does not require its larger, well established customers to do so. The Directors may from time to time approve extended credit period for extra 30 to 60 days to certain major customers.

In case of outstanding trade receivables, written reminders will be sent to the respective customers. If the Group cannot recover the outstanding trade receivables from the customers after liaisons and on a case by case basis, a legal demand letter from the Group's solicitors will be sent to such customers as and when appropriate. Under certain circumstances, the Group may consider taking legal action to recover the outstanding trade receivables.

An impairment loss is recognised in profit or loss when there is objective evidence that the receivable is impaired. Management assesses the likelihood of recovery of the trade receivable with reference to ageing analysis, repayment history, credit quality of the debtors and subsequent collection information at the end of each period. Where management determines that certain trade receivables are uncollectible, they are written off against the allowance account for the relevant financial assets.

In order to avoid late payments and bad debts, the Group operates a selective process in respect of business opportunities. The Group exercises caution when conducting business with smaller independent publishing houses which may not possess the financial strength of publishing conglomerates. As a result, the Group has very low bad debts as most outstanding debts are usually recovered. During the Track Record Period, the Group only had bad debts written off of approximately HK$81,000 for the year ended 31 December 2009 and HK$15,000 for the year ended 31 December 2008, which indicates that most of the customers pay their outstanding debts under the Group's effective credit control policy.

The Group's gross trade receivables for each of the three years during the Track Record Period were approximately HK$93.3 million, HK$163.0 million and HK$189.7 million, respectively. The increase in trade receivables as at 31 December 2010 as compared to that as at 31 December 2008 was mainly due to the increase in the turnover of the Group and the extension of the credit terms to one of the Group's top five customers.

QUALITY ASSURANCE AND CONTROL

The Group is committed to supplying quality books and printed products and providing quality services that consistently meet or even exceed its customers' expectations. The Group has placed a strong emphasis on quality assurance and has adopted stringent quality assurance procedures at different stages of its business operation including the pre-production process, the procurement of raw materials and the monitoring of production process and the inspection of machinery and finished products to ensure the quality of its products.

The Processing Facility has obtained various quality standard certifications including ISO9001 certification for its quality management system. The ISO certification process involves subjecting the Group's production processes and quality management system to annual reviews and observations for various periods. Further details of the ISO certifications are set out in the sub-section headed "Licences and certifications" in this section.

As at the Latest Practicable Date, the Group had a team of seven staff who frequently traveled to the Processing Facility and were responsible for quality control and quality assurance. The following table sets out the titles and experience of the seven staff:

Title	No. of years with the Group	No. of years in the printing industry
Production manager	6	24
Printing superintendant	6	33
Pre-press manager	0.5	25
Printing supervisor	0.5	3
Deputy production manager	0.5	21
Printing supervisor	6	14
Engineering and maintenance manager	1	31

The Group also has an independent quality assurance department that reports directly to the Group's management on product quality matters. Quality assurance functions are performed throughout the production process from the raw materials procurement stage to product delivery stage to ensure that the books and printed products can meet the required standards required by each customer.

The Group's major quality assurance and control procedures are as follows:

The Group monitors and evaluates the quality of its products at various stages of the production cycle. Its major quality assurance and control procedures are as follows:

Quality control ("QC") process	Quality check	Quality assurance
Incoming materials	Inventory QC checks all incoming raw materials Once satisfied, raw materials are then delivered to the warehouse	
Printing	In-progress QC sample checks printed sheets and folded and gathered printed sheets for any defects and compares colours Stores and sends to customers for their review	In-progress QA checks all printed sheets for any defects found in the sample check
Binding	In-progress QC conducts sample checks on folded sheets	Upon completion, Final QA sample checks finished goods
Hand work	Final QC conducts sample checks on finished goods	
Sample books	In-progress QC checks all the finished samples Once satisfied, finished samples are then delivered to customers	
Packaging/delivery	Outgoing QC conducts sample checks before packaging	

The Directors believe that these stringent quality assurance procedures contribute to the overall low defective rate of the Group's products. For each of the three years ended 31 December 2010, the Group incurred total reprint costs for books which did not meet a satisfactory quality either to the Group or its customers of approximately HK$1.2 million, HK$1.5 million and HK$1.3 million, representing approximately 0.4%, 0.3% and 0.2% of its total revenue, respectively.

The Group has no sales return policy and does not offer any sales returns. In the event that the Group is aware of any potential problems or defects with any of its book products, the Group's quality control team will first identify the issues and then resolve them with the customer. During the Track Record Period, the Group has not recorded any sales returns and, after taking into account the insignificant amount of net sales return arising from rejected products as compared with the Group's total revenue, the Directors were not aware of any material complaints or claims related to product quality encountered by the Group, or any material sales returns experienced by the Group, which reflected well on its quality control and quality assurance capabilities and reinforced its reputation in the market.

The Directors have confirmed that the Group is not subject to any material product liability or warranty under its current business arrangements.

HEALTH AND SAFETY

The Processing Facility and the Processing Partner are subject to a number of production safety and quality and labour rules and regulations of the PRC including, among others, the Product Quality Law, the Interim Measures on the Administration of Quality Supervision of Printed Books and Periodicals, the Production Safety Law, the PRC Labour Law and the PRC Labour Contract Law.

As advised by the PRC Legal Advisers, in the event that the Processing Partner is found to be in breach or non-compliance of any rules and regulations in respect of the quality and production safety and labour laws, the Processing Partner shall be primarily responsible for the civil or administrative liabilities or any other claims relating to such breaches or non-compliance. In accordance with PRC laws, as neither the Processing Partner nor the Processing Facility are members of the Group and are Independent Third Parties, the Group shall not be held legally liable for the individual or personal liabilities of the Processing Partner or the Processing Facility, nor for ensuring that the Processing Facility meets all requisite health and safety regulations and labour laws to which they may be subject.

In the event that the Processing Partner or the Processing Facility are found to be in material breach of such PRC quality and safety standards or labour laws, although the Group would not be legally liable for any penalty or compensation imposed upon the Processing Partner or the Processing Facility, such penalty or compensation may prevent them from performing their responsibilities under the Processing Agreement and the business and operations of the Group may be adversely affected.

LICENCES AND CERTIFICATIONS

The Group has obtained the following relevant licences and certifications relating to its business and operations:

Licence/Certification	Issuing organisation	Date of issue	Date of expiry
FSC-STD-40-004(V2-0) Chain of Custody	FSC	02 December 2008	28 November 2012
ISO 9001:2008	BSI Management Systems	19 March 2009	15 March 2012
ISO 14001:2004	BSI Management Systems	19 March 2009	15 March 2012
OHSAS 18001:2007	BSI Management Systems	19 March 2009	15 March 2012

In addition, the Processing Facility has also obtained the following licences and certifications in relation to its operations:

Licence/Certification	Issuing organisation	Date of issue	Date of expiry
印刷經營許可証 (Printing Licence)	廣東省新聞出版局 (Administration of Press and Publication of Guangdong Province)	01 January 2010	31 December 2013
營業執照 (Certificate of Business Registration)	博羅縣工商行政管理局 (Boluo Administration for Industry and Commerce)	08 June 2005	20 April 2014
廣東省對外來料加工特准營業証 (Guangdong Province Special Licence for Processing with Materials Prepared)	博羅縣工商行政管理局 (Boluo Administration for Industry and Commerce)	08 June 2005	20 April 2014
FSC-STD-40-004(V2-0) Chain of Custody	FSC	12 January 2009	12 November 2012
ISO 9001:2008	BSI Management Systems	19 March 2009	15 March 2012
ISO 14001:2004	BSI Management Systems	19 March 2009	15 March 2012
OHSAS 18001:2007	BSI Management Systems	19 March 2009	15 March 2012
ICTI Code of Business Practices (2009 Version)	ICTI CARE Process	24 October 2010	23 October 2011

In accordance with the recognition of the processing arrangement under the Processing Agreement, the Group is not required to obtain a PRC printing licence as the printing is conducted by the Processing Partner. As further advised by the PRC Legal Advisers, the Printing Licence obtained by the Processing Facility only enables it to print such materials for the export market and is not entitled under such licence to distribute such books within the PRC.

INTELLECTUAL PROPERTY

The Group has applied for the registration of one trademark in Hong Kong as set out in the paragraph headed "B. Further information about the business – 2. Intellectual property of the Group – 2.1 Trademark" in Appendix V to this prospectus.

The Group is also the registered owner of one domain name as set out in the paragraph headed "B. Further information about the business – 2. Intellectual property of the Group – 2.2 Domain names" in Appendix V to this prospectus.

Based on the results of a litigation search conducted on 27 June 2011, it was revealed that neither the Group nor any of its Directors were involved in any litigation in Hong Kong relating to the infringement of any intellectual property rights belonging to third parties in respect of its products. The Directors have further confirmed that neither the Group nor any of its Directors have received any notice of any infringement of intellectual property rights up to the Latest Practicable Date.

INSURANCE

As at the Latest Practicable Date, the Group has maintained property all risk insurance, public liability insurance, employee compensation claims insurance, business interruption insurance, marine cargo insurance, machinery on mortgage insurance, medical, life and hospitalisation insurance for its staff and credit insurance. Property all risk insurance covers the Group's assets which include plant, machinery, office furniture and fixtures and inventory against accidental, theft and physical loss or damage. Public liability insurance covers third party personal injury and property loss/damage claims against us relating to the Group's plants, warehouses and offices. Employee compensation claims insurance covers employee personal injury during the period of employment. Business interruption insurance indemnifies the Group against loss of gross profits and increased cost of working as a result of interferences in business such as reductions in turnover and increased cost of working as a result of loss or damage to insured property. Marine cargo insurance covers physical loss or damage to freight. Machinery on mortgage insurance covers physical loss or damage to certain printing equipment installed at the Processing Facility. Credit insurance covers payment risk against the Group's accounts receivables resulting from failure by debtors to meet payment or losses due to the insolvency of debtors. During the Track Record Period, the Group has not made any material claims. The Directors consider that the above insurance plans and amounts insured are sufficient to cover the operational risks and protect the Group from any potential loss or damage.

ENVIRONMENTAL ISSUES

As advised by the PRC Legal Advisers and confirmed by the Directors and set out in the section headed "Regulations – Laws and regulations relating to environmental protection", the Processing Facility is subject to the following rules and regulations: the PRC Environmental Protection Law (《中華人民共和國環境保護法》), the PRC Law on Appraisal of Environment Impact (《中華人民共和國環境影響評價法》), and the Regulations on Administration of Environmental Protection of Construction Projects (《建設項目環境保護管理條例》), which together set out the legal framework on, among others, the design and construction requirements of production facilities of the Processing Facility in the aspects of pollution control and environmental protection. The PRC Law on the Prevention and Treatment of Air Pollution (《中華人民共和國大氣污染防治法》), the PRC Law on the Prevention and Treatment of Water Pollution (《中華人民共和國水污染防治法》), the PRC Law on the Prevention and Treatment of Noise Pollution (《中華人民共和國環境噪聲污染防治法》) and the PRC Law on the Prevention and Treatment of Solid Waste Pollution (《中華人民共和國固體廢物污染環境防治法》) together impose further requirements on the Processing Facility on the discharge and treatment of waste by-products, including waste water and chemical waste.

The Processing Facility in the PRC discharges waste water and chemical waste. For each of the three years ended 31 December 2010, fees paid by the Group in respect of waste water treatment were approximately RMB37,000, RMB54,000 and RMB107,000, respectively. Management is committed to minimising the impact of such waste on the environment. The Group has established environmental guidelines on how to handle waste paper, all waste paper should be stored in the "paper cage" and labeled and recycled daily by the Processing Facility's administrative department.

Chemical waste produced during the production process includes (i) waste produced in the plating process; (ii) waste from cleaning the ink rollers of the printing machines; (iii) used printing plates; and (iv) used ink containers. The Group has also issued guidelines stating which types of waste can be recycled by qualified chemical recycling agents and which types of waste should be handed to the local environmental protection department for treatment or disposal in compliance with all applicable regulations.

The Group's environmental management, guidelines and instructions have been compiled in accordance with the standard requirements of ISO14001 (Environment Management System). The Processing Partner is responsible for implementing measures to ensure that the Processing Facility complies with the applicable laws and regulations regarding environmental protection. As advised by the PRC Legal Advisers based on the disclosure and the undertaking of the Processing Partner and the Processing Facility, neither the Processing Partner nor the Processing Facility has failed to comply with or been in breach of any environmental laws during the Track Record Period. Other than the operation of the Processing Facility, for which the Processing Partner is principally responsible, the activities carried out by the Group do not involve any discharge of solid, liquid or gaseous pollutants. Hence environmental protection related laws and regulations are not applicable to the Group. During the Track Record Period, the Group has not been in breach of any laws and regulations on operational safety in the PRC or Hong Kong.

COMPETITION

The Directors believe that the market for printing services is characterised by keen competition between local and international printing products and services providers. Self-developed brand positioning, quality, performance and price have a significant influence on consumer's choices among competing products, services and brands. The Directors consider that the Group competes with other competitors on price, quality, reliability, timely delivery and the ability to meet customers' specific needs and requirements.

The Directors consider the relatively substantial amounts of capital required for investments in plants and machineries to be an entry barrier to the printing industry. In addition, the printing industry in the PRC is regulated by the PRC government under specific rules and regulations.

Based on the experience of the Group's management, the principal competitors of the Group are those Hong Kong printing companies which have set up production facilities in the PRC. Apart from these printing companies, the Group also faces competition from printers in other Asian countries such as Singapore. Nevertheless, the Directors consider that the Group has built up its reputation as a reliable and professional provider of print services in Hong Kong and the PRC since its establishment and is able to operate competitively. The Directors also believe that the Group will face competition mainly from competitors which have the financial resources, technical expertise and sales and marketing networks comparable to or better than those of the Group. In this connection, the Group has adopted the following strategies to maintain its competitiveness.

- Raw materials purchase: the purchase department of the Group maintains regular communications with different raw materials suppliers, endeavours to lower the raw materials cost, and to purchase sufficient amount of raw materials to avoid impact from sudden price increase;

- Production cycle: securing raw materials supply and acquiring reliable equipment to expand production capacity so as to shorten the production cycle;

- ERP system: constant update and maintenance of the Group's in-house developed ERP system to ensure that information can be accessed and utilised at its fullest to ensure effectiveness and efficiency of business operations;

- Product quality: only raw materials of the highest quality are acquired and always maintained in the best condition. Quality control systems such as ISO9001 have been implemented and enforced. New technologies and equipment are constantly adopted to upgrade product quality; and

- Customer service: maintaining a professional customer services team with high service standard to ensure responsiveness to clients needs.

The Directors believe that with their extensive experience in the printing industry, the Group can further enlarge its customer base and extend its footprint worldwide.

LEGAL PROCEEDINGS AND COMPLIANCE

As at the Latest Practicable Date, the Group was not involved in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group. The Group is not currently involved in any material litigation, arbitration or administrative proceedings that could have a material adverse effect on the Group's financial condition or results of operations. From time to time, the Group may be subject to various claims and legal actions arising in the ordinary course of business.

RECOGNITION AND AWARDS

The Group has received a number of recognitions and awards for its production of customers' book titles around the world including:

No.	Award	Product	Issuer	Year of Issue
1	Vendor of the Year	–	Infinitas Learning Group	2010
2	Best of Category – Benny Award in Cookbooks	Hardcover title on Southeast Asian street food published by a U.K. based publishing group	Printing Industries of America, Inc. – Premier Print Awards	2010
3	Gold Award in Cookbooks	Hardcover title on South Asian cuisine published by an Australian based publishing group	National Gold Ink Awards	2010
4	Gold Award in Hardcover Books	Hardcover photography title published by a publishing group based in Germany	National Gold Ink Awards	2010

Notes:

1. Infinitas Learning Group, formerly the education division of Wolters Kluwer, is a European provider of teaching and learning resources. It operates in seven countries across Europe and has agents around the world. To receive recognition as the Global Vendor of the Year, their vendors must ensure the on time delivery and the quality of the products produced with the percentage of defects being less than 5%.

2. Printing Industries of America, Inc. is a non-profit trade association which advocates for the U.S. printing industry. Its purpose is to provide representation, training, education, research, and publications to the printing industry. The Premier Print Award Competition, which began in 1950 as the Graphics Arts Awards Competition, recognises the highest quality printed products in various categories from around the world. Only the most worthy products receive Awards of Recognition, Certificates of Merit, and the highest honor—the Benny statue. The Benny is recognised by professionals within the printing industry as a symbol for excellence.

3. The National Gold Ink Awards is an annual multi-category print competition which is awarded by North American Publishing Company, a U.S.-based operator of magazine, trade shows and online services which was established in 1958. The Gold Ink Awards were launched in 1990 and is open to all creators and producers of printed materials. Winners receive Gold, Silver and Bronze prizes in each category.

NO COMPETING INTEREST OF THE DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

Each of the Directors and the substantial shareholders of the Company has confirmed that he/she/it does not have any interests in a business apart from the Group's business which competes or is likely to compete with the Group.

Pursuant to the Director's service agreement entered into by each executive Director, each executive Director has undertaken to the Company that he/she will not (whether as a shareholder, director, employee, partner, agent or otherwise, but excluded the holding by the executive Director of not exceeding 5% of the shares or warranties in any company the shares of which are listed on a recognised stock exchange) either alone or in conjunction with any other person directly or indirectly at any time during the term of the Director's service agreement and within twelve months from the date of expiry or sooner determination thereof, carry on or be engaged in any business or activity which competes or is likely to compete with the business of any member of the Group in the territories where any member of the Group carry on its business.