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CHANGGANG DUNXIN ENTERPRISE COMPANY LIMITED
長港敦信實業有限公司

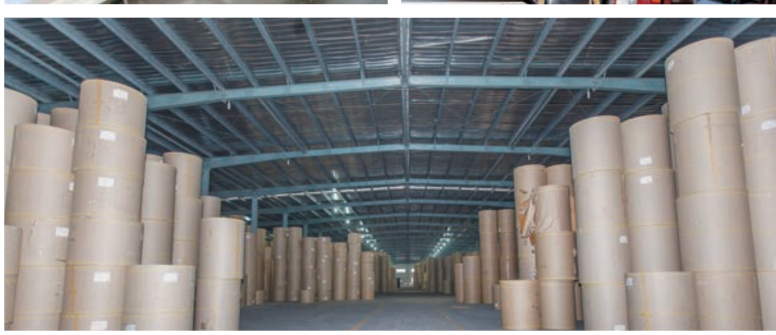
(Incorporated in the Cayman Islands with limited liability)

Stock code : 2229










BY WAY OF PLACING AND PUBLIC OFFER

Sole Sponsor

SUNWAH KINGSWAY
新華滙富

Kingsway Capital Limited

Joint Bookrunners and Joint Lead Managers

SUNWAH KINGSWAY
新華滙富

Kingsway Financial Services Group Limited

SBI China Capital 軟庫中華金融服務有限公司 SBI China Capital Financial Services Limited

SBI China Capital Financial Services Limited

If you are in doubt about any contents of this prospectus, you should obtain independent professional advice.

CHANGGANG DUNXIN ENTERPRISE COMPANY LIMITED
長港敦信實業有限公司

(Incorporated in the Cayman Islands with limited liability)

LISTING ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

BY WAY OF PLACING AND PUBLIC OFFER

Total number of Offer Shares	:	**248,200,000 Shares**
Number of Placing Shares	:	**223,380,000 New Shares (subject to reallocation)**
Number of Public Offer Shares	:	**24,820,000 New Shares (subject to reallocation)**
Offer Price	:	**HK$1.4 per Offer Share (plus brokerage of 1%, a SFC transaction levy of 0.003% and a Stock Exchange trading fee of 0.005%, payable in full on application in Hong Kong dollars and subject to refund)**
Nominal value	:	**HK$0.01 each**
Stock code	:	**2229**

Sole Sponsor

Kingsway Capital Limited

Joint Bookrunners and Joint Lead Managers

Kingsway Financial Services Group Limited

SBI China Capital Financial Services Limited

Co-Lead Managers

Sanfull Securities Limited

Infast Brokerage Limited

Astrum Capital Management Limited

China Investment Securities International Brokerage Limited

Quam Securities Company Limited

Great Roc Capital Securities Limited

Hong Kong Exchange and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VII to this prospectus, has been registered with the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong. The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

Prior to making an investment decision, prospective investors should carefully consider all the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors" of this prospectus.

Prospective investors of the Offer Shares should note that the Sole Sponsor (on behalf of the Underwriters), is entitled to terminate the obligations of the Underwriters under the Underwriting Agreements by giving notice in writing to the Company upon the occurrence of any of the events set forth under the paragraph headed "Grounds for termination" of the sub-section headed "Underwriting arrangements and expenses" in the section headed "Underwriting" of this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date.

16 June 2014

Latest time to complete electronic applications under **HK eIPO White Form** service through the designated website at **www.hkeipo.hk** *(Note 2)*	11:30 a.m. on 19 June 2014
Application lists open *(Note 3)*	11:45 a.m. on 19 June 2014
Latest time for lodging **WHITE** and **YELLOW** Application Forms and giving **Electronic Application Instructions** to HKSCC *(Note 4)*	12:00 noon on 19 June 2014
Latest time to give **Electronic Application Instructions** to HKSCC *(Notes 3 and 4)*	12:00 noon on 19 June 2014
Application lists close	12:00 noon on 19 June 2014
Announcement of the indication of the level of interest under the Placing, the results of applications of the Public Offer, and the level and the basis of allocation of the Public Offer Shares to be published on the website of the Company at **www.dxwj.com/** *(Note 5)* and the website of the Stock Exchange at **www.hkexnews.hk** *(Note 6)*	25 June 2014
Results of allocation in the Public Offer (with successful applicants' identification document numbers or Hong Kong business registration numbers *(Note 7)*, where appropriate) to be available through a variety of channels, as described in the sub-section headed "Publication of results" in the section headed "How to Apply for the Public Offer Shares" to this prospectus from	25 June 2014
Results of allocations in the Public Offer to be available at **www.tricor.com.hk/ipo/result** with a "search by ID" function	25 June 2014
Despatch of **HK eIPO White Form** e-Auto refund payment instructions/ despatch/collection of refund cheques *(Notes 7, 8 and 10)* in respect of wholly or partially unsuccessful applications under the Public Offer on or before	25 June 2014
Despatch/collection of Share certificates *(Notes 9 and 10)* in respect of wholly or partially successful applications pursuant to the Public Offer on or before	25 June 2014
Dealings in Shares on Main Board to commence	9:00 a.m. on 26 June 2014

Notes:

1. All times and dates refer to Hong Kong times and dates.

2. You will not be permitted to submit your application to the HK eIPO White Form Service Provider through the designated website at **www.hkeipo.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

3. If there is a "**black**" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. to 12:00 noon on 19 June 2014, the application lists will not be open on that day. Particulars of the arrangements are set forth under the sub-section headed "Effect of bad weather on the opening of the application lists" in the section headed "How to Apply for the Public Offer Shares" of this prospectus. If the application lists do not open and close on 19 June 2014, the dates mentioned in this section headed "Expected Timetable" may be affected. A press announcement will be made by the Company in such event.

4. Applicants who apply for the Public Offer Shares by giving **Electronic Application Instructions** should refer to the sub-section headed "Applying by giving Electronic Application Instructions to HKSCC via CCASS" in the section headed "How to apply for the Public Offer Shares" of this prospectus.

5. None of the website or any of the information contained in the website forms any part of this prospectus.

6. The announcement will be available for viewing on the "Main Board — Allotment Results" page on the Stock Exchange's website at **www.hkexnews.hk** on 25 June 2014.

7. Part of the Hong Kong identity card number/passport number of an applicant or, if there are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by the relevant applicant may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purpose. The banker of the relevant applicant may require verification of his/her Hong Kong identity card number/passport number before encashment of the refund cheque. Inaccurate completion of Hong Kong identity card number/passport number may lead to delay in encashment of, or may invalidate, the refund cheque.

8. E-auto refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications under the Public Offer.

9. Certificates for the Offer Shares will become valid evidence of title with effect from 8:00 a.m. on the Listing Date provided that (i) the Share Offer has become unconditional in all respects and (ii) the right of termination as described in the paragraph headed "Grounds for termination" of the sub-section headed "Underwriting arrangements and expenses" in the section headed "Underwriting" of this prospectus has not been exercised and has lapsed.

10. Applicants who have made an application using **WHITE** Application Forms for 1,000,000 or more Public Offer Shares under the Public Offer and have provided all information required by the Application Form may collect their refund cheque(s) and/or share certificate(s) from the Hong Kong Share Registrar between 9:00 a.m. to 1:00 p.m. on 25 June 2014. Applicants being individuals who opt for personal collection may not authorise any other person to make collection on their behalf. Applicants being corporations must attend through their authorised representatives bearing letters of authorization from the corporations stamped with their chops. Both individuals and authorised representatives of corporations must produce, at the time of collection, evidence of identity and/or (where applicable) authorization documents acceptable and satisfactory to the Hong Kong Share Registrar.

    If an applicant is using a **YELLOW** Application Form or giving **Electronic Application Instructions**, the relevant arrangements are set out in the sub-section headed "Despatch/Collection of share certificates and refund monies" in the section headed "How to apply for the Public Offer Shares" of this prospectus.

    Uncollected share certificates and refund cheques will be despatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant applications. Further information is set out in the sub-sections headed "Despatch/ Collection of share certificates and refund monies" and "Circumstances in which you will not be allocated Public Offer Shares" in the section headed "How to Apply for the Public Offer Shares" of this prospectus.

You should rely only on the information contained in this prospectus and the related Application Forms to make your investment decision. The Company has not authorised any person to provide you with any information that is different from what is contained in this prospectus and the related Application Forms. Any information or representation not made in this prospectus and the related Application Forms must not be relied upon on by you as having been authorised by the Company, the Directors, the Sole Sponsor, the Joint Bookrunners and Joint Lead Managers, the Underwriters, any of their respective directors, officers, employees, agents, representatives or affiliates, or any other person or party involved in the Share Offer.

CONTENTS

Page

This summary aims to give you an overview of the information contained in this prospectus and should be read in conjunction with the full text of this prospectus. As it is only a summary, it does not contain all the information that may be important to you. You should read the prospectus in its entirety before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks relating to investment in the Offer Shares are set out in the section headed "Risk Factors" of this prospectus. You should read that section carefully before making any decision to invest in the Offer Shares.

BUSINESS

Business model

The Group is a manufacturer principally engaged in the production and sale of paperboard and related downstream paper and packaging products in the PRC, including kraftlinerboard, white top linerboard and high performance corrugated medium.

All of the Group's products are for direct sales in the PRC with primary focus in Fujian Province, which accounts for over 90% of the Group's revenue for the Track Record Period. According to information provided by Fujian Province Paper Association (福建省紙業協會)*Note* , the Directors believe the Group was the only white top linerboard producer in Fujian Province as at the Latest Practicable Date. The Group owns and operates two production plants in Zhangzhou, Fujian Province, with an aggregate annual production capacity of approximately 209,600 tonnes of paperboard, 61,600,000 sq.m. of corrugated medium board and box and 173,448,000 sets of poker cards.

Products

The Group's principal products are paperboards, including kraftlinerboard, white top linerboard and high performance corrugated medium. It also produces corrugated medium board and box and poker card products. Kraftlinerboard is a three-ply sheet of unbleached linerboard, while white top linerboard is a type of linerboard comprising a three-ply sheet with one layer of white surface. High performance corrugated medium is a two-ply sheet of test linerboard.

A corrugated medium board mainly consists of a fluted high performance corrugated medium surfaced by one or two flat linerboards, which can be die-cut into the required shape and size, then folded and glued to form a corrugated medium box (commonly known as carton box).

The Group's poker card products are classified into two major types: own-brand (which are marketed under various trade marks including "Dunxin" (敦信), "Rizer" (標王) and "Shui Xian Hua" (水仙花)); and customers' orders.

Note: Fujian Province Paper Association is an industry organization found by a group of local manufacturers in 1995. In 2008, the Department of Civil Affairs of Fujian Province approved Fujian Province Paper Association as a provincial level industry organization. It acts as a communication channel between the Fujian government and the local industry players. It is also a council member of China Paper Association, the national paper and paperboard industry organization in the PRC.

The following set forth a breakdown of the Group's revenue and gross profit margin by products during the Track Record Period:

	Year ended 31 December					
	2011		2012		2013	
	Revenue	Gross profit margin	Revenue	Gross profit margin	Revenue	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
(i) Paperboard						
— White top linerboard	342,549	16.4	290,583	17.5	278,355	17.0
— Kraftlinerboard	196,226	16.2	200,201	17.5	178,034	18.3
— High performance corrugated medium	206,915	16.9	295,739	16.1	296,448	15.4
(ii) Other paper products						
— Corrugated medium board and box	107,174	32.7	112,814	32.7	127,260	32.4
— Poker cards	121,015	41.4	147,167	39.2	144,526	34.8
Total	973,879	21.4	1,046,504	21.8	1,024,623	21.2

The following table set out the average selling prices of the Group's products for the Track Record Period:

	Year ended 31 December		
	2011	2012	2013
	RMB	*RMB*	*RMB*
(i) Paperboard (per tonne)			
— White top linerboard	5,247	4,851	4,434
— Kraftlinerboard	4,491	4,310	3,789
— High performance corrugated medium	4,046	3,797	3,437
Average selling price for all paperboard	4,657	4,269	3,841
(ii) Other paper products			
— Corrugated medium board and box (per sq.m.)	4.38	4.28	3.87
— Poker cards (per set)	1.06	0.91	0.86

Note: Average selling prices represent the revenue for the year divided by the total sales volume for the year.

The average unit selling prices of all the Group's paperboard products decreased by approximately 8.3% for the year ended 31 December 2012 and further decreased by approximately 10.0% for the year ended 31 December 2013. The decreases were mainly due to (1) an increase in percentage of contribution from low selling price products of high performance corrugated medium from approximately 31.9% for year ended 31 December 2011 to approximately 42.3% for the year ended 31 December 2012 and further to approximately 44.0% for the year ended 31 December 2013; (2) a decrease in average unit purchase cost of waste paper of approximately 15.0% for the year ended 31 December 2012 and approximately 10.6% for the year ended 31 December 2013; and (3) the tough business environment as reflected in the general decline in market prices for the Track Record Period.

For further details of the products of the Group and financial information relating thereto, please refer to the sub-section headed "Products" in the section headed "Business" and the sub-section headed "Principal income statement components" in the section headed "Financial Information" of this prospectus.

Customers

The Group has a broad customer base in the PRC, principally in Fujian Province. Its customers include manufacturers, trading companies, orchards and retailers. For the year ended 31 December 2013, the Group had about 143 customers, approximately 120 of whom had trading relationship with the Group of at least three years. The Group's paperboard products are primarily sold to local paper container and packaging product manufacturers. The major customers of the Group's corrugated medium box products include orchards and food processing factories. The Group's poker card products are mainly sold to trading companies and retailers. For the Track Record Period, the Group's five largest customers accounted for approximately 12.8%, 15.9% and 14.6% of its total revenue respectively.

The Group adopts cost plus pricing policy. Principal factors for determination of product price include direct manufacturing costs, operating overhead, market demand and pricing of similar products. The Group revises product pricing with reference to updated costing information for new sales orders on a monthly basis. For further details on the Group's customers and geographical profile, please refer to the sub-section headed "Sales and Marketing" in the section headed "Business" of this prospectus.

Production facilities

The Group operates two production plants at Guanshan Industrial Park and Yanxi Industrial Park in Changtai County, Zhangzhou, Fujian Province.

Guanshan Production Plant has a total site area of about 156,000 sq.m. and is equipped with three paperboard production lines, one for linerboard products and two for high performance corrugated medium, and ancillary production facilities including coal-fired co-generation power plant and waste water treatment unit. It has an aggregate annual production capacity of approximately 209,600 tonnes of paperboard (consisting of a self-constructed paperboard production line of approximately 109,600 tonnes and a corrugated medium production line of approximately 100,000 tonnes acquired in 2013).

Yanxi Production Plant has a total site area of approximately 21,700 sq.m., with a workshop for corrugated medium box and another for poker cards. Its major facilities include a computerized high performance corrugated medium board production line, automated high resolution printing machine for printing of poker cards and outer surface of corrugated medium board and an integrated poker card assembly and packaging production line. It has an aggregate annual production capacity of about 61,600,000 sq.m. of corrugated medium board and box and 173,448,000 sets of poker cards.

The following set out a summary of the utilisation rate and production volume of the Group's major production lines for the Track Record Period:

		Year ended 31 December					
		2011		2012		2013	
	Unit	Production Volume	Utilisation rates	Production Volume	Utilisation rates	Production Volume	Utilisation rates
Guanshan Production Plant							
— Linerboard	'000 tonnes	108	99%	107	98%	108	99%
— High performance corrugated medium	'000 tonnes	N/A	N/A	80	80%	85	85%
Yanxi Production Plant							
— Corrugated medium board and box	'000 sq.m.	24,500	40%	26,016	42%	32,682	53%
— Poker cards	'000 sets	111,500	66%	158,610	91%	167,000	96%

Raw materials and suppliers

Major materials for the Group's products are waste paper, raw paper and pulp. The Group also procures corrugated medium board as well as various chemicals for its production. The following table set out their respective percentages in the Group's total raw material purchase costs for the Track Record Period:

	Year ended 31 December		
	2011	2012	2013
	%	%	%
Waste paper	60.0	57.5	53.0
Raw paper	18.4	18.7	22.1
Pulp	11.3	12.1	12.0
Others	10.3	11.7	12.9
Total	100.0	100.0	100.0

The following table set out the average unit purchase cost of the Group's major raw materials for the Track Record Period:

	Year ended 31 December		
	2011	2012	2013
	RMB/tonne	*RMB/tonne*	*RMB/tonne*
Waste paper	1,698	1,444	1,291
Raw paper	4,292	4,010	3,628
Pulp	4,442	4,341	4,569

The Group has a diversified base of suppliers for its raw materials. For the Track Record Period, the aggregate purchase from the five largest suppliers accounted for approximately 71.8%, 65.7% and 45.9% of the Group's total purchase costs respectively. For the two years ended 31 December 2012, two of the Group's major suppliers of raw materials (including waste paper and pulp) were connected suppliers, namely Xin Yuan and Zhau Hau Trading. To avoid reliance on such connected suppliers, the Group ceased to place purchase orders (1) for waste paper with Xin Yuan and Zhau Hau Trading since February 2013 and July 2013 respectively; and (2) for pulp with Xin Yuan since February 2012. As at the Latest Practicable Date, all suppliers of the Group are Independent Third Parties. For further details on the Group's suppliers, please refer to the sub-section headed "Suppliers" in the section headed "Business" of this prospectus.

COMPETITIVE STRENGTHS

The Directors consider that the success of the Group and its potential for future growth are attributable to the following strengths:

- Proximity to customers
- Established market position with proven product strategy
- Capability of achieving full integration of paper product production chain
- Sound leadership of management team

FINANCIAL INFORMATION

Selected Combined Statements of Comprehensive Income and Statements of Financial Position Line Items

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	973,879	1,046,504	1,024,623
Gross profit	208,245	228,060	217,297
Profit for the year	136,189	138,991	142,701
Total comprehensive income attributable for the year	136,190	138,991	142,719

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Current assets	306,410	609,670	458,722
Current liabilities	227,493	394,192	244,053
Net current assets	78,917	215,478	214,669
Net assets	270,739	409,730	552,449
Total assets	500,232	803,922	796,502

Principal factors affecting the Group's results of operations and financial condition

The principal factors affecting the Group's results of operations and financial condition include the following:

1. ***Volume of local manufacturing and trading activities***

The primary market of the Group's products is Fujian Province, the PRC. The volume of its manufacturing and trading activities affects the demand for paper packaging articles, which in turn impact on the Group's business performance, results of operations and financial condition.

2. ***Cost of raw materials***

The principal raw materials for the Group's products include waste paper, pulp and raw papers, which account for a majority of its purchase costs.

Waste paper is the most important component in the Group's cost structure. As the prices of waste paper, pulp and other raw papers may fluctuate from time to time, the Group controls its cost through improvement in production technique and product formula. If the Group is unable to pass on any increased raw materials costs to its customers, its profit margins will be affected.

3. ***Product offering***

Sales of paperboard products are the Group's principal revenue source. Currently, the Group offers a range of paperboard products, including white top linerboard, kraftlinerboard and high performance corrugated medium with various basis weight. The Group's results of operation depend on its ability to offer paperboard products which meet the demand of the market.

The Group's other paper products, in particular poker cards, deliver relatively high gross profit margin despite their relatively low revenue contribution. The ability of the Group to develop high quality poker card products to capture more market share will affect its business performance.

4. ***Production volume and efficiency***

The Group's business performance is highly dependent on its ability to increase its production volume and maintain high utilization rates at its production facilities.

KEY FINANCIAL RATIOS

The following tables set forth the Group's key financial ratios for the Track Record Period:

	Year ended 31 December		
	2011	2012	2013
Revenue growth	N/A	7.5%	(2.1)%
Gross margin	21.4%	21.8%	21.2%
Net profit margin before interest and tax	19.5%	18.8%	19.8%
Return on equity	55.0%	40.9%	29.7%
Return on assets	25.9%	21.3%	17.8%
Trade and bills receivables turnover days	59.3	79.4	88.0
Inventory turnover days	39.6	34.9	26.2
Trade and bills payables turnover days	59.2	69.8	75.0

	As at 31 December		
	2011	2012	2013
Current ratio	1.3	1.5	1.9
Gearing ratio	41.5%	36.4%	18.6%
Debt to equity ratio	35.8%	(26.8)%	(12.8)%

Revenue growth

The Group exhibited a slight decline of 2.1% in revenue growth for the year ended 31 December 2013. Despite increase in sales volume of all of the Group's products during the Track Record Period, the revenue growth slowed down as its paperboard production capacity approached limit and the average unit selling prices of its products decreased, mainly as a result of the tough business environment.

Gross margin

For the Track Record Period, the Group maintained a stable gross profit margin due to its adoption of cost plus pricing policy and effective control on the key raw material costs such as waste paper, pulp and raw papers, so that the Group was able to pass the increase in raw material costs to its customers.

For details on the analysis of the key financial ratios, please refer to the sub-section headed "Key Financial Ratios" in the section headed "Financial Information" of this prospectus.

CONTROLLING SHAREHOLDERS

Immediately following the completion of the Share Offer and the Capitalisation Issue, Mr. Zheng, the Chairman and an executive Director, will be beneficially interested in 558,450,000 Shares, representing approximately 56.25% of the enlarged issued share capital of the Company. For further details, please refer to the section headed "Substantial and Controlling Shareholders".

OFFERING STATISTICS

Market capitalisation at Listing:	HK$1,389.9 million
Offer size:	248,200,000 Offer Shares
Offer Price:	HK$1.4 per Share
Board lot:	2,000 Shares
Offering structure:	90% Placing and 10% Public Offer (subject to reallocation)
Unaudited pro forma adjusted combined net tangible asset value per Share:	HK$1.03 (The unaudited pro forma adjusted combined net tangible asset value per Share is calculated after making the adjustments referred to in Appendix II headed ”Unaudited Pro Forma Financial Information” to this prospectus and on the basis of a total of 992,800,000 Shares expected to be in issue following completion of the Share Offer and the Capitalisation Issue)

LISTING EXPENSES

The Directors estimate that the total listing expenses amount to approximately RMB33.1 million. In accordance with HKAS32, listing expenses that are wholly directly attributable to the issue of Shares in the Share Offer, including underwriting commission of approximately RMB18.6 million, would be accounted for as a deduction from equity when the Share Offer is completed. The remaining costs of RMB14.5 million include mainly the fees of the Sole Sponsor, legal advisers and reporting accountants and are related to the listing of Shares in issue as at the Latest Practicable Date and Shares to be issued under the Capitalization Issue and the Share Offer, and are charged to share premium and profit or loss respectively. The table below set forth the allocation of listing expenses:

	During the Track Record Period	Until the completion of the Share Offer	Total amounts
	RMB in million	*RMB in million*	*RMB in million*
Listing expenses recognised or to be recognised as expenses in the statements of comprehensive income	8.0	6.5	14.5
Listing expenses recognised or to be recognised as prepayment, which would be offset against share premium upon Listing	2.6	16.0	18.6
Total	**10.6**	**22.5**	**33.1**

Note: Listing expenses of RMB8 million recognised in the statements of comprehensive income during the Track Record Period were reflected in professional expenses and listing expenses under administrative expenses.

DIVIDEND POLICY

Presently, the Company does not maintain any fixed dividend ratio and intends to declare dividend in such amount based on its profitability, financial conditions, cash requirements and level of distribution reserves in each financial year. In view of the capital requirements of the Company's future plan, it does not intend to pay any dividend to the Shareholders in the foreseeable future. For further details of the dividend policy of the Company, please refer to the sub-section headed "Dividend policy" in the section headed "Financial Information" of this prospectus.

RECENT DEVELOPMENT

The financial and operational performance of the Group is dependent on, among others, the market conditions of the paperboard and related downstream paper and packaging products in the PRC.

Based on the Group's unaudited financial statements, which have been reviewed by the Company's reporting accountants, the Group's revenue and gross profit margin for the four months ended 30 April 2014 were approximately RMB349.7 million and approximately 21.58% respectively. The Directors have confirmed that there is no material change in respect of the utilisation rate of the Group's production facilities, raw material costs and selling prices of the Group's products after the Track Record Period.

The Directors have confirmed that there has been no material adverse change in the financial or trading position or prospects of the Group since 31 December 2013 and up to the date of this prospectus, and there is no event since 31 December 2013 and up to the date of this prospectus which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus, in each case except as otherwise disclosed herein.

RISK FACTORS

The risks associated with the Group's operations and investment in Shares are set out in the section headed "Risk Factors". You should read that entire section carefully before you decide to invest in the Offer Shares. The major risk factors in relation to the Group's operation are set out below:

- any unfavorable changes in prices of raw materials may have negative impact on the Group's operations
- the extension of credit periods to the Group's customers may adversely affect its financial condition, business performance and operating cash flow
- the Group's business performance has a close tie with the economy of Fujian Province

LEGAL AND REGULATORY MATTERS

The Directors have confirmed that, during the Track Record Period and up to the Latest Practicable Date, there were no litigation or arbitration proceedings pending or threatened against the Group that could have a material adverse effect on its financial condition and results of operation. For further details of the legal and regulatory matters of the Group, please refer to the sub-section headed "Legal and regulatory matters" in the section headed "Business" of this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

The net proceeds of the Share Offer is estimated to be approximately HK$324.0 million, after deducting the underwriting fees and estimated expenses payable by the Company in relation thereto.

By leveraging on its expertise and experience in production of paperboard and other paper products, the Group intends to implement expansion plans with funding from the net proceeds of the Share Offer, borrowings and internal financial resources. The following table summaries the Group's expansion plans and development status as at the Latest Practicable Date:

			Funding sources			
Plan	**Government approvals required**	**Budget**	**Net proceeds of Share Offer**	**Bank borrowings & internal financial resources**	**Construction period and expected commencement date**	**Latest development status**
• Construction of a new paperboard line for introduction of coated white board for expansion of the paperboard product portfolio and development of other downstream paper products	• Approval from Changtai County Development and Reform Bureau of Fujian Province *(Note)* (Received on 2 April 2014) • Approval from Environmental Protection Administration *(Note)* regarding the environmental impact on construction and operations of new project (Expected time required: 60 days)	Total capital expenditure of RMB499.6 million including: • approximately RMB99.2 million for construction of production workshop and warehouses; and • remaining for purchase and installation of machinery and equipment.	Approximately HK$247.4 million, representing about 76.3% of the net proceeds	Approximately HK$384.8 million (of which approximately HK$224.5 million will be financed out of internal resources and the remaining HK$160.3 million by bank borrowings)	• 12 to 14 months • Second half of 2014	• Feasibility study completed and finalization of budget • Expects to commence environment assessment exercise and make application for approvals from government authorities in second half of 2014
• Development of high quality poker card products to expand the Group's market share by the setting up of an additional poker card production line	• Approval from Changtai County Development and Reform Bureau of Fujian Province *(Note)* (Received on 1 April 2014) • Approval from Environmental Protection Administration *(Note)* regarding the environmental impact on construction and operations of new project (Expected time required: 60 days)	RMB43.9 million for purchase and installation of printing and assembly machine	Approximately HK$55.7 million, representing about 17.2% of the net proceeds	—	• 5 months • First half of 2015	• Finalization of budget
• Development of paper consumer product packaging materials to expand the Group's packaging product offering with installation of new packaging production line	• Approval from Changtai County Development and Reform Bureau of Fujian Province *(Note)* (Received on 1 April 2014) • Approval from Environmental Protection Administration *(Note)* regarding the environmental impact on construction and operations of new project (Expected time required: 60 days)	RMB16.5 million for purchase and installation of printing machine and integrated production facilities	Approximately HK$20.9 million, representing about 6.5% of the net proceeds	—	• 5 months • First half of 2015	• Finalization of budget

Note: As advised by the Group's PRC legal adviser, Dacheng Law Offices, Changtai County Development and Reform Bureau of Fujian Province and Environmental Protection Administration are the competent and appropriate authorities to approve the aforesaid expansion projects under the applicable PRC laws and regulations.

In this prospectus, unless the context otherwise requires, the respective terms and expressions shall have the meanings set out below. Certain other terms are explained in the section headed "Glossary of Technical Terms" of this prospectus.

"Application Form(s)"	**WHITE** Application Form(s), **YELLOW** Application Form(s) and **GREEN** Application Form(s) relating to the Public Offer or, where the context so requires, any of them
"Articles"	the articles of association of the Company conditionally adopted on 11 June 2014 which shall become effective upon the Listing, a summary of which is set out in Appendix IV to this prospectus, and as amended from time to time
"AQSIQ"	the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫總局)
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Beijing IUUI Network"	Beijing IUUI Network Sci-Tech Co., Ltd. (北京恩佑運達網絡科技有限公司), an information service provider offering various kind of services in China paper industry and market, including statistical data, news and analysis
"Board"	the board of Directors
"business day"	any day (other than a Saturday, a Sunday or a public holiday in Hong Kong) on which banks in Hong Kong are open for normal banking business
"BVI"	the British Virgin Islands
"CAGR"	compound annual growth rate
"Capitalisation Issue"	the issue of Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of the Company referred to in the paragraph headed "Written resolutions of the Shareholders passed on 11 June 2014" in Appendix VI to this prospectus
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant

"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Clearing Participant or a CCASS Custodian Participant or a CCASS Investor Participant
"Charmfield"	Charmfield Investments Limited (全輝投資有限公司), a company incorporated in Hong Kong with limited liability on 13 April 2012 and a wholly-owned subsidiary of the Company
"chief executive"	the chief executive (as defined in the SFO) of the Company
"China" or "PRC"	the People's Republic of China (and except where the context requires, references in this prospectus to the PRC or China do not include Hong Kong, the Macau Special Administration Region of the People's Republic of China and Taiwan)
"China Paper Association"	The China Paper Association (中國造紙協會), which was founded in Beijing in 1992 and officially registered with the Ministry of Civil Affairs under the guidance of relevant departments of the State Council, serves as a bridge between the government and the paper industry to protect the interest of the industry, as well as to enhance the progress and continuous development of the industry
"Company"	Changgang Dunxin Enterprise Company Limited (長港敦信實業有限公司), a company incorporated in the Cayman Islands with limited liability on 27 August 2012
"Companies Law"	the Companies Law, Cap 22 (Law 3 of 1961 as consolidated and revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Companies (WUMP) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Controlling Shareholder(s)"	Mr. Zheng, Pure Sheen, Radiant Prestige and Radiant Path or any of them

"Covenantors"	the Controlling Shareholders, Gang Bo, Mr. Kung, Man Hong, Ms. Chen, Sebert and Ms. Hui
"Deed of Non-Competition"	the deed of non-competition entered into on 11 June 2014 by the Controlling Shareholders in favour of the Group as further described in the sub-section headed "Deed of Non-Competition" under the section headed "Substantial and Controlling Shareholders"
"Director(s)"	the director(s) of the Company
"Dong Xin"	Dongxin (Zhangzhou) Paper Industrial Co., Ltd.* (東信(漳州)紙業有限公司), a company established in the PRC with limited liability on 19 April 2000 and beneficially owned by an Independent Third Party
"Dunxin BVI"	Tun's Paper Group Holdings Limited (敦信紙業(控股)有限公司), a company incorporated in BVI with limited liability on 26 September 2011 and a wholly-owned subsidiary of the Company
"Dunxin HK"	Tun's Paper (Holdings) Limited (敦信紙業(集團)有限公司), a company incorporated in Hong Kong with limited liability on 23 June 2011 and a wholly-owned subsidiary of the Company
"Dunxin PRC"	Dunxin Paper Co., Ltd (敦信紙業有限責任公司), a company established in the PRC with limited liability on 15 November 2000 and a wholly-owned subsidiary of the Company
"EIT Law"	the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法)
"Electronic Application Instruction(s)"	instruction given by a CCASS Participant electronically via CCASS to HKSCC, being one of the methods to apply for the Public Offer Shares
"FAO"	the Food and Agriculture Organization of the United Nations
"FAOSTAT"	the statistical database of FAO, which is an internet database containing time-series and cross sectional data relating to agriculture, forestry, fisheries, nutrition and food aid, and produces publications, working papers and statistical yearbooks that cover food security, prices, production and trade and agri-environmental statistics
"Gang Bo"	Gang Bo Limited (港博有限公司), a company incorporated in BVI with limited liability on 10 January 2012 and wholly owned by Mr. Kung,and is a substantial Shareholder

* *for identification only*

"GDP"	gross domestic product
"GREEN Application Form(s)"	the application form(s) to be completed by the HK eIPO White Form Service Provider
"Group"	the Company and its subsidiaries as at the date of this prospectus or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, such subsidiaries
"Guanshan Production Plant"	the Group's production plant for paperboard products at Guanshan Industrial Park, Changtai County, Zhangzhou, Fujian Province, the PRC
"HK eIPO White Form"	the application for Public Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website at www.hkeipo.hk
"HK eIPO White Form Service Provider"	the HK eIPO White Form service provider designated by our Company, as specified on the designated website at www.hkeipo.hk
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"HKFRSs"	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
"Hong Kong" or "HK" or "HKSAR"	the Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong Share Registrar"	Tricor Investor Services Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, the share registrar of the Company in Hong Kong
"Independent Third Party(ies)"	party(ies) who is/are independent of and not connected with any directors, chief executive or substantial shareholders of the Company or its subsidiaries or any of their respective associates
"Joint Bookrunners and Joint Lead Managers"	Kingsway Financial Services and SBI China

"Kingsway Capital" or "Sole Sponsor"	Kingsway Capital Limited, a licensed corporation under the SFO authorised to conduct type 6 regulated activities under the SFO
"Kingsway Financial Services"	Kingsway Financial Services Group Limited, a licensed corporation under the SFO authorised to engage in type 1 (dealing in securities), type 2 (dealing in future contracts), type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO, one of the Joint Bookrunners and Joint Lead Managers of the Share Offer
"km"	kilometre(s)
"Latest Practicable Date"	11 June 2014, being the latest practicable date for ascertaining certain information contained in this prospectus prior to the publication of this prospectus
"Listing"	the listing of Shares on Main Board
"Listing Committee"	the Listing Committee of the Stock Exchange
"Listing Date"	the date, expected to be on or before 26 June 2014, on which dealings in Shares commence on Main Board
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
"Lung Kei"	Lung Kei (International) Investment Limited (龍其(國際)投資有限公司) (formerly known as Zhau Hau (International) Investment Limited (洲豪(國際)投資有限公司)), a company incorporated in Hong Kong with limited liability on 7 June 2011 and a wholly-owned subsidiary of the Company
"Main Board"	the Main Board of the Stock Exchange
"Man Hong"	Man Hong International Investment Limited (曼紅國際投資有限公司), a company incorporated in BVI with limited liability on 26 September 2011 and wholly owned by Ms. Chen
"Memorandum"	the memorandum of association of the Company, as amended from time to time, a summary of certain existing provisions of which is contained in Appendix IV to this prospectus
"mm"	millimetre(s)
"m/min" or "m/minute"	metre(s) per minute

"MOFCOM"	the Ministry of Commerce of the PRC (中華人民共和國商務部) or its predecessor, the Ministry of Foreign Trade and Economic Cooperation of the PRC (中華人民共和國對外貿易經濟合作部)
"Mr. Chen"	Mr. Chen Ruomao (陳若茂), an executive Director
"Mr. Kung"	Mr. Kung Kin Mang (龔建猛), the owner of Gang Bo and an Independent Third Party
"Mr. Zheng"	Mr. Zheng Dunmu (鄭敦木), an executive Director and the Chairman of the Company
"Ms. Chen"	Ms. Chen Manhong (陳曼紅), owner of Man Hong and the wife of Mr. Chen Qishi, a member of the senior management of the Group
"Ms. Hui"	Ms. Hui Yuk Man (許鈺敏), the owner of Sebert and an Independent Third Party
"NDRC"	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) or its predecessor, the State Development Planning Commission of the PRC (中華人民共和國國家發展計劃委員會)
"New Issue"	the issue of 248,200,000 new Shares under the Share Offer by the Company at the Offer Price
"New Shares"	the 248,200,000 new Shares being offered at the Offer Price by the Company under the Share Offer
"Offer Price"	the price of HK$1.4 per Offer Share
"Offer Share(s)"	the Placing Shares and the Public Offer Shares
"Placing"	the conditional placing of the Placing Shares by the Placing Underwriters on behalf of the Company, at the Offer Price, with professional, institutional and other investors as further described in the section headed "Structure and Conditions of the Share Offer" of this prospectus
"Placing Shares"	the 223,380,000 New Shares initially offered by the Company for subscription under the Placing (subject to reallocation as described in the section headed "Structure and Conditions of the Share Offer" of this prospectus)
"Placing Underwriters"	the underwriters of the Placing whose names are set forth in the section headed "Underwriting" of this prospectus

"Placing Underwriting Agreement"	the underwriting agreement relating to the Placing to be entered into on or about 20 June 2014 between, among others, the Company, the Sole Sponsor and the Placing Underwriters as further described in the section headed "Underwriting" of this prospectus
"Public Offer"	the offer of the Public Offer Shares by the Company for subscription by members of the public in Hong Kong at the Offer Price for cash, payable in full on application, and subject to the terms and conditions stated in this prospectus and in the related Application Forms as further described in the section headed "Structure and Conditions of the Share Offer" of this prospectus
"Public Offer Shares"	the 24,820,000 New Shares initially offered by the Company for subscription under the Public Offer (subject to reallocation as described in the section headed "Structure and Conditions of the Share Offer" of this prospectus)
"Public Offer Underwriters"	the underwriters of the Public Offer whose names are set forth in the section headed "Underwriting" of this prospectus
"Public Offer Underwriting Agreement"	the underwriting agreement relating to the Public Offer entered into on 13 June 2014 between, among others, the Company, the Sole Sponsor and the Public Offer Underwriters as further described in the section headed "Underwriting" of this prospectus
"Pure Sheen"	Pure Sheen Limited, a company incorporated in BVI on 16 March 2012 and wholly owned by Mr. Zheng, and is a Controlling Shareholder
"Radiant Path"	Radiant Path Limited, a company incorporated in BVI on 9 January 2012 and wholly owned by Mr. Zheng
"Radiant Prestige"	Radiant Prestige Limited, a company incorporated in BVI on 18 January 2012 and wholly owned by Mr. Zheng
"Reorganisation"	the corporate reorganisation of the Group in preparation for the Listing, particulars of which are set forth under the paragraph headed "Group reorganisation" in Appendix VI to this prospectus
"RMB" or "Renminbi"	Renminbi yuan, the lawful currency of the PRC
"SAFE"	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SAIC"	the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)

"SBI China"	SBI China Capital Financial Services Limited, a licensed corporation under the SFO authorised to engage in type 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO, one of the Joint Bookrunners and Joint Lead Managers of the Share Offer
"Sebert"	Sebert Developments Limited, a company incorporated in BVI on 16 March 2012 and wholly owned by Ms. Hui
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
"Share(s)"	share(s) with a nominal value of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of Share(s)
"Share Offer"	the Placing and the Public Offer
"sq.m." or "m^2"	square metre(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it under the Companies Ordinance
"Takeovers Code"	the Code on Takeovers and Mergers of Hong Kong
"Ten Xin"	Tenxin (Zhangzhou) Paper Co., Ltd.* (騰信(漳州)紙業有限公司), a company established in the PRC with limited liability on 12 March 2007 and owned by Mr. Zheng Dunqian (鄭敦遷), an executive Director, and his nephew
"Track Record Period"	the three years ended 31 December 2013
"Tun's HK"	Hong Kong Tun's Paper Limited (香港敦信紙業有限公司), a company incorporated in Hong Kong on 15 April 2005 and wholly owned by Mr. Cheng Tun Hum, an elder brother of Mr. Zheng and Mr. Zheng Dunqian, both executive Directors
"Umpaper"	Shanghai Leadway E-Commerce Co. Ltd. (上海利為電子商務有限公司), an information service provider offering various kind of services in China pulp and paper market, including news and prices, market data, forecast and analysis

* *for identification only*

"Underwriters"	the Placing Underwriters and the Public Offer Underwriters
"Underwriting Agreements"	the Placing Underwriting Agreement and the Public Offer Underwriting Agreement
"US" or "USA"	The United States of America
"US$" or "USD"	United States dollar(s), the lawful currency of the US
"VAT"	value-added tax of the PRC
"WFOE"	wholly foreign-owned enterprise of the PRC
"WHITE Application Form(s)"	the application form(s) for use by the public who require(s) Public Offer Shares to be issued in the applicant's own name
"Xin Yuan"	Fujian Xin Yuan Trading Ltd.* (福建信源工貿有限公司), a company established in the PRC with limited liability on 24 November 2003 and controlled by Mr. Chen Zhong Xing (陳中興), the father and father-in-law of Mr. Chen and Mr. Zheng Dunqian (both executive Directors), respectively
"Yanxi Production Plant"	the Group's production plant for corrugated medium box and poker card products at Yanxi Industrial Park, Changtai County, Zhangzhou, Fujian Province, the PRC
"YELLOW Application Form(s)"	the application form(s) for use by the public who require(s) Public Offer Shares to be deposited directly into CCASS
"Zhau Hau Trading"	Zhau Hau International Trading Co. (洲豪國際貿易公司), an unlimited company registered in Hong Kong and owned as to 51% and 49% by Mr. Xiao Jinzhuan (蕭金專) and Mr. Cheng Tun Hum (鄭敦含) respectively
"Zhong Hai"	Zhong Hai (Hong Kong) Group Investment Limited (中海(香港)集團投資有限公司), a company incorporated in Hong Kong with limited liability on 1 February 2011 and beneficially wholly owned by Mr. Kung
"%"	percent.

For illustration purpose only and unless otherwise specified in this prospectus, conversion of RMB into HK dollars is calculated at the conversion rate of 0.788. No representation is made that the RMB amounts could have been, or could be, converted into HK dollars, or vice versa, at such rates or at any other rate on such date or on any other date.

Any discrepancies in any table between the total shown and the sum of the amounts listed are due to rounding.

English of the Chinese names (marked with "") or words included in this prospectus are for identification purpose only, and should not be regarded as the official English translation of such Chinese names or words. If there is any inconsistency, the Chinese names or words shall prevail.*

The glossary of technical terms contains explanations and definitions of certain terms used in this prospectus in connection with the Group and its business. The terms and their meaning may not correspond to meanings or usage of these terms as used by others.

"basis weight"	It is a measure of the mass per unit of area for papers and paperboards and is expressed in gram(s) per square metre (g/m^2).
"BHKP"	It means bleached hardwood kraft pulp, and is a kind of bleached sulphate or kraft pulp made from hardwood fiber by sulphate process.
"BSKP"	It means bleached softwood kraft pulp, and is a kind of bleached sulphate or kraft pulp made from softwood fiber by sulphate process.
"bleaching" or "bleach"	It is the process for breaking the colored lignin, a natural substance found in tree, away from the pulp to leave white cellulose in paper making process.
"burst index"	It is an indication of bursting strength of a paper and is expressed in Kilo Pascales (kPa) times square metre(s) per gram (m^2/g). Bursting strength of a paper refers to its ability to resist tearing or rupture when pressure is applied on it and is used to measure the load carrying capacity of paper packaging product. A paper with low burst index will tear easily.
"corrugated medium" or "flute" or "fluting"	A sheet of paperboard is shaped into a continuous rolling wave. It comes in different thicknesses, depending on the height of the flutes, and number of flutes. The corrugated sheet is used as cushioning (middle) layer in corrugated medium board, usually described as corrugating medium.
"corrugated medium board"	It is a kind of paperboard made from a combination of sheets of linerboard glued to a corrugated inner layer called fluting or corrugated medium and are assembled in a way which gives the overall structure a better strength than that of each distinct layer. A common example is single wall corrugated medium board, a three layered structure, containing two layers of linerboards and one layer of corrugated medium board in between. It is widely used in the manufacture of corrugated boxes and shipping containers.
"corrugated medium box"	It is made of corrugated medium paperboard and multiple layers may be used.
"die-cutting"	A method of preparation in which a part or container has been cut, slotted, and/or scored by custom-made dies.

"flexo printing"	It means a roll printing technique in which the pattern to be applied is raised above the printing roll.
"GB"	GuoBiao (國標), a collective term for the mandatory national standard character encodings of China; a GB for a particular application usually corresponds to a relevant international standard in the same application.
"GB/T 13024-2003"	GB for quality of linerboard production.
"GB/T 22806-2008"	GB for quality of white top linerboard production.
"GB/T 13023-2008"	GB for quality of corrugated medium, including high performance corrugated medium, production.
"high performance corrugated medium"	According to GB/T 13023-2008, corrugated medium is categorised into three grades in term of physical properties such as ring crush values: Grade 1, 2, 3. Grade 1 corrugated medium is known as high performance corrugated medium, whereas Grade 2 and 3 corrugated medium is classified as standard corrugated medium.
"kraft pulp"	It is fibrous material prepared from wood, cotton, grasses, etc., by chemical or mechanical processes for use in making paper or cellulose products.
"kraft linerboard"	It is paperboard made from kraft pulp produced by a pulping process and is brown in colour.
"linerboard" or "liner"	It is a kind of paperboard with high basis weight and stiffer paper strength generally intended for rigid applications such as corrugated box and corrugated medium board. Linerboard is used for roofing shingle wrap and single-wall baler sacks. Linerboard include kraft linerboard and white top linerboard.
"OCC"	It means old corrugated containers, which is a source of fiber for the production of paperboards and carton boxes.
"offset printing"	It is a printing process that ink will be applied on the plate and transferred onto the paper that passes through a set of printing units each with a different colour.
"paperboard"	It is one of the two subdivisions of paper and generally refers to paper with characteristics of heavier basis weight, thicker and more rigid. Paper sheets with 0.012 inch or more in thickness are generally classified as paperboard. Examples include corrugating medium, chipboard and linerboard.

"pulp"	It is primary raw material used to make paper, including kraft pulp and waste paper pulp and is a fibrous product (solution) produced by mechanical or chemical pulp preparation processes, or a combination of both.
"stacking strength"	Stacking strength measures the ability of a vertical panel to resist bowing, buckling, or collapsing from pressure exerted in line with that panel which is usually expressed in newton metre(s) per gram (Nm/g). This is regulated by varying the linerboard weights, changing flute heights, or both.
"waste paper pulp"	It is pulp made from waste paper such as old newspaper.
"white top linerboard"	It is a kind of paperboard with top skin of bleached kraft fibres on a brown kraft fibre base. It is produced by the same process as kraftlinerboard with the addition of a bleaching stage in the pulping process. This produces a material which is white in appearance but with some loss of strength against the unbleached brown kraftlinerboard.

Potential investors should consider carefully all the information set out in this prospectus and, in particular, should evaluate the following risks associated with an investment in the Company. You should pay particular attention to the fact that the Group conduct operations in the PRC, the legal and regulatory environment of which in some respects may differ from that in Hong Kong. Any of the risks and uncertainties described below could have a material adverse effect on the Group business, results of operations, financial condition or on the trading price of the Shares, and could cause you to lose all or part of your investment.

RISKS RELATING TO THE BUSINESS

Any unfavorable changes in prices of raw materials may have negative impact on the Group's operations

Waste paper is the most important raw material in the Group's production chain. During the Track Record Period, the purchase of waste paper amounted to approximately RMB364.7 million, RMB354.9 million and RMB312.6 million respectively, representing approximately 51.0%, 47.9% and 43.1% of the Group's total purchase costs respectively for the same period.

In addition to waste paper, the Group uses raw paper and pulp in its operations. During the Track Record Period, the total purchase costs of raw paper and pulp amounted to approximately RMB180.1 million, RMB190.1 million and RMB201.5 million respectively, representing approximately 25.2%, 25.7% and 27.8% of the Group's total purchase costs respectively.

The Group also consumes fuels such as wood and coal to generate steam and electricity for production use. During the Track Record Period, the purchase of coal amounted to approximately RMB48.3 million, RMB90.9 million and RMB93.8 million respectively, representing approximately 6.3%, 11.1% and 11.6% of the Group's total cost of sales for the same period respectively.

As the prices of these raw materials are determined from time to time with reference to a number of factors including general economic conditions and their demand and supply situation, they may fluctuate beyond the Group's expectation and control. The Group does not deploy any financial instrument to hedge the price risks of these raw materials. As such, there is no guarantee that the Group is able to procure sufficient raw materials at competitive pricing. In the event that the prices of these raw materials fluctuate under abnormal condition and/or there is shortage in supply, it may result in disruption to the Group's production schedule and could lead to a negative impact on the Group's financial condition and profitability. Furthermore, if the Group fails to shift such increase in raw material costs to its customers, it may adversely affect the Group's profit margin.

The extension of credit periods to the Group's customers may adversely affect its financial condition, business performance and operating cash flow

In response to tough business environment in 2012, the Group extended the credit periods of 11 of its major customers; 2 from 60 days and 9 from 90 days to 120 days to retain its quality customers. The revenue contribution from the 11 major customers with extended credit periods amounted to RMB335.7 million for the year ended 31 December 2012. In the year ended 31 December 2013, the Group continued to maintain its extended credit policy for certain quality customers and further relaxed the credit periods granted to 11 customers, which slowed down the Group's collection of trade receivables to settle its trade payables, resulting in an increase of the trade and bills payables turnover days by 5.2 days for such year. The extension of credit periods has led to the Group's exposure to a greater extent of credit risk and deterioration of its operating cash flows for the same period. As at 30 April 2014, all of the outstanding balances as at 31 December 2013 had been subsequently settled. In the event that any extension of credit period should result in a higher default rate in the future, it would have an adverse impact on the Group's financial condition, business performance and operating cash flows.

The Group's business performance has a close tie with the economy of Fujian Province

The primary market of the Group's products is Fujian Province. During the Track Record Period, sales in Fujian Province accounted for approximately 94.08%, 94.01% and 93.02% of the Group's total revenue respectively, of which approximately 88%, 86% and 86% was derived from sales of paperboard and corrugated medium board and box products respectively.

During the Track Record Period, the average selling prices per tonne of paperboard products were approximately RMB4,657, RMB4,269 and RMB3,841 respectively, and the average selling prices per square metre of corrugated medium board and box products were approximately RMB4.38, RMB4.28 and RMB3.87 respectively. As transportation cost is one of the important factors in the purchase decision for paperboard products, the Group's customers tend to procure packaging articles in local region.

Most of the Group's paperboard and corrugated medium board and box customers during the Track Record Period were manufacturing and trading enterprises and orchards in Fujian Province, in particular Xiamen. As such, the development of Fujian Province's economy has a close tie with the demand for the Group's products and in turn its business performance. In the event there is downturn in manufacturing, trading and plantation activities in Fujian Province, the Group's business performance will be adversely affected.

The Group may not be able to acquire enough raw materials from Independent Third Party suppliers for fulfilling customers' orders in a timely and cost-effective manner

For the two years ended 31 December 2012, the Group relied heavily on connected suppliers, Xin Yuan and Zhau Hau Trading, to supply certain essential raw materials including waste paper and pulp. To avoid reliance on the connected suppliers, the Group completely ceased to place purchase orders with Xin Yuan and Zhau Hau Trading in February 2013 and July 2013 respectively. For the Track Record Period, the aggregate purchase from connected suppliers accounted for approximately 53.6%, 37.0% and 6.9% of the Group's total purchase costs for the same period respectively. For further details of the connected suppliers, please refer to the sub-section headed "Procurement" in the section headed "Business" of this prospectus.

Given that Independent Third Party suppliers may not give the Group priority, the stability in quality and availability of raw materials purchased from Independent Third Party suppliers are not as guaranteed as those from connected suppliers. Should any of the Group's major suppliers fail to deliver quality raw materials in accordance to the schedule of production and should the Group fail to source substitutes from other suppliers in a timely and cost-effective manner, the Group's production schedule might have to be delayed. In such case, the Group's operations, financial performance and reputation could be adversely affected.

The Group may not be able to maintain its growth or manage its expansion effectively

The Group achieved steady growth both in terms of revenues and net profit during the Track Record Period. Its total revenue increased from approximately RMB973.9 million to RMB1,024.6 million and net profit increased from approximately RMB136.2 million to RMB142.7 million between 2011 and 2013. As certain of its production facilities including paperboard and poker card production lines have already reached their capacity ceilings, the Group's future growth prospect may be affected. The Group's business performance during the Track Record Period may not be indicative of the Group's future performance. For further details of utilization rates of the Group's production facilities, please refer to the sub-section headed "Production Facilities" in the section headed "Business".

As set out in the section headed "Future Plans and Use of Proceeds", the Group plans to implement certain business strategies, including expansion of production capacity of paperboard making operations and installation of additional production facilities for packaging and poker card products, in order to continue to deliver business growth.

In particular, the Group's expansion plan relating to coated white board production line will involve substantial amount of capital expenditure and be subject to the regulation under the PRC industry policy such as the Guiding Catalogue of Industrial Structure Adjustment (as amended in 2013) (產業結構調整指導目錄(2013年修正)) ("Guiding Catalogue").

As advised by the Company's PRC legal advisers, all the Group's expansion plans are classified as "permitted" category under the current PRC policy. The Directors have also formulated the plans with diligent efforts, including review of growth prospects of the target industry segments, on-going discussions with major customers and studying the potential demand from new customers.

The successful implementation of such plans may be subject to a number of factors beyond the Group's control, including but not limited to whether market demand for paperboard and poker products will continue to sustain, whether the Group is able to achieve the expected operational efficiency and whether the Group is able to capture business opportunities in a timely and effective manner. Hence, there is no assurance that the Group can maintain its growth and manage its expansion as before.

The Group relies on short term bank borrowings to finance its working capital and any tightening of credit in the PRC may adversely affect the Group's operations, financial condition and profitability

During the Track Record Period, the Group's short term bank borrowings amounted to approximately RMB110.4 million, RMB149.1 million and RMB103.0 million respectively, representing approximately 48.5%, 37.8% and 42.2% of the Group's current liabilities respectively. The Group's borrowings mainly include working capital loans for financing the inventory and trade and other receivables and trade finance credit facilities for settlement of overseas waste paper import.

In recent years, rapid economic growth in the PRC leads to growth in money supply and rising inflation. In order to control rapid inflation in the PRC, the PRC government has increased the capital reserve ratios of domestic banks and raised interest rates multiple times since early 2010. Any further implementation of fiscal or credit tightening measures may reduce or restrict the access of the Group to borrowing and other types of financing, which could adversely affect the Group's liquidity and ability to fund the purchase of raw materials and its future expansion plans. Moreover, the increase in interest rates may lead to higher borrowing costs and a tightening of credit terms.

The Group may not be able to maintain a relatively low gearing ratio and thus the Group will be exposed to interest rate risk

During the Track Record Period, the Group's gearing ratios were approximately 41.5%, 36.4% and 18.6% respectively. As set out in the section headed "Future Plans and Use of Proceeds", the Group intends to deploy a combination of its internal resources, bank borrowings along with the net proceeds of the Share Offer to implement its expansion plans. Hence, implementation of these plans may lead to increase in the Group's gearing ratio.

As at 31 December 2013, approximately 68% of the Group's total borrowings were at floating interest rates, and the remaining 32% were of fixed rates. As the Group does not hedge any of its interest rate risks currently, if floating rate borrowings continue to account for a major portion of the Group's debt portfolio in future, increase in interest rates would increase the Group's interest expenses relating to its outstanding floating rate borrowings and increase the cost of new debt, which would result in an adverse effect on the Group's financial condition and results of operations. If the Group cannot maintain its gearing ratios at a relatively low level, its exposure to interest rate risk resulting from fluctuations in interest rates will be further increased.

The Group's operations are heavily relying on key executives and senior management

The Group's smooth operations and future success are highly dependent on the committed services of its key management team. The Directors and senior management play an important role in the management of the Group's daily operations and implementation of its business plans by contributing their technical know-how and managerial experience. The Chairman of the Company, Mr. Zheng, is responsible for formulation of the Group's business strategy and supervision of the corporate development. Mr. Zheng Dunqian and Mr. Chen, both executive Directors, have many years of experience in paper and paperboard industry and have made significant contribution to the Group's development. Details of the management team are set forth in the section headed "Directors, Senior Management and Employees" of this prospectus.

There is no assurance that these key executives and members of senior management will not voluntarily terminate their employment with the Group, nor can the Group assure that suitable key executives and senior management team member replacement can be found. If there is any loss in key executives and senior management without timely replacement, the Group's operations and financial position may be adversely affected.

The Group may not maintain sufficient insurance policies to cover risks and losses in relation to its operations

The Group maintains insurance policies covering risks in respect of certain fixed assets, vehicles and third party liability at its production plants. There is no guarantee that the existing insurance coverage would be sufficient to cover all potential losses in relation to its operations. In the event that the Group's insurance policies do not have sufficient coverage or there is no insurance coverage at all, the Group may incur additional costs for such losses or liabilities, which may adversely affect the Group's liquidity and financial position.

The Group may incur liability claims in respect of industrial accidents at its production plants

As the Group's manufacturing process involves the operation of heavy machinery, it is associated with risks and hazards that may cause harm to employees, either injury or death, or damage to properties. In May 2011, there was a fatal accident at its production site, resulting in the death of an employee. The accident was caused by unauthorised entry of such employee, who was responsible for feeding waste paper into pulper, to the waste paper pulper. As waste paper is occasionally mixed with valuable items such as notes and coins, which can be sorted out by the electromagnet in the pulper, he entered into the pulper searching for those items for his own benefit. At the time of the accident, he entered the pulper without notifying others and was killed unnoticed when the Group's operators turned on the pulper. In this connection, the Group has already paid the medical expenses and compensation with insurance coverage.

Although the Group has strengthened preventive measures at its production plants, including placing warning signs and installation of loudspeakers, following such event, there is no assurance that such measures will be sufficient to prevent any industrial accidents, whether due to malfunction of machinery or other reasons, in future. In case of reoccurrence of any industrial accidents, the Group may be liable to claims and penalties as well as subject to lawsuits, business interruptions caused by government investigation or imposition of additional safety measures, which may lead to a negative impact on the Group's business operations and financial conditions.

RISK RELATING TO THE INDUSTRIES IN WHICH THE GROUP OPERATES

Intensified competition in the paper and paperboard industry and poker card industry may result in negative impact on the Group's financial result

The Group's primary market for its paper and paperboard products is Fujian Province, and it mainly faces direct competition from local and regional manufacturers. The principal factors that affect the customer's procurement decisions include the price, variety and quality of the paper and paperboard products. If the Group's current and potential competitors have competitive advantage over the quality and variety of paper product offerings or price, the sales and results of operations of the Group would be negatively affected.

The poker card industry, in which the Group operates, is fragmented and competitive. The market players compete with each other in terms of brand recognition and quality. If the competitors have more marketing resources and better brand recognition with better quality products offerings, the Group may not be able to compete effectively which in turn could have an adverse impact on the sales of poker cards and its results of business operation.

Any unfavourable change in PRC industry policy could materially affect the Group's business operation

The PRC government closely monitors the paper and paperboard industry and may from time to time issue regulations and policies to regulate the industry. In February 2010, the State Council issued Notice on Further Strengthening the Elimination of Obsolete Production Capacities (關於進一步加強淘汰落後產能工作的通知), which requires local government to gradually phase out paper manufacturers with backward production capacity. In addition, the NDRC promulgated the Guiding Catalogue in 2011 (as revised in 2013) to eliminate linerboard and corrugated medium production lines which fall under the "elimination category" with maximum paper width lower than 2 meters and maximum speed lower than 80 meters per minute. It is encouraged that each new production line of linerboard and corrugated medium has at least an annual production capacity of 300,000 tonnes and 100,000 tonnes respectively. Any further change to the existing requirements of the industry policies may incur additional costs to ensure compliance with the regulations and laws and may require the Group to make significant adjustments to the current operations.

Cost of environmental and work safety compliance may adversely affect the business operation and financial results

The Group's production activities are subject to environmental protection laws and regulations in the PRC concerning the discharge of waste products. Such laws and regulations impose standards on the discharge of waste products and the levy of fines and payments for damages for non-compliance. The Group holds waste discharge permits issued by the relevant governmental authorities for its operations in both Yanxi Industrial Plant and Guanshan Industrial Plant. Any failure to renew the pollutant discharge permits may substantially affect the Group's production adversely.

Its operations are subject to the Cleaner Production Standard (清潔生產標準) for Waste Paper Pulping (Paper Industry) introduced by the Ministry of Environmental Protection of the PRC in March 2009 and are required to meet the standards on production technologies, equipment used, energy consumption and pollution emission and treatment. In addition, certain safety hazards to workers on the production line may arise and the Group's manufacturing business in the PRC is subject to the State and local laws and regulations relating to the maintenance of workplace safety. A fatal accident at the production site occurred in May 2011, which caused the death of an employee, did not lead to any litigation claims or any administrative penalties by the relevant governmental authorities. Any introduction or further change in environmental and workplace safety laws and regulations resulting in more stringent standards may require the Group to incur substantial additional operating costs and liabilities. The Group's future costs on environmental compliance are expected to depend on the waste product discharge level of its operation.

RISKS RELATING TO THE PRC

Change in political and economic policies may have adverse impact on the Group's operations

Substantially all of the Group's assets are located in the PRC and all of its revenues are sourced from its operations in the PRC. Therefore, the Group's business, financial condition and results of operations are significantly subject to the economic, political and social developments in the PRC. The economy of the PRC differs from the economies of most developed countries in many aspects, including economic structure, government involvement in the economy, level of development, growth rate, control of foreign exchange, level of capital reinvestment, allocation of resources, rate of inflation and balance of payments position.

Since 1978, the PRC government has been undergoing a series of economic reforms to transform from planned economy to more market-oriented economy. However, many of the reforms are unprecedented or experimental and may be subject to revision, change or abolition. There can be no assurance that the PRC government will continue to pursue a policy of economic reform or that the direction of reform will continue to be market-oriented. The Group may not in all cases be able to capitalise on the economic reform measures adopted by the PRC government.

The Group's current or future performance may be adversely affected by changes in the PRC political and social conditions or the relevant policies (including tax policies) of the PRC government, such as changes in laws and regulations (or the interpretation thereof) or restrictive financial measures introduced to control inflation. As a result, the Group's business may not develop in the same way or at the same rate as might be expected.

There are uncertainties in predicting outcome under the PRC legal system if dispute arises

As the Group's business and operations is located in the PRC, it is regulated by the PRC laws and regulations. The PRC legal system is a codified system with written laws, rules and regulations. Despite the PRC government has promulgated laws and regulations in relation to economic matters including foreign investment, corporate organization and governance, taxation and trade since late 1970s to meet the needs of investors and encourage foreign investment, some of the laws and regulations are still at a development stage and may be subject to policy changes, making the interpretation and enforcement of such laws uncertain.

In addition, prior court decisions may be cited for reference but have limited precedential value. As certain new laws and regulations may be subject to limited volume of published decisions or may be non-binding, the outcome of dispute resolution may not be as consistent or predictable as in other more developed countries. Even after relevant laws have been enacted, it may be difficult to obtain swift or equitable enforcement under the PRC laws, or to obtain enforcement of judgment by a court of another jurisdiction.

PRC foreign exchange control may limit the Group's ability to pay dividends and make other payments in foreign currencies

As the Group primarily conducts business through its principal PRC subsidiary, Dunxin PRC, which revenue is denominated in Renminbi, the ability of Dunxin PRC to pay dividend and making other payments in foreign currencies is subject to existing foreign exchange and other relevant laws and regulations. During the Track Record Period, approximately 33.6%, 41.6% and 32.2% of the total waste paper purchases of the Group were imported from Hong Kong and overseas and some of the overseas purchases were settled in foreign currencies. As such, the Group needed to convert Renminbi into foreign currencies for trade settlement. Under the existing PRC laws and regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from SAFE or its local branches, if certain procedural requirements are complied with. However, approval from SAFE or its local branches is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the settlement of loan with foreign currencies.

In addition, there is no assurance that the PRC government will not impose further restriction in the future on foreign currencies for current account transactions. Hence, any shortages in the availability of foreign currency or any existing and future restrictions on currency exchange in the PRC may limit the Group's ability to pay dividend to Shareholders and the ability to purchase goods outside of the PRC or otherwise fund the business activities that are conducted in foreign currencies.

The Group may be considered as a PRC resident enterprise under the EIT Law of the PRC and be subject to 25% PRC enterprise income tax on its global income

Pursuant to the EIT Law and the related implementation rules, an enterprise set up in accordance with the law of the foreign country (region) whose actual administration institution (one that substantially carries out comprehensive management and control on the business operation, employees, accounts and assets of enterprises) located in the PRC is considered as a PRC resident enterprise and will be subject to a uniform 25% enterprise income tax rate on its global income.

On 22 April 2009, the State Administration of Taxation of the PRC published a Notice of the State Administration of Taxation on Issues Relevant to Foreign-registered Chinese-invested Holding Enterprises Determined as Resident Enterprises in Accordance with Actual Administration Institution Standard (國家稅務總局關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知) ("Circular 82") further specified certain criteria for the determination of what constitutes actual administration institution for foreign enterprises which are controlled by PRC enterprises or PRC enterprise groups. A foreign enterprise controlled by a PRC enterprise or PRC enterprise group will be considered as a PRC resident enterprise if all of the following apply: (i) the enterprise's day-to-day operational management is primarily exercised by the senior management and core management departments located mainly within the PRC; (ii) decisions relating to the enterprise's financial and human resource matters are made or subject to approval by organizations or personnel in the PRC; (iii) the enterprise's primary assets, accounting books and records, company seals, and board and shareholders' meeting minutes are located or maintained in the PRC; and (iv) 50% or more of voting board members or senior executives of the enterprise habitually reside in the PRC. Although there have been no official implementation rules regarding the determination of the actual administration institution for foreign enterprises which are not controlled by PRC enterprises (including the Group), as Circular 82 may reflect the criteria of State Administration of Taxation on determining the tax residence of foreign enterprises in general, it is uncertain the tax authority will make its decision by reference to the Circular 82, or the State Administration of Taxation will issue specific implementation rules regarding the determination of the actual administration institution for foreign enterprises which are not controlled by PRC enterprises, which both may consider the Group as a PRC resident enterprise.

If the Group is considered as a PRC resident enterprise for tax purpose, the enterprise income tax rate of 25% on all the Group's income could materially effect on its business, results of operations and financial position.

Dividends payable by the Group to foreign investors may become subject to withholding taxes under the PRC tax laws

In general, enterprises set up in accordance with the law of the foreign country (region) with actual administration institution outside the PRC and have an establishment or place of business in the PRC, or have China-sourced income without such establishment or place of business in the PRC are classified as non-PRC resident enterprises.

Pursuant to the EIT Law and the related implementation rules, an enterprise income tax rate of 10% is applicable to dividends payable by a PRC resident enterprise to investors that are non-PRC resident enterprises, which do not have an establishment or place of business in the PRC, or if established, the relevant dividends are in fact not associated with such establishment or place of business in the PRC, to the extent that such dividends are sourced within the PRC.

Such applicable tax rate on dividend income may be reduced if the PRC government has entered into tax treaties regarding the withholding arrangement with certain countries and jurisdictions. Pursuant to the Arrangement between the PRC and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止漏稅的安排) and the Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Treaty Agreements, withholding tax at a rate of not more than 5% applies to dividends paid by a PRC resident enterprise to a Hong Kong tax resident, provided that the recipient is a company that directly holds at least 25% of the capital of the PRC resident enterprise at all times within the 12-month period immediately prior to distribution of the dividends.

If the Group is considered as a PRC resident enterprise for tax purpose, the dividends to be paid to Shareholders who are classified as non-PRC resident enterprises may be treated as income derived from sources within the PRC and be subject to PRC tax. In such case, it may adversely affect the Shareholders' investment return and the value of investment in the Group.

Withholding tax liability arising from dividend payable by the Group's PRC subsidiary may increase the Group's effective tax rate and in turn affect the Group's profitability and financial conditions

The Company had not declared any dividend during the Track Record Period and up to the Latest Practicable Date.

As the Company is a holding company, its ability to pay dividend is dependent upon the earning of, and distributions by, its subsidiaries. Under the EIT Law, the dividend payment by Dunxin PRC, its sole PRC operating subsidiary, to its immediate holding company outside the PRC will be subject to a withholding tax obligation in accordance with prevalent PRC tax treatment. As the Company does not intend to pay any dividend to the Shareholders in the foreseeable future in order to satisfy the capital requirement of its expansion plan, the Group has not established a deferred tax provision for withholding taxes payable on dividend payment from Dunxin PRC. If the Directors decide that Dunxin PRC is to declare any dividends in the future, the Group's effective tax rate may increase, which in turn may affect its operating results and financial position.

RISKS RELATING TO THE SHARE OFFER

There has been no prior public market for the Shares, and liquidity and market prices of the Shares may be volatile

Prior to the Share Offer, there has been no public market for the Shares. Hence, the Offer Price may not be indicative of the market prices for the Shares following the Listing. The Group has applied to the Listing Committee for the listing of, and permission to deal in, the Shares on the Stock Exchange. However it does not guarantee an active trading market for the Shares will develop, or that the market price of the Shares will not decline following the Share Offer. Consequently, prospective investors may not be able to resell their Shares at or above the Offer Price.

After the Listing, the price and trading volume of the Shares may be highly volatile due to factors such as variations in the Group's revenues, earnings and cash flows, change in the PRC laws and regulations, announcements of new investments and fluctuation in market prices of products and raw materials, and may be caused by factors outside the Group's control, unrelated or have not corresponded to the Group's operating results. Moreover, in recent years, Hong Kong stock markets have experienced significant price and volume fluctuations.

Investor's shareholding may be diluted as a result of additional equity fund raising in the future

The Group may need to raise additional funds in the future in order to finance expansion of its operations or new acquisitions, If additional funds are raised through the issuance of new Shares or other securities that may be converted into the Shares other than on a pro rata basis to the then existing Shareholders, the percentage ownership of such Shareholders may be reduced and such Shareholders may experience subsequent dilution. Moreover, any such new securities may have preferred rights, options or pre-emptive rights that make them more valuable than or senior to the Shares.

OTHER RISKS

The information contained in press articles or other media regarding the Group and/or the Share Offer may not be reliable

The information regarding the size of Share Offer and the Group's business have been covered in press articles or other media. None of such statements were made by the Group and the Group does not accept any responsibility for the accuracy or completeness of such information and make no representation as to the appropriateness, accuracy, completeness or reliability of any information disseminated in the press articles and any other media. Should there be any conflicts or inconsistency between any of the information in the press articles or other media coverage and the information contained in the prospectus, the Directors disclaim such information. Accordingly, prospective investors should not rely on any of the information in the press articles or other media coverage.

Certain statistics and facts contained in this prospectus are derived from official government publications and other sources and may not be reliable

Certain facts and statistics relating to the industry and economy in this prospectus are derived from various official government publications and other sources. Whilst the Directors have taken all reasonable care to ensure that such facts and statistics are accurately reproduced from their respective sources, such information has not been independently verified by the Group and may be inconsistent, inaccurate, incomplete or out-of-date. None of the Group, the Sole Sponsor, the Joint Bookrunners and Joint Lead Managers, the Underwriters, their respective directors and advisers or any other parties make any representation as to the accuracy or completeness of such information which may not be consistent with other information compiled by other sources and, accordingly, such information should not be unduly relied upon.

Due to possible flawed or ineffective collection methods, discrepancies between published information, different market practices and other problems, the statistics, industry data and other information relating to the industry and economy derived from official governments and other sources may be inaccurate and may not be comparable to statistics produced from other sources. In all cases, potential investors should give careful consideration as to how much weight or importance should be attached or placed on such statistics, projected industry data and other information relating to the economy and the industry.

MANAGEMENT PRESENCE IN HONG KONG

Rule 8.12 of the Listing Rules requires a new applicant applying for a primary listing on Main Board to have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. The Group's business and operations are primarily located, managed and conducted in the PRC through Dunxin PRC, the Company's wholly-owned subsidiary in the PRC. Currently, all of the Group's products are sold to its customers based in the PRC and all turnover of the Group is generated from the PRC. The Group maintains an office in Hong Kong for godown purposes and for communication with the Stock Exchange. Save for Mr. Kwong Kwan Tong, none of the Directors is a Hong Kong resident nor ordinarily based in Hong Kong. Each of the Directors who is not ordinarily resident in Hong Kong is currently holding valid travel documents which allow him to travel to Hong Kong for meetings with the Stock Exchange within a reasonable period of time if required. The Directors do not, and do not contemplate in the foreseeable future, that the Company will have any management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules.

Accordingly, the Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirement under Rule 8.12 of the Listing Rules. In order to ensure that regular communication is maintained between the Stock Exchange and the Company, the Company has appointed and will continue to maintain two authorised representatives pursuant to Rule 3.05 of the Listing Rules who will act as the Company's principal channel of communication with the Stock Exchange. The two authorised representatives of the Company are Mr. Chen, an executive Director, and Mr. Lam Ho Keung, a resident in Hong Kong and the company secretary. In addition, Mr. Zheng Dunqian, an executive Director, has been appointed as the alternate to the two authorised representatives.

Each of the authorised representatives will be available to meet with the Stock Exchange within a reasonable time upon the request of the Stock Exchange and will be readily contactable by providing his office phone number, mobile phone number, residential phone numbers, facsimile or email addresses to the Stock Exchange. They will be contactable on their mobile phone numbers at all times. Each of the authorised representatives has been authorised to communicate on the Company's behalf with the Stock Exchange. The Company is a registered non-Hong Kong company under the Companies Ordinance, and Mr. Lam Ho Keung has been authorised to accept service of legal process and notices in Hong Kong on behalf of the Company.

Each of the authorised representatives will be provided means to contact all the Directors promptly at all times as and when the Stock Exchange wishes to contact the Directors for any matters. In order to further enhance communication between the Stock Exchange, the authorised representatives and the Directors, the Company will implement the following policies:

— each Director will provide his office phone number, mobile phone number, fax number, email address and (for all executive Directors only) residential phone number to the authorised representatives and their alternates;

— in the event that an executive Director expects to travel and be out of office, he will provide the phone number of the place of his accommodation to the authorised representatives and their alternates;

— all the Directors and the authorised representatives will provide their office phone numbers, mobile phone numbers, fax numbers, email addresses and residential phone numbers to the Stock Exchange;

— each of the Directors who is not ordinarily resident in Hong Kong has valid travel documents which allow him to travel to Hong Kong for meetings with the Stock Exchange within a reasonable period of time; and

— if circumstances require, meeting of the Board will be summoned and held in such manners and on short notice as permitted under the Memorandum and the Articles to discuss and address any issues which the Stock Exchange is concerned in a timely manner.

The Company will also appoint the Sole Sponsor as the compliance adviser pursuant to Rule 3A.19 of the Listing Rules as additional channel of communication with the Stock Exchange for the period commencing from the Listing Date and ending on the date on which the Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (WUMP) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and is not misleading or deceptive, and there are no other matters the omission of which would make any statement in this prospectus or this prospectus misleading.

The Offer Shares are offered solely on the basis of the information contained and the representations made in this prospectus and the related Application Forms. So far as the Share Offer is concerned, no person is authorised to give any information or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by the Group, the Sole Sponsor, the Joint Bookrunners and Joint Lead Managers, the Underwriters, any of their respective directors or any other parties involved in the Share Offer.

OFFER SHARES ARE FULLY UNDERWRITTEN

The Listing is sponsored by the Sole Sponsor and the Share Offer is managed by the Joint Bookrunners and Joint Lead Managers. Subject to the entering into of the Placing Underwriting Agreement and the terms of the Underwriting Agreements, the Public Offer Shares and the Placing Shares are fully underwritten by the Public Offer Underwriters and the Placing Underwriters, respectively. For further information about the Underwriters and the underwriting arrangements, please refer to the section headed "Underwriting" of this prospectus.

PROSPECTUS TO BE DISTRIBUTED IN HONG KONG ONLY

No action has been taken in any jurisdiction other than Hong Kong to permit any of the offering of the Offer Shares or the distribution of this prospectus and the related Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

No offer of the Offer Shares may be made to the public in the Cayman Islands. Prospective applicants for the Offer Shares should consult their financial advisers and seek legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws, rules and regulations of any relevant jurisdiction. Prospective applicants for the Offer Shares should also inform themselves as to the relevant legal requirements and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer and the Capitalisation Issue. No part of the Company's share or loan capital is listed or dealt in on any other stock exchanges. At present, the Company is not seeking or proposing to seek listing of, or permission to deal in, its securities on any other stock exchange.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Further details of the structure and conditions of the Share Offer are set forth under the section headed "Structure and Conditions of the Share Offer" of this prospectus.

PROCEDURE FOR APPLICATION FOR THE PUBLIC OFFER SHARES

The procedure for applying for the Public Offer Shares is set forth in the section headed "How to apply for the Public Offer Shares" of this prospectus and in the related Application Forms.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of subscribing for or purchasing the Offer Shares or holding, disposing of or dealing in the Offer Shares, you should consult an expert. The Group, the Sole Sponsor, the Joint Bookrunners and Joint Lead Managers, the Underwriters, any of their respective directors, agents or advisers or other parties involved in the Share Offer do not accept responsibility for any tax effects on, or liability of, any person resulting from subscribing for or purchasing or holding or disposing of or dealing in the Offer Shares.

HONG KONG REGISTER OF MEMBERS AND STAMP DUTY

All Shares in issue and to be issued pursuant to the Share Offer and the Capitalisation Issue will upon the Listing be registered on the Company's register of members to be maintained by the Hong Kong Share Registrar in Hong Kong. Only Shares registered on the Company's register of members maintained in Hong Kong may be traded on the Stock Exchange. Dealings in Shares registered on the Company's Hong Kong register of members will be subject to Hong Kong stamp duty.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the Shares in issue and to be issued mentioned in this prospectus on Main Board and compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or, under contingent situation, any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS. If investors are unsure about the details of CCASS settlement arrangements and how such arrangements will affect their rights and interests, they should seek the advice of their stockbrokers or other professional advisers.

COMMENCEMENT OF DEALINGS IN SHARES

Dealings in Shares on Main Board are expected to commence on 26 June 2014. Shares will be traded in board lots of 2,000 Shares each.

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. Zheng Dunmu (鄭敦木)	No. 171, Baizhuang, Shiming Village, Yanxi Town, Changtai County, Zhangzhou City, Fujian Province, the PRC	Chinese
Mr. Zheng Dunqian (鄭敦遷)	No. 171, Baizhuang, Shiming Village, Yanxi Town, Changtai County, Zhangzhou City, Fujian Province, the PRC	Chinese
Mr. Chen Ruomao (陳若茂)	Flat 802, No. 338, Jiahe Road, Hu Li District, Xiamen City, Fujian Province, the PRC	Chinese
Independent non-executive Directors		
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Mr. Ye Deshan (葉德山)	Flat 601, No. 49, Jinbang Second Road South, Si Ming District, Xiamen City, Fujian Province, the PRC	Chinese
Mr. Hu Zhenghui (胡鄭輝)	Room 503, Block 16, No. 36 Xianqianzhi Street, Xiangcheng District, Zhangzhou City, Fujian Province, the PRC	Chinese

For further details, please refer to "Directors, Senior Management and Employees" section of this prospectus.

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Joint Bookrunners and Joint Lead Managers	Kingsway Financial Services Group Limited 7th Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong
	SBI China Capital Financial Services Limited Unit A2, 32/F, United Centre, 95 Queensway, Hong Kong
Public Offer Underwriters	Kingsway Financial Services Group Limited 7th Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong
	SBI China Capital Financial Services Limited Unit A2, 32/F, United Centre, 95 Queensway, Hong Kong
	Sanfull Securities Limited Room 2001–6, 20th Floor, Cosco Tower, 183 Queen's Road Central, Hong Kong
	Astrum Capital Management Limited 11/F, 122 QRC, 122–126 Queen's Road Central, Central, Hong Kong
	China Investment Securities International Brokerage Limited 63/F, Bank of China Tower, 1 Garden Road, Central, Hong Kong

Quam Securities Company Limited
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Registered office	Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111 Cayman Islands
Principal place of business in Hong Kong	Office No. 3, 13th Floor, Boss Commercial Centre, No. 28 Ferry Street, Kowloon, Hong Kong
Headquarters	Jinlin Industrial Park, Yanxi Town, Changtai County, Zhangzhou City, Fujian Province, the PRC
Company's website address	http://www.dxwj.com/ *(The information contained on this website does not form part of this prospectus)*
Company secretary	Mr. Lam Ho Keung *CPA* Flat K, 23rd Floor, Lime Stardom, No. 1 Larch Street, Tai Kok Tsui, Kowloon, Hong Kong *Member of Hong Kong Institute of Certified Public Accountants*
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Remuneration committee	Mr. Ye Deshan *(Chairman)* Mr. Kwong Kwan Tong Mr. Hu Zhenghui
Nomination committee	Mr. Hu Zhenghui *(Chairman)* Mr. Kwong Kwan Tong Mr. Ye Deshan

Authorised representatives	Mr. Chen Ruomao Flat 802, No 338, Jiahe Road, Hu Li District, Xiamen City, Fujian Province, the PRC
	Mr. Lam Ho Keung *CPA* Flat K, 23rd Floor, Lime Stardom, No. 1 Larch Street, Tai Kok Tsui, Kowloon, Hong Kong
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	Bank of China Zhangzhou Branch 2 South Yuanguang Road, Xiangcheng District, Zhangzhou City, Fujian Province, the PRC
	China Construction Bank Changtai County Branch 61 Longquan Road, Changtai County, Zhangzhou City, Fujian Province, the PRC
	China Merchants Bank Zhangzhou Branch 4/F, 70 Nanchang Road, Zhangzhou City, Fujian Province, the PRC

	China Everbright Bank Zhangzhou Branch 1/F, 28 South Yuanguang Road, Zhangzhou City, Fujian Province, the PRC
	Industrial and Commercial Bank of China Limited Longjiang Branch 13 Xiaqushenglixi Road, Zhangzhou City, Fujian Province, the PRC
Hong Kong share registrar	Tricor Investor Services Limited Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong

This section contains certain statistics, industry data or other information relating to the industries in which the Group operates and other related industry sectors. Such information has been derived from official government publications and industry sources as well as other third party sources.

The Directors believe that the official government publications are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. The Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information extracted from the official government publications has not been independently verified by the Group, the Sole Sponsor, the Joint Bookrunners and Joint Lead Managers and the Underwriters or any other party involved in the Share Offer and no representation is given as to their accuracy, completeness or fairness of such information and, accordingly, investors should not unduly rely on such information. Further, the information from official government publications may not be consistent with information available from other sources within or outside the PRC.

PAPER AND PAPERBOARD INDUSTRY IN THE PRC

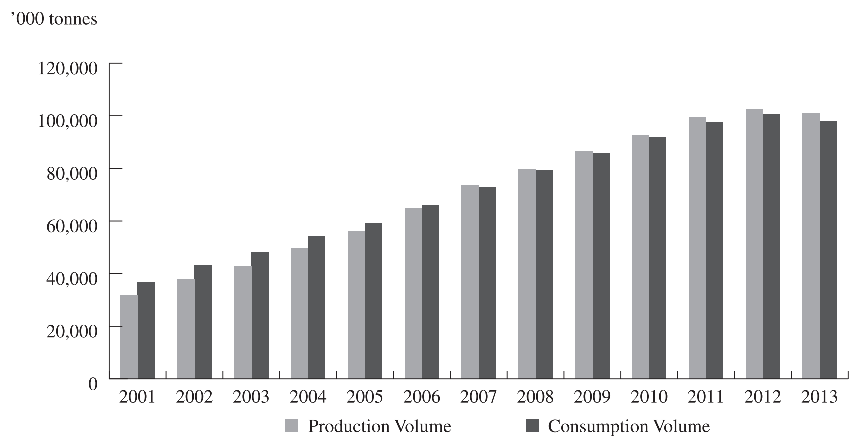
Overview

Paper and paperboard products are used for a wide variety of applications including printing, writing, wrapping, and sanitary purposes. According to *Almanac of China Paper Industry 2013*, the PRC was the world's leading consumer of paper and paperboard products in 2011 which represented approximately 24.4% of the global consumption. Meanwhile, according to *FAOSTAT*, the PRC also dominates the world's production of paper and paperboard products with a share of approximately 26.5% in 2012.

Over the past decade, the PRC has experienced rapid growth in industrial output, consumer spending and exports of goods to the rest of the world. As a result of these economic activities, the demand of paper and paperboard products in the PRC has been surging steadily.

According to *China Paper Association*, the total domestic consumption volume of paper and paperboard products increased from 36.8 million tonnes to approximately 97.8 million tonnes during the period from 2001 to 2013, representing a CAGR of approximately 8.5%. The total domestic production volume of paper and paperboard products in the PRC increased from approximately 32.0 million tonnes to approximately 101.1 million tonnes during the same period, representing a CAGR of approximately 10.1%.

Total Production and Consumption Volume of Paper and Paperboard Products in the PRC: 2001–2013



Source: China Paper Association, May 2014

Industry classification

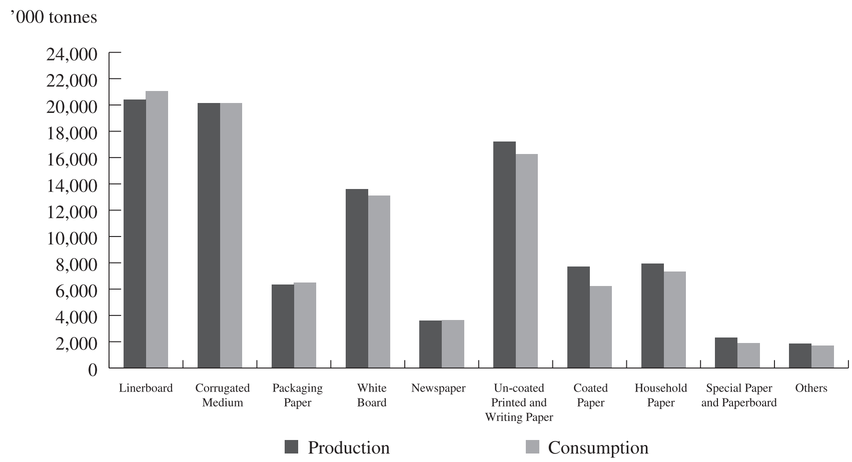
According to *Almanac of China Paper Industry 2013*, the packaging paper and paperboard industry is the major sub-sector in the paper and paperboard industry. The packaging paper and paperboard products primarily comprise linerboards and white board. Linerboards and corrugated medium are mainly used for manufacturing of paper container products such as corrugated medium boards and boxes, also known as carton boxes, for packaging and protection of goods in shipping process. White boards are used for high quality commercial packaging with better printability and foldability.

PRC paper and paperboard product category

Packaging paper and paperboard products	Other paper and paperboard products
Linerboards	Newspaper
Corrugated medium	Household paper
White board	Un-coated printed and writing paper
	Coated paper
	Packaging paper
	Special paper and paperboard

Among various sub-sectors in the PRC paper and paperboard industry, linerboards and corrugated medium are the two largest product groups and their production and consumption in aggregate accounted for approximately 40.1% and 42.1% of the industry total in the PRC respectively in 2013.

Production and Consumption Volume of Major Paper and Paperboard Products in the PRC in 2013



Source: China Paper Association, May 2014

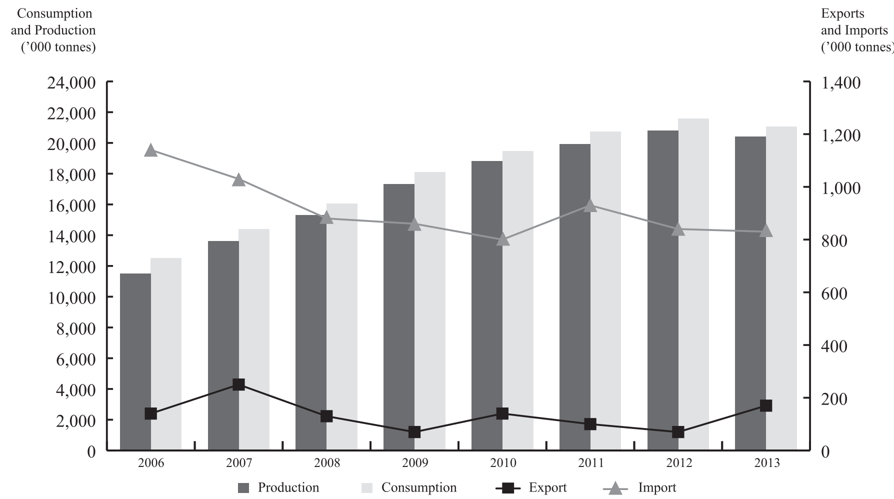
LINERBOARDS AND CORRUGATED MEDIUM INDUSTRY IN THE PRC

Linerboards

Linerboard is a type of paperboards made from virgin, unbleached wood pulp or recycled fiber, or a combination of both. With high basis weight and stiffer paper strength, it is generally used as the external faces of corrugated medium boards and boxes. Linerboard is classified into several different grades in accordance with the specifications set out in the industry standard, i.e. GB/T13024-2003 such as the percentage of waste paper or kraft pulp content and the coating. The main categories include kraftlinerboard, white top linerboard, light coated linerboard and testlinerboard.

According to *China Paper Association*, the consumption volume of linerboards in the PRC increased from 12.5 million tonnes in 2006 to 21.1 million tonnes in 2013, representing a CAGR of approximately 7.7%. As linerboard is the primary material in the manufacture of packaging corrugated products, such increase was directly attributed to the positive economic development. Meanwhile, the domestic production of linerboards in the PRC only increased at a steady rate from 11.5 million tonnes in 2006 to 20.4 million tonnes in 2013, representing a CAGR of approximately 8.5%. Hence, there is still a shortfall to meet the domestic demand. The net imports of linerboard products decreased from 1 million tonnes in 2006 to 0.7 million tonnes in 2013. The figures illustrate that the demand gap was gradually narrowed by growth in the PRC production capacity.

PRC Linerboard industry: 2006–2013

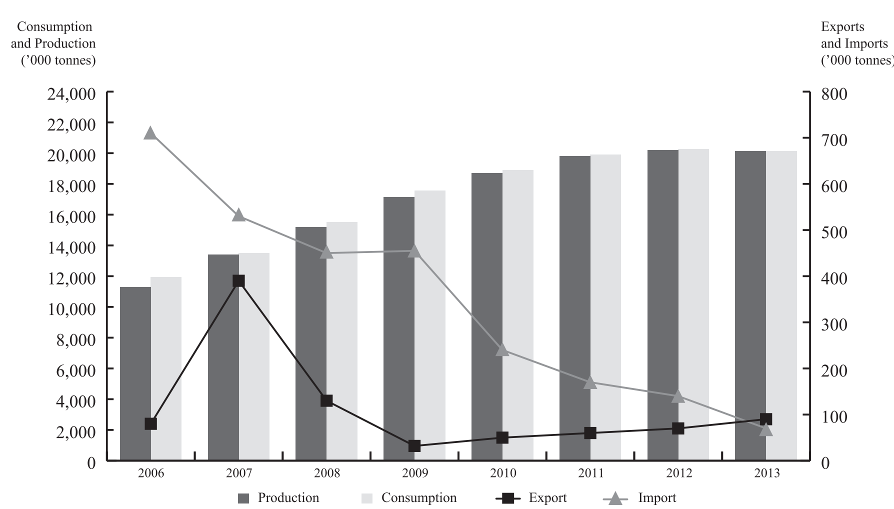


Source: China Paper Association, May 2014

Corrugated medium

Corrugated medium, also known as flute or fluting, which is made of waste paper or wood pulp, forms the inner layer of corrugated medium board. The flutes in the corrugating medium form a series of connecting arches which provide support and resistance. The corrugated medium is glued to a combination of sheets of linerboard in order to form the corrugated medium board and corrugated boxes. According to *China Paper Association*, the domestic production and consumption volume of corrugated medium increased from 11.3 million tonnes and 11.9 million tonnes in 2006 to 20.2 million tonnes and 20.1 million tonnes in 2013 respectively. The decrease in imports of corrugated medium from approximately 0.7 million tonnes in 2006 to 0.1 million tonnes in 2013 shows that the expansion of PRC production has been reducing the domestic consumption gap of such products from approximately 0.6 million tonnes shortfall to equilibrium during the same period.

PRC Corrugated Medium Industry: 2006–2013



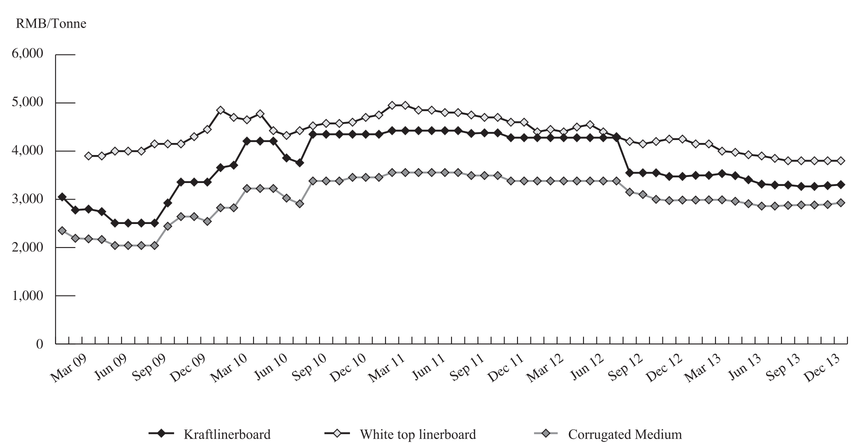
Source: China Paper Association, May 2014

PRICE MOVEMENTS OF PAPERBOARD PRODUCTS IN THE PRC

Corrugated medium and linerboards (i.e. kraftlinerboard and white top linerboard) are the major products of the Group. According to *Umpaper*, the average market prices of paperboard products mentioned above had exhibited similar price trends during the period between January 2009 and December 2013. The average market prices declined gradually in the first half of 2009 as a result of contracted export demand in international market following the financial crisis in late 2008. Since the second half of 2009, the average prices increased, driven by the rising prices of raw materials including waste paper and pulp, and then remained relatively stable from the second half of 2010 till August 2012. The average prices experienced declines in August 2012 and sustained at a low price level until December 2013. The severe competition in the domestic market had been exerting continuous pressure on the average prices. Particularly in July 2012, there was a drop in the average price of kraft pulp, which was one of the main raw materials of kraftlinerboard. This drove a greater downward price adjustment on kraftlinerboard than the other paperboard products.

The chart below illustrates the average market price movements of the paperboard products in the PRC during the period between January 2009 and December 2013:

Average Market Price Movements of Paperboard Products in the PRC



Source: Umpaper

COMPETITION LANDSCAPE OF PRC PAPER AND PAPERBOARD INDUSTRY

The lack of dominant industrial leaders with substantial international competitiveness creates a fragmented market for the PRC paper and paperboard industry. According to *China Paper Association*, there are approximately 2,934 manufacturing enterprises above scale in the PRC paper and paperboard industry in 2013, of which 526 are large and medium scale enterprises accounting for 17.9% of the industry total, and the remaining are small scale factories accounting for 82.1% of the total.

The table below set forth the paper and paperboard production volume of the top five paper and paperboard manufacturers in the PRC in 2013:

Ranking of manufacturer		Production Volume	Percentage of total production volume
		('000 tonnes)	
1	Nine Dragons Paper (Holdings) Limited	11,090	11.0%
2	Lee & Man Paper Manufacturing Limited	4,827	4.8%
3	Shandong Chenming Paper Holdings Limited	4,212	4.2%
4	Shandong Sun Paper Industry Joint Stock Co., Ltd.* (山東太陽紙業股份有限公司)	3,099	3.0%
5	Huatai Group Co., Ltd.* (華泰集團有限公司)	2,886	2.8%
Sub-total for top five manufacturers		26,114	25.8%
Others		74,986	74.2%
Total		101,100	100.0%

Source: China Paper Association, May 2014

The aggregate of the top five paper and paperboard manufacturers' production volume in 2013 accounted for 25.8% of the industry total, which represents a low industry concentration level in the highly competitive industry.

The gross value of industrial output and the revenue from industrial enterprises above designated size in the PRC paper and paperboard industry sector have been increasing over the years. However, the profit margins of the manufacturers have decreased as a result of the high cost of raw materials and competitive global prices for paper products in recent years.

As there has been an increase in demand for high-grade paper and paperboard products such as newspaper, coated printing paper, white board and household paper in recent years, the market players have placed more emphasis on the quality and variety of the products they offer. As a result, the production of high-grade paper and paperboard products accounted for 32.5% of the total paper and paperboard production volume in 2013 as compared to 20.0% in 2005.

Besides product price, quality and variety, the paper and paperboard manufacturers also face competition for distribution network, resources and external competition. The quality and grade of paper and paperboard products depend on the fibrous raw materials such as waste paper and pulp. Therefore, the availability and quality of the fibrous raw materials determine the competitiveness of the industry players. The limited domestic supply of fibrous raw materials has resulted in high production cost and heavy reliance on imports. The volume of imported waste paper had increased from 17.0 million tonnes in 2005 to 29.2 million tonnes in 2013 at the rate of 71.8%. On the other hand, manufacturers of alternative packing materials such as plastic, wood, glass and metal also compete in terms of durability and reusability to paper packaging.

Although China enjoys a large market for paper and paperboard, the demand for different kinds of products varies geographically. According to *China Paper Association*, a large proportion of paper and paperboard industry's operation is located in eastern regions of China including Shandong, Guangdong, Zhejiang, Jiangsu, Fujian, Hebei and Hainan provinces as well as Tianjin city, which accounted for 72.9% of the industry's total production volume in 2013. The central regions of China primarily including Henan, Hunan, Anhui, Hubei and Jiangxi provinces constitute 15.5% of the total during the same year, while the remaining represents the western and other regions of China. This illustrates the regional disparity of the PRC paper and paperboard industry and fierce competition in the export-oriented economies of the eastern regions with greater demand for quality paper and paperboard products for shipping containers.

According to *China Paper Association*, the total production volumes of paper and paperboard in the PRC and Fujian Province in 2013 were approximately 101,100,000 tonnes and 5,250,000 tonnes respectively. Based on the above data, the Group estimated its market share of paperboard products in term of production volume in 2013 was approximately 0.19% in the PRC and approximately 3.7% in Fujian Province respectively.

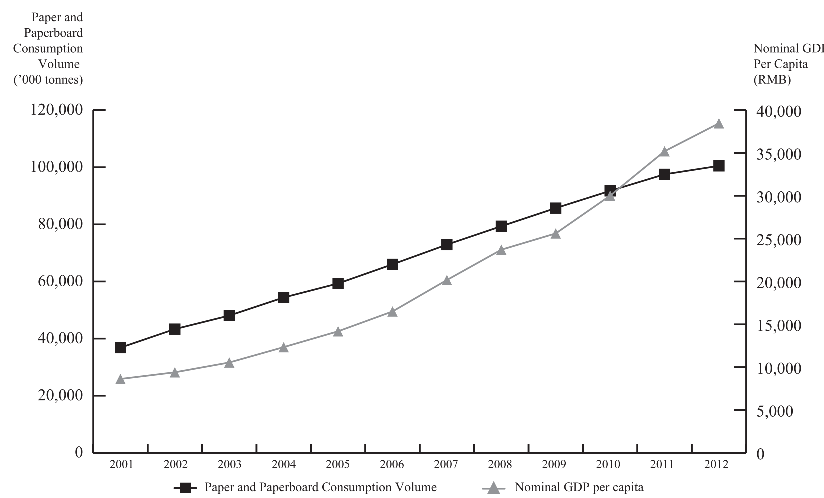
As the Group's corrugated medium board and box products are generally custom made, there is no publicly available data on market prices and public data is not available for assessment of the Group's market share of the corrugated medium board and box industry.

FACTORS AFFECTING THE PERFORMANCE OF THE PAPER AND PAPERBOARD INDUSTRY

Economic growth in the PRC

Continuous economic growth in the PRC is one of the key drivers leading to the strong increase in its demand for paper and paperboard products. The growth in different sectors such as industrial, retail and services activities creates demand for packaging materials. According to *National Bureau of Statistics of China*, the nominal GDP per capita increased from RMB8,621 in 2001 to RMB38,459 in 2012, representing a CAGR of 14.6%. The following chart shows that such economic growth is in line with the demand of the PRC paper and paperboard industry:

Relationship between PRC Nominal GDP Per Capita and Paper and Paperboard Consumption: 2001–2012

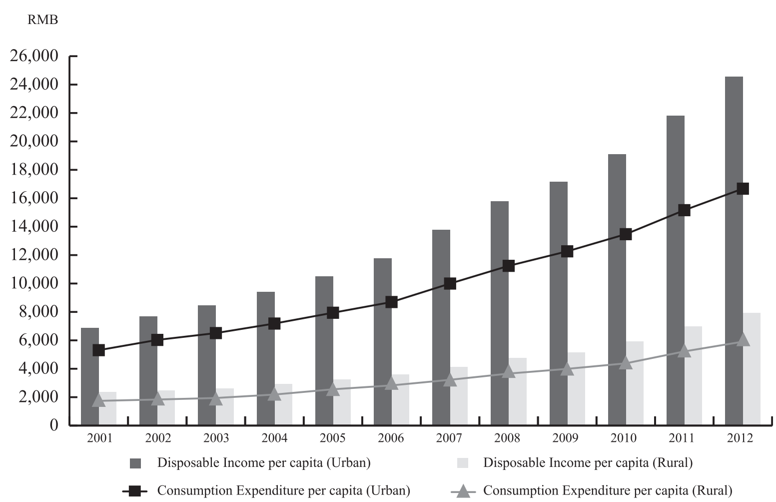


Source: National Bureau of Statistics of China, China Paper Association, May 2014

Growth in retail sales of consumer goods, output value of light industry and exports, along with the increasing income levels in the PRC

Along with the continuous growth in the economy, the income levels of both urban and rural households in the PRC increased over the recent years. According to *National Bureau of Statistics of China*, the annual per capita disposable income of urban and rural households in the PRC increased from RMB6,860 and RMB2,366 in 2001 to RMB24,565 and RMB7,917 in 2012 respectively. Such increase has strengthened the purchasing power of the PRC citizens. According to *National Bureau of Statistics of China*, the consumption expenditure of the PRC urban households and the living expenditure of rural households per capita increased from RMB5,309.0 and RMB1,741.0 in 2001 to RMB16,674 and RMB5,908 in 2012 respectively. With higher disposable income level, the total consumption expenditure per capita of urban households is approximately 3 times over rural households in 2012.

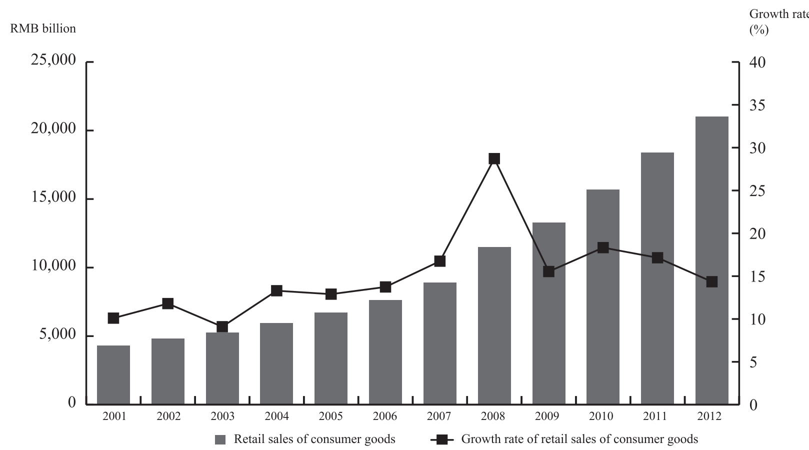
PRC Income and Consumption/Living Expenditure Level: 2001–2012



Source: National Bureau of Statistics of China

The increasing urbanisation rate in the PRC of 37.7% in 2001 to 52.6% in 2012 and a rising consumption expenditure of urban consumers over the past years resulted in a strong domestic demand for paper and paperboard products. According to *National Bureau of Statistics of China*, the total PRC retail sales of consumer goods increased significantly from RMB4,305.5 billion in 2001 to RMB21,030.7 billion in 2012, representing a CAGR of 15.5%.

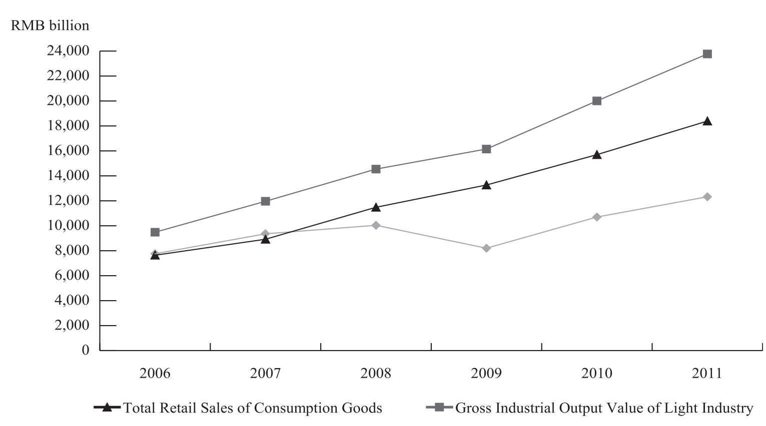
Total PRC Retail Sales of Consumer Goods



Source: National Bureau of Statistics of China

The PRC's industrial development is positively correlated with its consumer spending. While retails sales of consumption goods have been growing steadily, the gross industrial output value of the light industry, which produces consumer goods and hand tools as defined in *National Bureau of Statistics of China*, increased from RMB9,484.6 billion in 2006 to RMB23,770.0 billion in 2011, representing a CAGR of 20.2%. Meanwhile, the total exports from the PRC increased from RMB7,759.7 billion in 2006 to RMB12,324.1 billion in 2011, representing a CAGR of 9.7%. Since the export sector demands quality packaging with added strength and better printability, the increasing PRC export volume has resulted in a strong demand for packaging materials including paper and paperboard products.

PRC Retail Sales, Industry Output and Exports: 2006–2011



Source: National Bureau of Statistics of China

DEVELOPMENT POLICIES AND TRENDS IN THE PRC

During the PRC's Eleventh Five-Year Plan (2006–2010) period, the domestic paper and paperboard industry has experienced a sustainable growth. The PRC government has continued to place strategic importance on achieving a greater balance between economic development and environmental sustainability of the industry, and has introduced various measures and reform plans on the following areas in order to accelerate the industry's development:

Consolidation of a fragmented industry

Among approximately 2,934 paper and paperboard manufacturing enterprises above scale in the fragmented industry, the production volume of the top five industry leaders, in terms of production volume, accounted for 25.8% of the industry total with an aggregate production volume of 26.1 millions tonnes in 2013. During the Eleventh Five-Year Plan period, approximately 2,000 highly pollutive manufacturing enterprises closed down, the elimination policy remained in force in the Twelfth Five-Year Plan period and the number of enterprises above scale had decreased from 3,388 in 2006 to 2,934 in 2013. The PRC government encourages the restructuring and merger of paper manufacturing enterprises and factories across the regions, which has resulted in the consolidation of fragmented market, streamlining of the industry, and increase in market concentration and production efficiency.

Pursuant to the Twelfth Five-Year Plan (2011–15) for Development of Papermaking Industry released by the PRC government, the PRC government aims at further consolidation such that there should be at least 20 paper and paperboard manufacturing enterprises each with an annual production volume of approximately 1 million tonnes, and the aggregate production volume of the top 30 manufacturing enterprises, should account for at least 45.0% of the total production volume of the industry by the end of 2015.

Elimination of backward production capacity and promotion of advanced technology and facilities with higher productivity

Along with the Eleventh Five-Year Plan, the NDRC issued the Policy on Paper Industry Development (造紙產業發展政策) in 2007, which promoted the acceleration of elimination of backward production facilities in order to increase productivity and achieve better pollution control across the entire industry. An overall production capacity of backward production facilities of approximately 28 million tonnes of paper had been eliminated during the period between 2006 and 2012.

In order to meet the phase-out targets of laggard production capacities set by the Eleventh and Twelfth Five-Year Plan, the Notice on Further Strengthening the Elimination of Obsolete Production Capacities (關於進一步加強淘汰落後產能工作的通知) was issued by the State Council in February 2010 which outlined the plan and targets on the elimination or phasing out arrangement. For the paper making industry, an aggregate annual capacity of approximately 7.4 million tonnes, involving 341 manufacturing enterprises, were required to be eliminated in 2013 according to the Elimination List of Enterprises with Backward Production Capacity (2013年工業行業淘汰落後產能企業名單) issued in 2013 by the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) ("MIIT").

In 2011, the first year of the Twelfth Five-Year Plan (2011–2015) period, the NDRC promulgated the Guiding Catalogue (as revised in 2013) to reinforce the Twelfth Five-Year Plan. Certain paper manufacturing machines or production lines are classified under the eliminated category, including linerboard and corrugated medium production line with maximum paper width no more than 2 meters and maximum speed lower than 80 meters per minute. Meanwhile, the Twelfth Five-Year Plan for Development of Papermaking Industry only allows the construction of new production lines of linerboard and corrugated medium each with a minimum annual production capacity of 300,000 tonnes and 100,000 tonnes respectively.

Under these policies, small scale paper and paperboard manufacturing enterprises with obsolete production capacities or with production methods that do not meet applicable environmental standards would be phased out. The capital intensive nature of the industry and the stringent environmental protection guidelines imposed by the PRC government, which requires high start-up and on-going costs for compliance, would raise the barriers for new entrants to the industry.

Increasing focus on environmental protection

The PRC government has set out various environmental regulations on the discharge of pollutants to reduce waste water, sludge and gaseous emissions generated from paper and paperboard production. Through eliminating the backward production facilities and factories, monitoring the heavy pollutive manufacturing enterprises, as well as promoting the use of energy saving and less pollutive production processes during the period between 2006 and 2012, the emission volume of pollutant COD (chemical oxygen demand) in the waste water have reduced by 53.5% in 2011 as compared to 2005. The coal consumption level and water withdrawal level for paper and paperboard production had been reduced by approximately 18.1% and 17.5% respectively during the period 2006 to 2010. According to the Twelfth Five-Year Plan, there should be a reduction of 22.1% and about 17.65% on coal consumption and water withdrawal level for the whole industry by the end of 2015 as compared to the year 2010.

In March 2009, the Ministry of Environmental Protection of the PRC (中華人民共和國國家環境保護部) promulgated the Cleaner Production Standard (清潔生產標準) for the papermaking industry using waste paper pulp which requires the relevant manufacturing enterprises to meet the standards on production technologies, equipment used, energy consumption and pollution emission and treatments, waste recycling and environmental management requirements. In January 2012, the MIIT with two PRC regulatory bodies further issued the Twelfth Five-Year Plan for Industrial Cleaner Production (工業清潔生產推行 "十二五"規劃) to actively promote clean production for all industries and raise the utilisation rate of resources consumed.

In order to accelerate better use of resources and place further emphasis on environmental protection, the strategy "National Forest-Paper Integration Project Construction and the 2010 Special Plan" (全國林紙一體化工程建設"十五"及2010年專項規劃) has been implemented by the NDRC since the year 2004. Such strategy has enhanced paper recycling and promoted the use of wood pulp and waste paper pulp instead of less eco-friendly grass pulp, during the paper-making process. Also, the recent improvements in technologies have increased the use of energy saving and environmental-friendly production processes. Pursuant to the Twelfth Five-Year Plan, domestic waste paper recycle rate should reach 46.7% whereas the utilisation rate of waste paper in paper industry should rise to 72.1%. Apart from increasing the domestic supply of fibrous raw materials, enterprises are encouraged to explore overseas forestry resources by developing and investing in forest-paper integration projects outside the PRC which could increase the availability of fibrous raw materials for paper production.

PAPER AND PAPERBOARD INDUSTRY IN FUJIAN PROVINCE

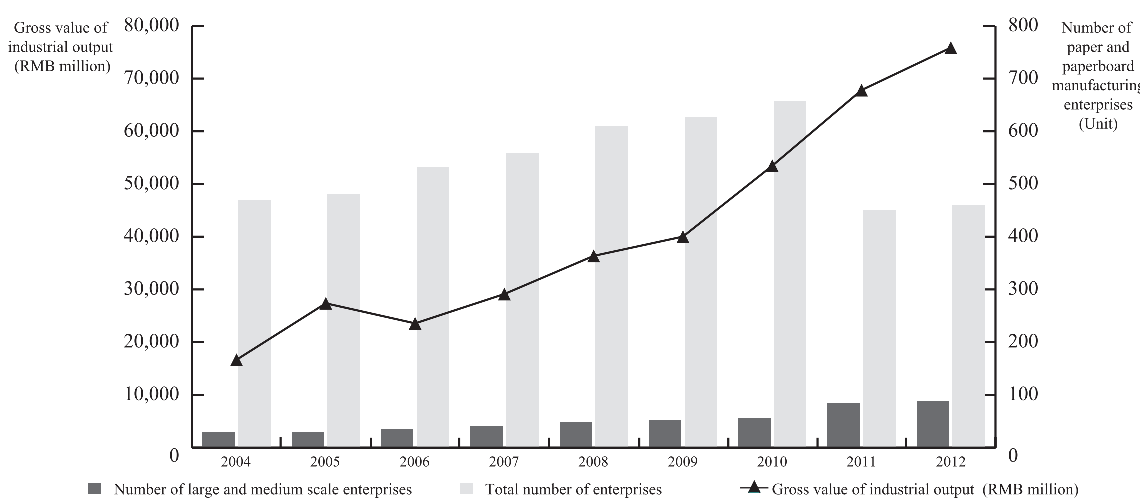
Overview

According to *China Paper Association*, in 2012 the paper and paperboard production volume in Fujian Province was approximately 5,390,000 tonnes, representing approximately 5.26% of the total paper and paperboard production volume of the PRC, and Fujian Province was ranked 6th in term of paper and paperboard production volume in the PRC.

Industry Profile and Development in Fujian Province

According to *Fujian Provincial Bureau of Statistics*, there were approximately 459 paper and paperboard manufacturing enterprises in Fujian Province and their gross value of industrial output was approximately RMB75,864 million, which represented approximately 2.6% of the total gross value of the industrial output of Fujian Province in 2012. The following chart illustrates the gross value of industrial output and number of paper and paperboard manufacturing enterprises in Fujian Province demonstrating the development of the industry:

Gross Value of Industrial Output and Number of Paper and Paperboard Manufacturing Enterprises in Fujian Province: 2004 – 2012



Source: Fujian Provincial Bureau of Statistics, Almanac of Market Shares in Fujian Province 2013

The gross value of industrial output of paper and paperboard manufacturing enterprises in Fujian Province had been increasing steadily from approximately RMB16,669 million in 2004 to approximately RMB75,864 million in 2012, representing a CAGR of approximately 20.9%. There was a sharp decline in the total number of paper and paperboard manufacturing enterprises, from approximately 657 in 2010 to approximately 459 in 2012, the number of large and medium scale enterprises increased from approximately 56 to approximately 88 in the same period. This was mainly due to the enforcement of the consolidation policy promulgated in the Eleventh Five-Year Plan, which directed the elimination of small scale and environmental sub-standard enterprises, thus accelerating the consolidation of paper and paperboard manufacturing enterprises in Fujian Province.

According to *Almanac of Market Shares in Fujian Province*, paper and paperboard manufacturing enterprises are concentrated in two cities of Fujian Province, Quanzhou (泉州) and Zhangzhou (漳州). In 2012, the market shares of enterprises in Quanzhou and Zhangzhou were approximately 40.22% and 24.62% of the total sales of Fujian Province respectively.

Product Profile in Fujian Province

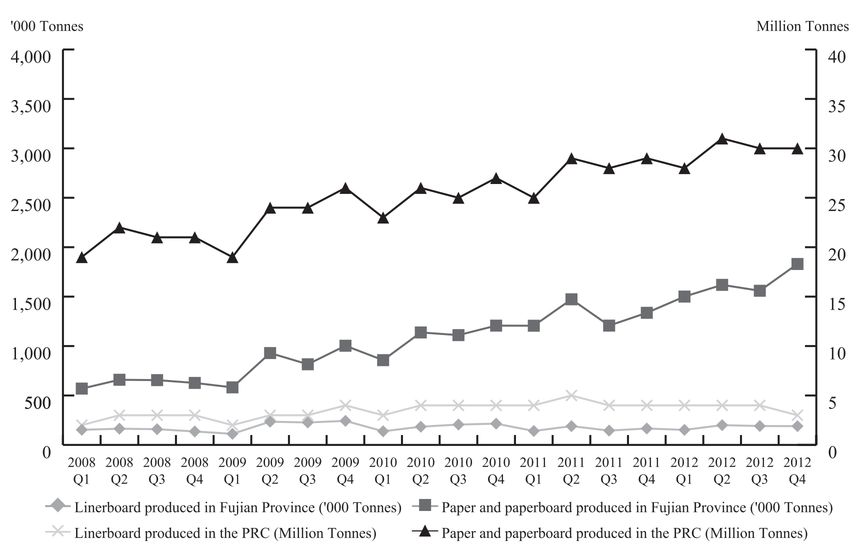
The following table shows the major paper and paperboard products in Fujian Province in 2012:

Products	**Production volume**
	('000 tonnes)
Linerboard	731.0
Household paper	414.5
Un-coated printed and writing paper	329.5
Newspaper	166.0
Coated paper	139.9
Sub-total	1,780.9
Others	3,609.1
Total	5,390.0

Source: Beijing IUUI Network

The chart below compares the production volume of linerboard and paper and paperboard in Fujian Province to the overall in the PRC by above-scale enterprises from 2008 to 2012:

Production Volume of Linerboard and Paper and Paperboard in Fujian Province and the PRC: 2008 – 2012



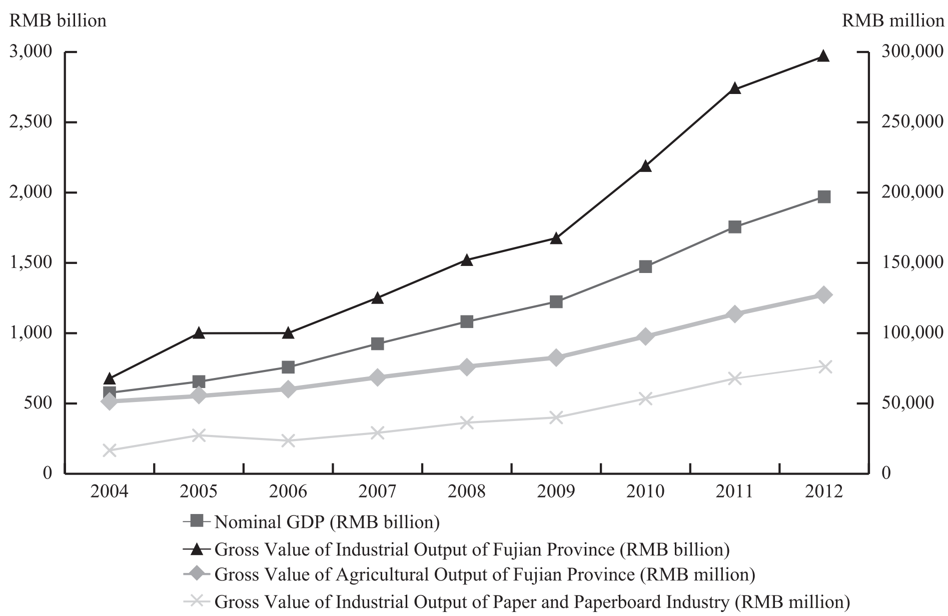
Source: Beijing IUUI Network

The paper and paperboard industry in Fujian Province had achieved a CAGR of 26.9% in term of production volume from 2008 to 2012. The production volume growth of Fujian Province was in line with the overall in the PRC from 2008 to 2011, and outperformed the overall in the PRC in 2012. The outperformance in 2012 was mainly due to (i) an increase in the number of enterprises falling within the statistical definition of above-scale enterprises for sampling purpose by 16 in 2012; and (ii) completion of several production lines which significantly increased production capacities as three of the top 10 paper and paperboard manufacturing enterprises in Fujian Province had completed their construction projects and commenced operation of their new production lines in the last quarter of 2012.

Economic growth of Fujian Province

The economy of Fujian Province has been experiencing a rapid growth in the last decade. The prosperous agricultural and industrial activities in Fujian Province have stimulated continuous demand of packaging products including paper and paperboard products. The following chart illustrates the nominal GDP and the gross value of agricultural output and industrial output of Fujian Province and paper and paperboard industry from 2004 to 2012:

Nominal GDP and Gross Value of Agricultural Output and Industrial Output of Fujian Province and Paper and Paperboard Industry: 2004 – 2012



Source: Fujian Provincial Bureau of Statistics, Almanac of Market Shares in Fujian Province 2013

According to *Fujian Provincial Bureau of Statistics*, the nominal GDP of Fujian Province increased from approximately RMB576 billion in 2004 to approximately RMB1,970 billion in 2012, representing a CAGR of approximately 16.6%. According to *Almanac of Market Shares in Fujian Province*, the gross value of agricultural output of Fujian Province increased from approximately RMB51,453 million in 2004 to approximately RMB126,371 million in 2012, representing a CAGR of approximately 11.9%; whereas the gross value of industrial output of Fujian Province increased from approximately RMB 678 billion in 2004 to approximately RMB2,970 billion in 2012, representing a

CAGR of approximately 20.3%. As illustrated in the chart above, the production growth of paper and paperboard industry was in line with the growth in output of industrial and agricultural industries and overall economic growth in Fujian Province.

RAW MATERIALS

The principal raw materials of the Group for manufacturing paper and paperboard products include waste paper and pulp, which prices are subject to fluctuations according to market conditions.

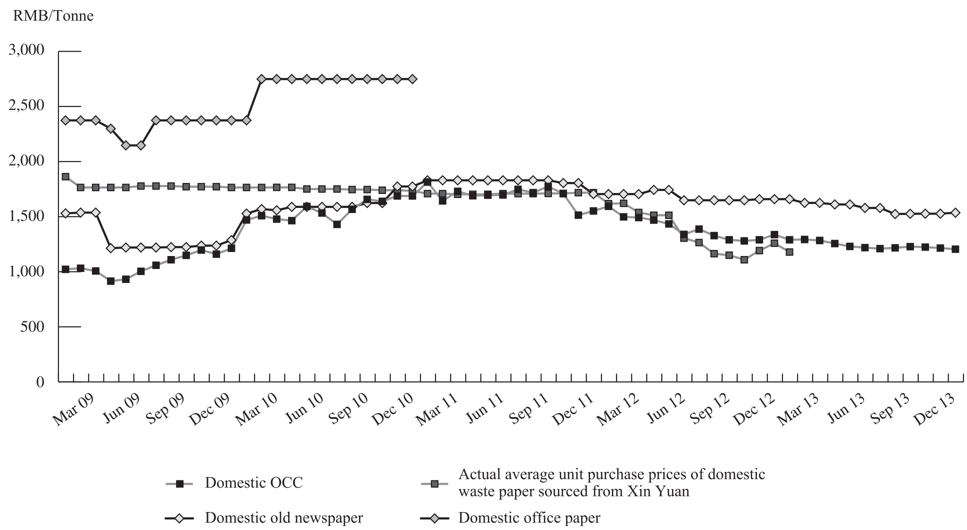
Waste paper

In 2012, the recycling rate of the PRC reached approximately 44.5%, which was lower than that of the developed countries with a general rate of over 60%, showing limited domestic supply of waste paper and leading to heavy reliance on import of waste paper. During the period from 2005 to 2012, the import volume of waste paper increased from approximately 17.0 million tonnes to 30.1 million tonnes, representing an increase of approximately 77.1%.

OCC is a type of waste paper for manufacturing paper and paperboard products. Both domestic and imported OCC prices have increased gradually over the period between January 2009 and December 2013. According to *Umpaper*, the price of domestic OCC had increased gradually from RMB1,022.5 per tonne in January 2009 to RMB1,815.0 per tonne in January 2011 due to the improvement in domestic demand for corrugated paperboard materials in the PRC. However, the domestic OCC price declined to RMB1,206.0 per tonne in December 2013 in response to a slowdown in demand. For the same reason, the price of imported OCC also rose from USD89.0 per tonne in January 2009 to USD239.0 per tonne in August 2011 and declined to USD182.5 per tonne in December 2013 (EU OCC90/10) according to the *Census and Statistics Department of the Government of HKSAR*.

The chart below set forth the domestic waste paper market price trend in the PRC and the Group's actual average unit purchase prices of waste paper sourced from Xin Yuan from January 2009 to December 2013:

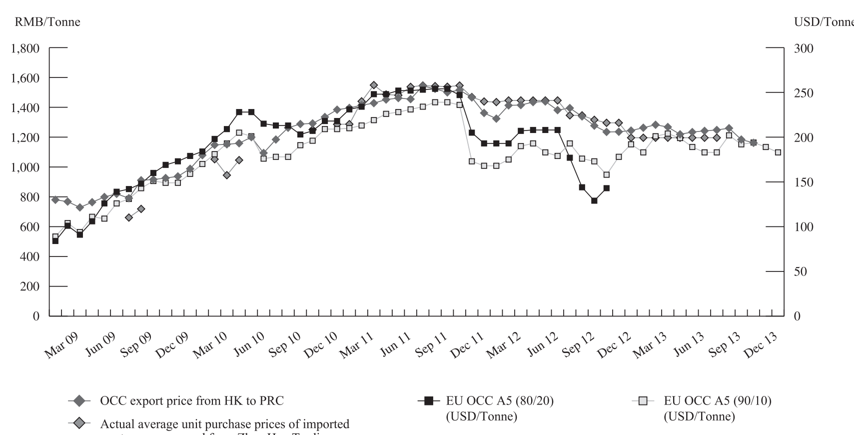
Domestic Waste Paper Price Trend in the PRC



Source: Umpaper

The chart below set forth the market price trend of waste paper imported from Hong Kong and the Group's actual average unit purchase prices of waste paper sourced from Zhau Hau Trading from January 2009 to December 2013:

Imported Waste Paper Price Trend

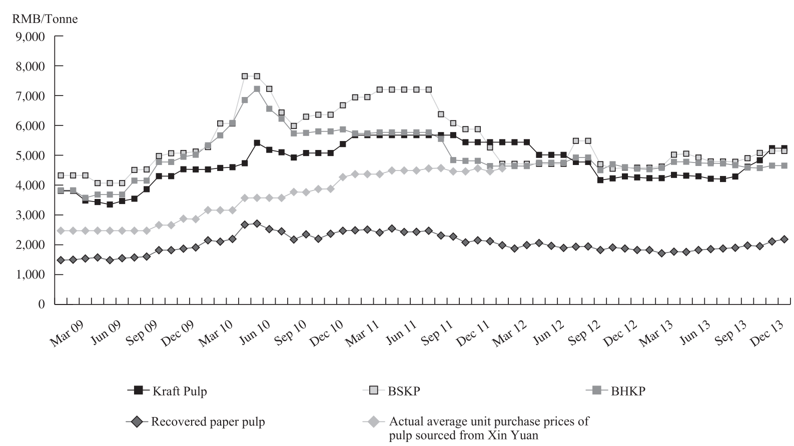


Source: Census and Statistics Department of the Government of the HKSAR, Umpaper

Pulp

Pulp is a kind of fibrous material prepared from wood by chemical or mechanical processes for manufacturing paper and paperboard products. The Group purchases several types of pulp including waste paper pulp, kraft pulp, BSKP and BHKP for its production use. According to *Umpaper*, the overall pulp prices had tended to rise over the period between January 2009 and December 2013 in the PRC. The average pulp price increased from RMB3,360 per tonne in January 2009 to RMB5,750 per tonne in May 2010 resulting from a reduction in supply due to the elimination of backward production facilities and closure of pollutive factories in the PRC pursuant to the PRC government policy. The average pulp price declined to RMB4,304 per tonne in December 2013 with an oversupply of pulp in the PRC. The chart below set forth the movements of the domestic pulp price trend and the Group's actual average unit purchase prices of pulp sourced from Xin Yuan over the period between January 2009 and December 2013:

Domestic Pulp Price Trend in the PRC



Source: Umpaper (kraft pulp, BSKP and BHKP), direct quotations sourced from Independent Third Parties (recovered paper pulp)

The domestic market prices of different types of waste paper and pulp are individually set out in the chart above. The actual average unit purchase prices for waste paper and pulp sourced from the connected suppliers i.e. Xin Yuan and Zhau Hau Trading were weighted average prices of different grades and variety of waste paper and pulp. The Group's average unit purchase prices from the connected suppliers were in general comparable to the weighted average market prices with reference to the same proportion of different quality and variety of waste paper and pulp during the Track Record Period.

SOURCE OF INFORMATION

Non-commissioned sources

The Group has also cited the following non-commissioned, Independent Third Party sources in this prospectus, such that the information disclosed in this prospectus and attributed to the non-commissioned sources is official public information and was prepared in the ordinary course of their activities:

— FAOSTAT, the internet statistical database of FAO containing global data relating to industries including agriculture, forestry and fisheries that covers prices, production and trade statistics;

— Almanac of China Paper Industry 2013, the China Paper Industry Statistical Yearbook which is edited by China Technical Association of Paper Industry and published by China Light Industry Press;

— The National Bureau of Statistics of China, an agency directly under the State Council of the PRC in charge of statistics and economic accounting in China;

— China Paper Association, officially registered with the Ministry of Civil Affairs, serves as a bridge between the government and the paper industry in the PRC, consulting the industry and assisting in government's national decision-making process regarding to the PRC pulp and paper industry;

— Umpaper, an information service provider, offers various kinds of services in China pulp and paper market, including news and prices, market data and analysis;

— Census and Statistics Department of the Hong Kong Government provides the key economic and social statistics in Hong Kong on various aspects including population, external trade, commerce and industry, labour and price;

— Fujian Provincial Bureau of Statistics, an agency directly under the Fujian Provincial People's Government in charge of statistics and economic accounting in Fujian Province;

— Almanac of Market Shares in Fujian Province, the Fujian Province Statistical Yearbook which is edited by Fujian Provincial Administration of Industry and Commerce, Fujian Team of The National Bureau of Statistics of China and Fujian Province Corporate Information Centre; and

— Beijing IUUI Network an information service provider, offers various kinds of services in China paper industry and market, including statistical data, news and analysis.

DIRECTORS' CONFIRMATION

The Directors confirm that after taking reasonable care, there is no material adverse change in the market information since the issue date of the above mentioned sources which may qualify, contradict or have adverse impact on the information in this section.

BUSINESS HISTORY

Mr. Zheng, a founder of the Group and the Chairman of Company, commenced to engage in carton box production in March 1993 by establishing Changtai County Yanxi Carton Factory* (長泰縣岩溪紙箱廠) ("Yanxi Factory") with three individual partners, including Mr. Chen Zhong Xing* (陳中興) (the father of Mr. Chen, a founder of the Group and an executive Director, and father in law of Mr. Zheng Dunqian, an executive Director) and two Independent Third Parties.

Yanxi Factory was established as a collectively-owned enterprise pursuant to an agreement made with Changtai County Yanxi Town Economic Cooperative* (長泰縣岩溪鎮經濟聯合社) (the "Cooperative") in January 1993 (the "Fund-raising Agreement") to support the town's policy of forming collectively-owned enterprises. Under such agreement, the initial registered capital of Yanxi Factory was RMB80,000, which was contributed by the four partners equally, and the Cooperative was responsible for organising formation of Yanxi Factory while the four partners shared the profit/loss of Yanxi Factory. Mr. Zheng contributed his share of RMB20,000 to the initial registered capital of Yanxi Factory out of his own savings. By a letter dated 5 June 2012, the People's Government of Changtai County confirmed that the assets of Yanxi Factory were generated from the capital contributed by the four partners and they were entitled to its assets.

Yanxi Factory commenced carton box production business in properties leased by Mr. Zheng with a total site area of 422 sq.m. in Yanxi Town, Changtai County upon its establishment. In June 1994, the People's Government of Changtai County assigned to Yanxi Factory two sites with a total area of approximately 4.62 mu (equivalent to approximately 3,082 sq.m.) in Jiaodong Area, Yanxi Town, Changtai County for expansion of its operation. The land use right of part of this plot of land with an area approximately 2,803 sq.m. was subsequently acquired by Dunxin PRC in 2003.

In April 1995, Yanxi Factory acquired the land use rights of a site with an area of approximately 3,085 sq.m. adjacent to its production facilities at a consideration of RMB112,650 from a sino foreign joint venture, of which the foreign joint venture partner was controlled by Mr. Cheng Tun Sang (鄭敦生), the elder brother of Mr. Zheng. The payment was solely made out of Mr. Zheng's own capital and the land ownership was registered in name of Yanxi Factory. In November 1995, Yanxi Factory was renamed as Fujian Province Changtai County Yanxi Printing and Packaging Product Factory* (福建省長泰縣岩溪彩印包裝紙製品廠) to reflect the expansion of its business scope to printing operations in addition to the production of paper products.

In December 1996, the partners of Yanxi Factory entered into an agreement for dissolution of partnership and distribution of assets in respect of carton box production operations. Pursuant to such agreement, Mr. Zheng and Mr. Chen Zhong Xing agreed to return to the other partners their investment capital, and they were distributed all the carton box production facilities of Yanxi Factory and to take up all its liabilities. The remaining assets, including retained profits and properties, were shared between the partners. Mr. Zheng and Mr. Chen Zhong Xing carried on the business of Yanxi Factory after completion of the distribution.

In March 2000, in recognition that Yanxi Factory was actually a privately owned enterprise, the Cooperative entered into an agreement with Yanxi Factory to terminate the Fund-raising Agreement. Yanxi Factory became a privately owned enterprise in August 2000 upon Mr. Zheng and Mr. Chen setting up a partnership to continue the operations of Yanxi Factory. The partnership was owned by Mr. Zheng and Mr. Chen as to 90% and 10% respectively, with registered capital of RMB6,000,000, which was contributed by Mr. Zheng and Mr. Chen as to RMB5,400,000 and RMB600,000 through injection of the production facilities of Yanxi Factory owned by Mr. Zheng and Mr. Chen Zhong Xing (on behalf of Mr. Chen, his son, at nil consideration) respectively.

For long term business development, Mr. Zheng and Mr. Chen agreed to convert the partnership into a limited company. In November 2000, Mr. Zheng and Mr. Chen deregistered the partnership and established Dunxin PRC with assets and liabilities transferred from the deregistered partnership. At the time of establishment, the registered capital of Dunxin PRC was RMB6 million and was owned as to 90% and 10% by Mr. Zheng and Mr. Chen respectively, same as in the deregistered partnership. The Group's operating history formally began with the establishment of Dunxin PRC as a limited liability company in November 2000 by Mr. Zheng and Mr. Chen.

The following table set forth the important milestones in the Group's business development history since its establishment:

2000	• Mr. Zheng and Mr. Chen established Dunxin PRC, the Group's principal operating subsidiary in PRC.
	• The Group commenced carton box and poker card production business with production facilities of Yanxi Factory.
2003	• Dunxin PRC acquired the land use rights of the site where its production facilities are situated with an area of 2,803 sq.m. in Jiaodong Area, Yanxi Town from Changtai County Land Resources Bureau (長泰縣國土資源局).
	• Dunxin PRC acquired the land use rights of a plot of land with site area of 20,672.65 sq.m. at Yanxi Industrial Park for relocation and expansion of carton box production as well as printing and poker card production operations.
2004	• Dunxin PRC acquired the land use rights of two adjacent plots of land with site areas of approximately 50,649 sq.m. and 10,052 sq.m. respectively at Guanshan Industrial Park from Dong Xin for new linerboard production plant construction project.
	• Dunxin PRC received regulatory approvals from Fujian Province Changtai County Development and Planning Bureau (福建省長泰縣發展計劃局) and Changtai County Environmental Protection Bureau (長泰縣環境保護局) for construction of its white top linerboard production plant with annual production capacity of 100,000 tonnes at Guanshan Industrial Park.
2006	• Construction work of linerboard production line at Guanshan Industrial Park was completed and Dunxin PRC commenced trial run of the linerboard production line in October 2006.

2007	• Dunxin PRC acquired another plot of land with site area of 30,176 sq.m. adjacent to its existing production plant at Guanshan Industrial Park from Changtai County Land Resources Bureau (長泰縣國土資源局) for future expansion need.
2008	• Dunxin PRC received environmental protection facility inspection report from Changtai County Environmental Protection and Monitoring Station (長泰縣環境保護監測站) in March 2008 and commenced commercial scale operations.
2009	• Dunxin PRC received approval from Fujian Province Changtai County Economic and Trade Bureau (福建省長泰縣經濟貿易局) on construction of coal-fired co-generation power plant at Guanshan Production Plant.
	• Dunxin PRC registered with Fujian Province Changtai County Economic and Trade Bureau (福建省長泰縣經濟貿易局) and carried out technology upgrade at Guanshan Production Plant to enhance the linerboard production capacity to 109,600 tonnes.
2011	• Dunxin PRC commenced upgrade and modification work on existing waste water recycling system to enhance its processing capacity to 10,000 cubic metres per day.
	• Dunxin PRC received approval from Changtai County Environmental Protection Bureau (長泰縣環境保護局) on the environmental assessment report regarding construction of coal-fired co-generation power plant at Guanshan Production Plant.
	• Full operation of the coal-fired co-generation power plant at Guanshan Production Plant for steam and electricity supply in linerboard making process commenced.
2012	• Upgrade and modification work on existing waste water recycling system was completed.
	• Dunxin PRC entered into a lease agreement with Dong Xin to lease the production facilities for high performance corrugated medium with annual production capacity of 100,000 tonnes.
	• Dunxin PRC acquired the land use rights of two plots of land with site areas of 1,066 sq.m. at Yanxi Industrial Park and 30,000 sq.m. at Guanshan Industrial Park respectively.
2013	• Acquisition of the production facilities for high performance corrugated medium with annual production capacity of 100,000 tonnes from Dong Xin together with the land use rights of two sites with a total area of approximately 35,326.6 sq.m.

CORPORATE DEVELOPMENT

Dunxin PRC

Dunxin PRC was formed under the name of Changtai Xin Dunxin Paper Products Co. Ltd.* (長泰縣鑫敦信紙製品有限公司) on 15 November 2000 as a limited liability company in the PRC with an initial registered capital of RMB6 million and was owned as to 90% and 10% by Mr. Zheng and Mr. Chen respectively.

On 2 December 2003, Dunxin PRC changed its name to Fujian Dunxin Paper Co., Ltd.* (福建敦信紙業有限公司) to reflect the management intention of expanding its production capacity.

In order to expand its business scope from carton box and poker card production to manufacture of linerboard product and to finance the relocation of Yanxi Production Plant and the construction project of new linerboard production plant at Guanshan Industrial Park, on 28 October 2004, a shareholders' resolution of Dunxin PRC was passed to expand its business scope and to increase its registered capital from RMB6 million to RMB80 million on a pro rata basis by injection of an additional capital of RMB74 million within a 3 year capital contribution period from the date of registration with local authority as follows:

Period	Percentage of enlarged registered capital to be paid
First 3 month	15%
First year	50%
Second year	80%
Third year	100%

The increase in registered capital was completed in 6 rounds of contribution in combination of cash and physical assets as follows:

	Capital verification report date	Asset verification date	Appraised value of physical assets (Approximate)	Cash	Total value	% of accumulative capital contribution	Remark
			RMB	*RMB*	*RMB*		
1	31 December 2004	30 November 2004	28,914,000	—	28,914,000	43.6%	Note (2)
2	25 May 2005	24 May 2005	2,060,000	630,000	2,690,000	47.0%	
3	9 June 2005	8 June 2005	—	2,412,000	2,412,000	50.0%	
4	11 July 2005	8 July 2005	—	3,000,000	3,000,000	53.8%	
5	20 August 2005	18 August 2005	—	3,000,000	3,000,000	57.5%	
6	11 May 2006	31 March 2006	17,488,000	16,500,000	33,988,000	100.0%	
	Total		48,462,000	25,542,000	74,004,000		

Notes:

(1) All of the capital verification reports were issued by Zhangzhou Xinglong CPA Ltd.* (漳州興隆有限責任會計師事務所).

(2) The first round of capital injection was made in physical assets including a plot of land with site area of approximately 3,085 sq.m., the acquisition cost of which was solely paid by Mr. Zheng as mentioned above. As the appraised value of such plot of land was approximately RMB452,700 and was immaterial in relation to this round of contribution, Mr. Zheng and Mr. Chen confirmed that no adjustment to their respective shareholding percentage was made.

* *for identification only*

Upon completion of such increase in registered capital, the respective shareholdings between Mr. Zheng and Mr. Chen in Dunxin PRC remained unchanged and Dunxin PRC was owned as to 90% and 10% by them respectively.

According to a confirmation dated 2 August 2012 issued by Changtai County Industry and Commerce Bureau (長泰縣工商行政管理局), in 2007, the People's Government of Changtai County pursued the conglomerate development strategy in order to promote the local economy and asked Dunxin PRC to implement such strategy. On 25 May 2007, Dunxin PRC changed its name to Fujian Dunxin Group Co., Ltd.* (福建敦信集團有限公司) for the said purpose.

For the sake of formation of a conglomerate, Mr. Zheng transferred his 70% equity interest in Xin Yuan, a connected company supplying principal raw materials including waste paper and pulp, to Dunxin PRC at a consideration equal to his share of the then registered capital of RMB350,000 in April 2007. For further details of Xin Yuan on its background and transactions with the Group, please refer to the paragraph headed "Relationship with Xin Yuan, Zhau Hau Trading and Tun's HK" of the sub-section headed "Procurement" in the section headed "Business" of this prospectus.

As they became aware of the more stringent lending policy of banks to conglomerate groups, Mr. Zheng and Mr. Chen abolished the conglomerate conversion plan. In December 2007, the 70% equity interest in Xin Yuan was transferred from Dunxin PRC to Mr. Zheng Dunqian (鄭敦遷) at the same consideration of RMB350,000. On 21 December 2007, Dunxin PRC changed its name to Dunxin Paper Co. Ltd (敦信紙業有限責任公司) to reflect its single entity status.

In order to finance the capital expenditure for modification work at Guanshan Production Plant, on 20 August 2009, the shareholders of Dunxin PRC resolved to increase the registered capital of Dunxin PRC from RMB80 million to RMB90 million. Pursuant to the capital verification report dated 23 August 2009 issued by Zhangzhou Xinglong CPA Ltd.* (漳州興隆有限責任會計師事務所), the additional capital injection of RMB10 million was wholly contributed in cash by Mr. Zheng and Dunxin PRC was registered as owned as to 91.11% and 8.89% by Mr. Zheng and Mr. Chen respectively thereafter. Mr. Zheng and Mr. Chen confirmed that Mr. Chen made his share of contribution of RMB1 million through Mr. Zheng and their beneficial interests in Dunxin PRC remained unchanged at 90% and 10% respectively.

On 20 August 2011, Mr. Zheng and Mr. Chen entered into an equity transfer agreement to sell 25% equity interest in Dunxin PRC on a pro rata basis to Zhong Hai and Lung Kei at an aggregate consideration of RMB22.5 million to expand the shareholder base of Dunxin PRC. Zhong Hai and Lung Kei are beneficially owned by two individual investors, Mr. Kung and Ms. Chen, respectively.

Mr. Kung and Mr. Chen Qi Shi (陳其實) ("Mr. QS Chen"), a member of the senior management of the Group and the husband of Ms. Chen, are fellow natives of Shishi City, Fujian Province and have known each other since childhood. Mr. Kung is involved in investments while Mr. QS Chen is mainly engaged in export of waste paper from South East Asia (including Brunei and Malaysia) to the PRC.

* *for identification only*

In February 2007, Mr. QS Chen and Mr. Lee Shing Wai ("Mr. Lee"), an Independent Third Party, formed Zhau Hau Trading. It obtained a License of Registration for Overseas Supplier Enterprise of Imported Scrap Materials as Raw Materials (進口可用作原料的固體廢物國外供貨商註冊證記証書) issued by AQSIQ so that it could export waste paper from South East Asia to the PRC through Hong Kong. During his business engagement in Hong Kong, Mr. QS Chen got to know Mr. Cheng Tun Hum ("Mr. Cheng"), an elder bother of Mr. Zheng who is engaged in the business of trading and procurement of waste paper in Hong Kong.

For the sake of securing stable supply of waste paper in Hong Kong to meet the demand of Dunxin PRC, Mr. Cheng negotiated with Mr. QS Chen for acquisition of interest in Zhau Hau Trading so as to qualify for export of waste paper to the PRC. During the course of negotiation, Mr. QS Chen knew Mr. Zheng and expressed interest to invest in Dunxin PRC.

After negotiation, Mr. QS Chen and Mr. Cheng agreed that in consideration of the transfer of 49% interest in Zhau Hau Trading to him, Mr. Cheng would propose Mr. QS Chen to Mr. Zheng to acquire 25% interest in Dunxin PRC at a price to be determined with reference to the appraised net asset value of Dunxin PRC. After review of its business, Mr. QS Chen decided to invest in Dunxin PRC and then invited Mr. Kung to join in the investment. After negotiation, Mr. Zheng and Mr. Chen agreed to sell a total of 25% interest in Dunxin PRC to Mr. Kung and Mr. QS Chen.

As Mr. QS Chen was then in the waste paper trading business, he needed the import license (held through Zhau Hau Trading) for his operations. After he learned that Mr. Lee intended to quit, he requested Mr. Lee to transfer his 49% interest in Zhau Hau Trading at nil consideration to Mr. Cheng instead of transferring his own interest.

In February 2009, Mr. QS Chen transferred his 51% interest in Zhau Hau Trading to Mr. Xiao Jinzhuan, his friend and a permanent Macau resident. As Mr. QS Chen had not yet obtained his permanent Macau identity card by then, it was inconvenient to him for frequent travel to handle custom clearance matters in Hong Kong. He transferred his 51% interest in Zhau Hau Trading to Mr. Xiao Jinzhuan at nil consideration so that he could continue to use the import license for his trading business through Mr. Xiao if necessary. Following the said transfers, Zhau Hau Trading is now owned as to 51% and 49% by Mr. Xiao Jinzhuan and Mr. Cheng respectively. Mr. QS Chen has confirmed that he has not conducted any business in exporting waste paper from overseas countries to the PRC since he transferred his 51% interest in Zhau Hau Trading to Mr. Xiao Jinzhuan. The Company's PRC legal advisers have confirmed that Mr. QS Chen in his personal capacity can export waste paper to the PRC through Zhau Hau Trading as an agent and such arrangement does not violate the PRC laws and regulations.

Mr. QS Chen and Ms. Chen have confirmed that the equity investment in Dunxin PRC is for the benefit of their family and thus Lung Kei (a company owned by Ms. Chen) made the investment in Dunxin PRC. The equity interest in Dunxin PRC is not held by Lung Kei on trust on behalf of Mr. QS Chen.

Zhong Hai and Lung Kei have confirmed that their investments in Dunxin PRC were made with their own funding sources and no part of the consideration for their acquisition of the 25% equity interest in Dunxin PRC was funded by Mr. Zheng or Mr. Chen or any of their respective associates.

Mr. Kung has confirmed that he is an Independent Third Party. Save that Mr. QS Chen, the husband of Ms. Chen, is a member of the senior management of the Group, Mr. Kung, Ms. Chen and Mr. QS Chen have also confirmed that they do not have any past or present relationships (including without limitation, family, trust, business, employment) or any agreements, arrangements or understanding with the Company, its subsidiaries, shareholders, directors or senior management or any of their respective associates (other than their shareholding in the Company and the equity transfer agreements as disclosed in this section).

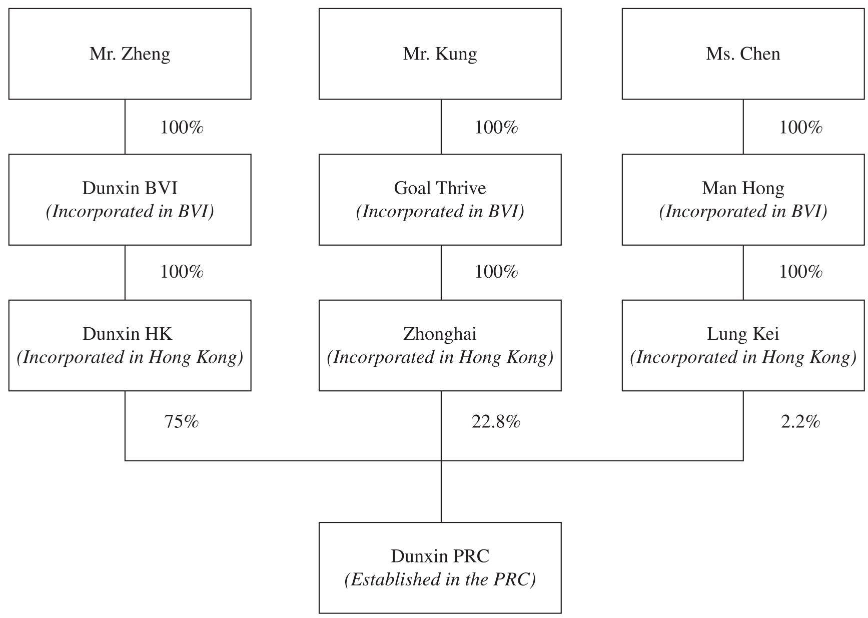
Following completion of the equity transfer, Dunxin PRC was owned as to 67.5%, 7.5%, 22.8% and 2.2% by Mr. Zheng, Mr. Chen, Zhong Hai and Lung Kei respectively. As Sebert (which is beneficially owned by Ms. Hui) and Lung Kei also invested 5% and 2% equity interests in Dunxin PRC through Zhong Hai, respectively, Dunxin PRC was beneficially owned as to 67.5%, 7.5%, 15.8%, 4.2% and 5% by Mr. Zheng, Mr. Chen, Zhong Hai, Lung Kei and Sebert respectively. The consideration of the equity transfer was determined with reference to the appraised net asset value of Dunxin PRC in a valuation report issued by Zhangzhou Xinglong Property and Asset Appraisal Ltd.* (漳州興龍土地房地產資產評估有限公司). After the equity transfer, Dunxin PRC became a sino-foreign joint venture company.

The Company's PRC legal advisers have confirmed that the acquisition of the 25% equity interest in Dunxin PRC by Zhong Hai (a company owned by Mr. Kung) and Lung Kei (a company owned by Ms. Chen) and the conversion of Dunxin PRC into a sino-foreign joint venture company complied with all applicable PRC laws and regulations and were not to circumvent any rules or regulations in the PRC, in particular, the Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (the "M&A Rules"), and would not be subject to challenge by the relevant authorities.

By an agreement dated 12 December 2011, Mr. Zheng and Mr. Chen agreed to transfer 67.5% and 7.5% equity interests in Dunxin PRC to Dunxin HK (a company then wholly owned by Mr. Zheng) at RMB60,750,000 and RMB6,750,000 respectively. Following completion of the equity transfer, Mr. Chen ceased to have any interest in Dunxin PRC, and Dunxin PRC was converted into a wholly foreign owned enterprise.

As part of the reorganisation to prepare for the Listing, Zhong Hai transferred a total of 22.8% equity interest in Dunxin PRC to Charmfield (a company then wholly owned by Mr. Kung) and Lung Kei as to 20.8% (5% of which was in trust for Sebert) and 2% respectively pursuant to an equity transfer agreement dated 17 August 2012. Such transfer was effected to reorganise Mr. Kung's investment in Dunxin PRC; firstly to return to Lung Kei the 2% interest held by Zhong Hai on its behalf and secondly to retain Zhong Hai as his investment vehicle as it has other investments.

Corporate structure before the Reorganisation



Reorganisation

In order to prepare for the Listing, the Group underwent the Reorganisation and the major steps are summarized as follows:

(a) on 7 June 2011, Lung Kei was incorporated in Hong Kong and 604 shares and 396 shares, all of HK$1 each, were allotted and issued for cash at par to Mr. Chen Qishi and Mr. Xiao Jinzhuan, respectively;

(b) on 23 June 2011, Dunxin HK was incorporated in Hong Kong and 9,000 shares and 1,000 shares, all of HK$1.00 each, were allotted and issued for cash at par to Mr. Zheng and Mr. Chen respectively;

(c) on 26 September 2011, Dunxin BVI was incorporated in BVI and 100 shares of US$1.00 each were allotted and issued for cash at par to Mr. Zheng;

(d) on 13 October 2011, Mr. Zheng and Mr. Chen transferred 9,000 shares and 1,000 shares, all of HK$1.00 each in Dunxin HK to Dunxin BVI for cash at par;

(e) on 13 October 2011, Mr. Chen Qishi transferred 604 shares of HK$1.00 each in Lung Kei to Man Hong for cash at par;

(f) on 13 October 2011, Mr. Xiao Jinzhuan transferred 396 shares of HK$1.00 each in Lung Kei to Man Hong for cash at par;

(g) on 31 May 2012, Gang Bo acquired one subscriber share of HK$1.00 in Charmfield for cash at par;

(h) on 17 August 2012, Zhong Hai transferred (i) 20.8% equity interests in Dunxin PRC to Charmfield (5% of which was in trust for Sebert) for RMB18,720,000; and (ii) 2% equity interests in Dunxin PRC to Lung Kei for RMB1,800,000;

(i) on 29 November 2012, Sebert transferred 5% equity interest in Dunxin PRC to Charmfield for HK5,523,000.00 (the "Consideration");

(j) on 5 December 2012, Man Hong transferred the entire issued share capital in Lung Kei to Dunxin BVI for HK$164, which was satisfied by the allotment and issue of an aggregate of 21 shares of US$1.00 each in Dunxin BVI, credited as fully paid, to Man Hong;

(k) on 5 December 2012, Gang Bo transferred the entire issued share capital in Charmfield to Dunxin BVI for HK$630, which was satisfied by the allotment and issue of an aggregate of 80 shares of US$1.00 each in Dunxin BVI, credited as fully paid, to Gang Bo;

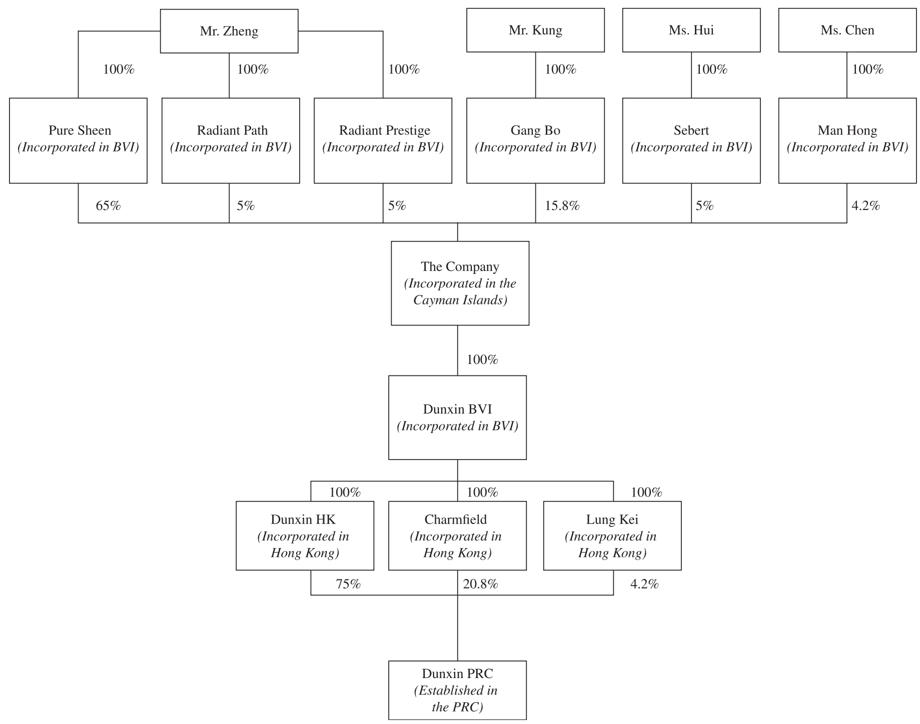
(l) on 5 December 2012, Mr. Zheng, Mr. Kung and Ms. Chen assigned to Dunxin BVI the benefits of their loans of HK$82,979,964.00, HK$17,390,280.00 and HK$4,668,945.98 due from Dunxin HK, Charmfield and Lung Kei respectively in consideration of Dunxin BVI issuing 650 shares, 78 shares and 21 shares, all of US$1.00 each, credited as fully paid, to Mr. Zheng, Gang Bo (as directed by Mr. Kung) and Man Hong (as directed by Ms. Chen), respectively;

(m) on 5 December 2012, Sebert assigned to Dunxin BVI the benefits of the Consideration due from Charmfield in consideration of Dunxin BVI issuing 50 shares of US$1 each, credited as fully paid, to Sebert; and

(n) on 29 May 2014, Mr. Zheng, Gang Bo, Sebert and Man Hong transferred 750 shares, 158 shares, 50 shares, 42 shares, all of US$1.00 each, being the entire issued share capital in Dunxin BVI to the Company in consideration of the Company issuing 5,850 Shares to Pure Sheen, 450 Shares to Radiant Prestige, 450 Shares to Radiant Path (all as directed by Mr. Zheng), 1,580 Shares to Gang Bo, 500 Shares to Sebert and 420 Shares to Man Hong, credited as fully paid, and the Company also credited as fully paid at par an aggregate of 750 Shares issued nil paid on 27 August 2012, as to 650 Shares held by Pure Sheen, 50 Shares held by Radiant Prestige and 50 Shares held by Radiant Path.

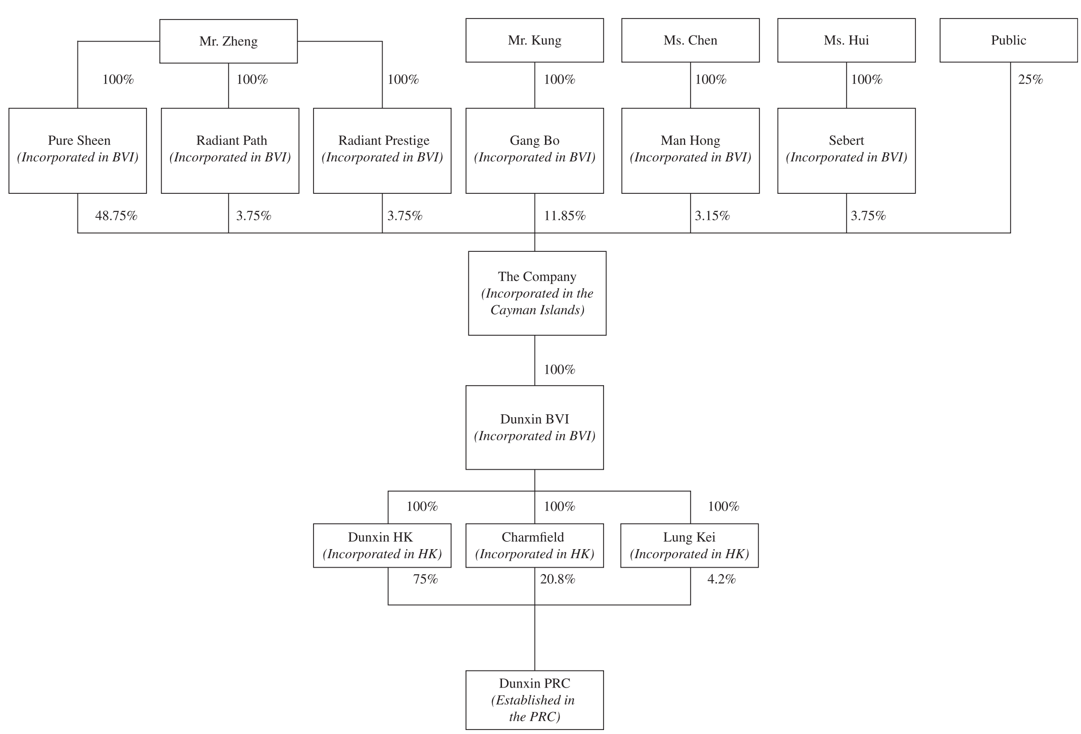
Upon completion of the Reorganisation, the Company became the holding company of the Group.

Corporate structure after the Reorganisation



Corporate structure upon completion of the Share Offer and the Capitalisation Issue

Set out below is the shareholding and corporate structure of the Group immediately after completion of Share Offer and the Capitalisation Issue:



PRC Legal Compliance

On the application of the PRC regulations on overseas offering and listing to the Group, the Company's PRC legal advisers have advised as follows:

SAFE Circular 75

According to the "Notice on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investment via Overseas Special Purpose Companies" (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) (the "SAFE Circular 75") promulgated by the SAFE on 21 October 2005 and effective on 1 November 2005, a PRC domestic resident legal person or a PRC domestic resident natural person is required to effect foreign exchange registration with the competent foreign exchange bureau when such domestic resident uses its enterprise assets or interest in the PRC to establish or take control of an overseas special purpose company and its domestic enterprises receive round-trip investments from funds raised by such overseas special purpose company.

As advised by the Company's PRC legal advisers, SAFE Circular 75 applies to Mr. Zheng as he is a domestic resident natural person. Based on examination work performed by the Company's PRC legal advisers, Mr. Zheng completed relevant registration and filing of his offshore investments in Dunxin HK and Dunxin BVI and round-trip investments with Fujian Provincial Office of SAFE in accordance with SAFE Circular 75 up to December 2011. Mr. Zheng is still required to make overseas investment foreign exchange amendment procedure after the Reorganisation. The Company's PRC legal advisers have advised that there is no legal impediment for Mr. Zheng to make such amendment.

M&A Rules

According to the Article 11 of the Rules on the M&A Rules which became effective on 8 September 2006 and was amended, repromulgated and came into effect on 22 June 2009, where a domestic company, enterprise or natural person intends to takeover its affiliated domestic company in the name of an offshore company which it lawfully established or controls, the takeover shall be subject to the examination and approval of MOFCOM. Avoiding this requirement by making investment through a foreign invested enterprise or by other measures is not allowed.

According to the Manual of Guidance on Administration for Foreign Investment Access (外商投資准入管理指引手冊) promulgated by MOFCOM in December 2008, notwithstanding the fact that (i) the domestic shareholder is connected with the foreign investor or not; or (ii) the foreign investor is the existing shareholder or the new investor, the M&A Rules shall not apply to the transfer of an equity interest in an established foreign invested enterprise (外商投資企業) from the domestic shareholder to the foreign investor.

On the basis that Dunxin PRC has been a foreign invested enterprise since September 2011 after Mr. Zheng and Mr. Chen transferred 22.8% and 2.2% equity interest in Dunxin PRC to Zhong Hai and Lung Kei, which are owned by Mr. Kung, a Hong Kong permanent resident, and Ms. Chen, a Macau permanent resident, respectively, the legal nature of the transfer of 75% equity interest in Dunxin PRC from Mr. Zheng and Mr. Chen to Dunxin HK was a transfer of equity interest in a foreign invested enterprise rather than a domestic enterprise (內資企業) as defined in the M&A Rules. Hence, the acquisition of 75% equity interest in Dunxin PRC did not fall under the M&A Rules and instead falls under the Provision for the Alternation of Investors' Equities in Foreign Invested Enterprises (外商投資企業投資者股權變更的若干規定).

In light of the above, the Company's PRC legal advisers have confirmed that (i) the Group has obtained all necessary approvals and permits, if required, from competent PRC authorities under the PRC laws and regulations in connection with the Reorganisation and the Listing; and (ii) the Reorganisation and the Listing are not required to obtain approvals or consents from MOFCOM, China Securities Regulatory Commission or any other PRC regulatory authorities.

OVERVIEW

The Group is principally engaged in the production and sale of paperboard and related downstream paper and packaging products in the PRC. Its paperboard products primarily include kraftlinerboard, white top linerboard and high performance corrugated medium. Set out below is an analysis of the Group's revenue contributed from different products during the Track Record Period:

	Year ended 31 December					
	2011		2012		2013	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
(i) Paperboard						
— White top linerboard	342,549	35.2	290,583	27.8	278,355	27.2
— Kraftlinerboard	196,226	20.1	200,201	19.1	178,034	17.4
— High performance corrugated medium	206,915	21.3	295,739	28.3	296,448	28.9
(ii) Other paper products						
— Corrugated medium board and box	107,174	11.0	112,814	10.7	127,260	12.4
— Poker cards	121,015	12.4	147,167	14.1	144,526	14.1
Total	973,879	100.0	1,046,504	100.0	1,024,623	100.0

All of the Group's products are sold in the PRC with primary focus in Fujian Province. For the Track Record Period, over 90% of the Group's revenue was derived from customers in Fujian Province. According to confirmations issued by Fujian Province Paper Association (福建省紙業協會)*Note* dated 1 August 2012, 20 November 2013 and 11 June 2014 respectively the Directors believe the Group was the only white top linerboard producer in Fujian Province as at the Latest Practicable Date. It creates competitive advantage in term of delivery time and logistic costs in Fujian Province as compared with suppliers from other provinces.

The Group currently owns and operates two production plants in Zhangzhou, Fujian Province. Its integrated paperboard production plant at Guanshan Industrial Park has an aggregate annual production capacity of approximately 209,600 tonnes. The plant at Yanxi Industrial Park has a production capacity of approximately 61,600,000 sq.m. of corrugated medium board and box and approximately 173,448,000 sets of poker cards annually.

Note: Fujian Province Paper Association is an industry organization found by a group of local manufacturers in 1995. In 2008, the Department of Civil Affairs of Fujian Province approved Fujian Province Paper Association as a provincial level industry organization. It acts as a communication channel between the Fujian government and the local industry players. It is also a council member of China Paper Association, the national paper and paperboard industry organization in the PRC.

Set out below is a financial and operational highlight of the Group's business performance for the Track Record Period:

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	973,879	1,046,504	1,024,623
Gross profit	208,245	228,060	217,297
Profit for the year	136,189	138,991	142,701

		2011		**2012**		**2013**	
		Sales volume	**Average unit price**	**Sales volume**	**Average unit price**	**Sales volume**	**Average unit price**
			(RMB)		*(RMB)*		*(RMB)*
(i)	Paperboard (tonnes)						
	— White top linerboard	65,280	5,247	59,904	4,851	62,780	4,434
	— Kraftlinerboard	43,698	4,491	46,453	4,310	46,989	3,789
	— High performance corrugated medium	51,139	4,046	77,884	3,797	86,247	3,437
	Total paperboard	160,117	4,657	184,241	4,269	196,016	3,841
(ii)	Other paper products						
	— Corrugated medium board and box (sq.m.)	24,484,207	4.38	26,385,019	4.28	32,850,638	3.87
	— Poker cards (sets)	114,617,976	1.06	161,888,140	0.91	167,822,046	0.86

Paperboard products accounted for over 70% of the Group's revenue contribution and its overall sales volume increased from approximately 160,117 tonnes to 196,016 tonnes, representing a CAGR of 10.6% for the same period. Such growth was primarily due to the increase in sales and production volume of corrugated medium following the lease and subsequent acquisition of the then Dong Xin's production facilities in 2012 and in late 2013 respectively.

The sales pattern of corrugated medium board and box and poker cards also exhibited an upward trend. The sales volume of corrugated medium board and box increased from approximately 24,484,207 sq.m. in 2011 to approximately 32,850,638 sq.m. in 2013, whereas the sales volume of poker cards increased from approximately 114,617,976 sets in 2011 to 167,822,046 sets in 2013, representing a CAGR of 15.8% and 21.0% for the same period respectively.

With the growth of overall sales volume, the Group achieved growth in both revenue and gross profit of approximately 7.5% and 9.5% between 2011 and 2012 respectively. Following high utilization of Group's production capacity in particular paperboards and poker cards since 2012, the revenue and gross profit slightly declined by approximately 2.1% and 4.7% respectively between 2012 and 2013.

Such decline was attributed to the continuous squeeze in the average selling prices of all the Group's paper and paperboard products, resulting from tough business environment and the Group's focus on own brand poker card product development strategy since 2011.

By taking a more cautious approach in cost control, the Group was able to maintain its profitability throughout the Track Record Period.

To deliver Shareholders' value in the future, the Group intends to pursue business strategies in (1) expanding its production capacity to introduce additional paperboard products as well as (2) achieving full integration of its downstream product production chain. To achieve this goal, the Group is committed to continuous investment to upgrade its production facilities, improve product quality and expand its customer base.

COMPETITIVE STRENGTHS

The Directors consider that the Group's success and potential growth are attributable to the following competitive strengths:

Proximity to customers

The Group's production plants are located in Zhangzhou where the fruit plantation and industrial activities in the region and its close link to Xiamen port create huge demand for paper packaging products. According to the Fujian Provincial Bureau of Statistics[Note 1], the total fruit production in Fujian Province for 2011 and 2012 amounted to approximately 6.1 million tonnes and 6.3 million tonnes respectively, for which Zhangzhou accounted for over 44% and 44% respectively.

Xiamen port was ranked the seventh and eighth busiest port in the PRC by the Ministry of Transport of the PRC[Note 2] in terms of container throughput volume in 2011 and 2012 respectively. It is one of the important transportation hubs in Fujian Province for export and manufacturing activities. The total value of goods exported from Xiamen City in 2011 and 2012 were approximately US$42.6 billion and US$45.4 billion respectively, representing approximately 45.9% and 46.4% of the total value of export from Fujian Province in these two years respectively. The gross output values of industrial enterprises above designated size for Xiamen City in 2011 and 2012 were approximately RMB440.0 billion and RMB449.0 billion respectively, representing approximately 16.0% and 15.0% of the total gross output value of industrial enterprises above designated size of Fujian Province respectively. The value of industrial output and value of export from Xiamen City ranked among the top three for major cities in Fujian Province in 2011 and 2012 respectively.

For the Track Record Period, approximately 50% of the Group's total revenue was derived from sales in the local region including Zhangzhou, Longhai and Xiamen. Given transportation costs are one of the important factors in making purchase decision for paperboard products, the proximity of its production plants to customers provides the Group with competitive advantage in terms of delivery time and logistic costs as compared to suppliers from further areas within Fujian Province and neighbouring provinces such as Guangdong and Zhejiang.

Note 1: Fujian Provincial Bureau of Statistics is a provincial-level agency directly under the Fujian Provincial Government. It is responsible for the compilation of statistics and economic accounting in Fujian Province and provides support in the application of the statistics and economic information.

Note 2: The Ministry of Transport of the PRC is a principal agency of the PRC government responsible for developing strategies, regulations and standards for road, water and air transportation.

Established market position with proven product strategy

Paperboards are typical industrial products and their markets exhibit a high degree of localization due to transportation cost concern. According to confirmations issued by Fujian Province Paper Association (福建省紙業協會) dated 1 August 2012, 20 November 2013 and 11 June 2014, respectively, the Directors believe the Group was the only white top linerboard manufacturer in Fujian Province as at the Latest Practicable Date. Hence, the availability of white top linerboard products enables the Group to have a competitive advantage in terms of product uniqueness in the local region. Such competitive advantage also drives the demand for the Group's other paperboard products as customers of white top linerboard usually also require kraftlinerboard and high performance corrugated medium for carton box production.

Given the Group's well established market position in paperboard products, the Directors believe that the Group is well-positioned to further expand its market share in China with the introduction of new products.

Capability of achieving full integration of paper product production chain

The Directors believe that the Group is one of the few paper product manufacturers in the PRC comprising both upstream papermaking and downstream end product application operations. Such multi-facet product strategy enables the Group to capture different product segments and achieve full integration of its production chain.

Since 2012, the Group has utilized a portion of its paperboard product output for some of the Group's corrugated medium box production orders to meet the demands of its customers for high quality products. In the future, the Group will gear more of its development focus to further integrate its existing packaging and poker card products with its operational experience in papermaking business. For further details, please refer to the section headed "Future Plans and Use of Proceeds" of this prospectus. The Directors believe that adoption of such strategy would secure the Group's raw material supply for its downstream product operations and enhance the profitability over time.

Sound leadership of management team

The Group's daily operation is supervised and managed by Mr. Zheng, a founder of the Group and the Chairman of the Company, who has more than 19 years of management and operational experience in the paper industry. The management functions are undertaken by experienced senior management staff with in-depth knowledge in various operational aspects. Their experiences ensure the smooth operation of the Group and contribute to the good business relationship with its customers and suppliers. For detailed profile of Mr. Zheng and the Group's senior management members, please refer to the section headed "Directors, Senior Management and Employees" of this prospectus.

PRODUCTS

The Group's principal products are paperboards, including kraftlinerboard, white top linerboard and high performance corrugated medium. The Group's paperboard products are manufactured with reference to GB/T 13024-2003, GB/T 22806-2008 and GB/T 13023-2008, PRC industrial standards for paperboards. The Group also produces corrugated medium board and box and poker card products.

The following is a brief description of the Group's principal products:

(i) Paperboards

The Group primarily sells and produces three types of paperboard products, namely kraftlinerboard, white top linerboard and high performance corrugated medium.

Kraftlinerboard

Kraftlinerboard is a three-ply sheet of unbleached linerboard manufactured from unbleached kraft pulp and waste paper. The unbleached kraft pulp gives kraftlinerboard a brown colour outlook. Kraftlinerboard is used as the outer facing material in the production of corrugated medium board.

White top linerboard

White top linerboard is another type of linerboard comprising a three-ply sheet of which one layer is manufactured from bleached kraft pulp to provide a white surface. With the white surface, logos, brands or graphics can be printed on it clearly. This is mainly for those customers who look for a superior appearance or high quality printability.

High performance corrugated medium

High performance corrugated medium is a sheet of test linerboard comprising a two-ply sheet manufactured from waste paper. The high performance corrugated medium goes through a process known as corrugation to form a continuous rolling wave structure. It is also known as flute and is used as the cushioning (medium) layer of corrugated medium board to give strength for supporting weight.

The following table set out certain specifications of the Group's paperboard products:

Product	Average burst index	Average stacking strength	Basis weight	Waste paper content
	(KPa. m^2/g)	*(Nm/g)*	*(g/m^2)*	*(%)*
Kraftlinerboard	2.4–3.0	6.0–9.0	100–220	80–90
White top linerboard	2.2–2.7	6.0–11.5	100–220	70–75
High performance corrugated medium	—	7.0–10.5	100–220	90–100

(ii) Other paper products

Corrugated medium boards and boxes

A single wall board, the simplest structure in corrugated medium board product, is a stiff, strong and light-weight board made up of three layers of linerboard. It mainly consists of a fluted high performance corrugated medium surfaced by one or two flat linerboards. The Group is capable of producing up to triple-wall board, which comprises of three layers of corrugated medium and four layers of linerboard. It is suitable for package of consumer products. Corrugated medium box (commonly known as carton box) is made of corrugated medium board die-cut into the required shape and size, then folded and glued to form a container box. The Group produces two types of corrugated medium products: plain corrugated medium board without printing; and printed corrugated medium box with logos, brands or graphics printed on the box's surface according to the customer's specifications.

Poker cards

The Group manufactures and sells poker card products which are classified into two major types: own-brand and customers' orders. The Group's own-brand poker cards are marketed under various trade marks including "Dunxin" (敦信), "Rizer" (標王) and "Shui Xian Hua" (水仙花) whereas poker cards for customers' orders are produced in accordance with specified designs of customers and are generally used as gift and souvenir for their marketing and advertising purposes. In view of the non-recurring nature of customers' orders, beginning in 2012, the Group has focused on own brand products in order to maintain a relatively sustainable development and revenue contribution from customers' orders has reduced since then, representing approximately 41.3%, 11.8% and 4.5 % of the Group's poker card sales for the Track Record Period respectively. For further details, please refer to the sub-section headed "Revenue" in the section headed "Financial Information" of this prospectus.

SALES AND MARKETING

Customers

The Group has a broad customer base in the PRC. Its customers include manufacturers, trading companies, orchards and retailers. For the year ended 31 December 2013, the Group had about 143 customers, approximately 120 of whom had trading relationship with the Group for at least three years.

The following table set forth a breakdown of the Group's revenue by customer type during the Track Record Period:

	Year ended 31 December					
Product type	**2011**		**2012**		**2013**	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
Paperboard						
— Manufacturers	719,376	73.9	750,067	71.7	714,554	69.7
— Trading companies	26,314	2.7	36,456	3.5	38,283	3.8
Subtotal — paperboard	745,690	76.6	786,523	75.2	752,837	73.5
Corrugated medium boards and boxes						
— Orchards and food processing factories	51,168	5.2	71,578	6.8	72,880	7.1
— Manufacturers	45,645	4.7	33,991	3.2	44,565	4.3
— Trading companies	10,361	1.1	7,245	0.7	9,815	1.0
Subtotal — corrugated medium boards and boxes	107,174	11.0	112,814	10.7	127,260	12.4
Poker cards						
— Trading companies	94,927	9.7	107,817	10.3	95,605	9.3
— Retailers	26,088	2.7	39,350	3.8	48,921	4.8
Subtotal — poker cards	121,015	12.4	147,167	14.1	144,526	14.1
Total	973,879	100.0	1,046,504	100.0	1,024,623	100.0

The Group's paperboard products are primarily sold to local paper container and packaging product manufacturers. These manufacturers further produce corrugated medium boxes and other paper container products from purchases of the Group and supply to manufacturers and trading companies of various consumer and industrial products such as food, electronics and textiles.

The major customers of the Group's corrugated medium box products include orchards and food processing factories. It also serves orders from manufacturers of various industries. These customers generally place their purchase orders with specified dimensions, strength and print patterns for product packaging and identification purpose. The Group's poker card products are mainly sold to trading companies and retailers.

The following table shows the Group's revenue contribution by provinces and municipalities of China for the Track Record Period by percentage:

	Years ended 31 December		
Locations	**2011**	**2012**	**2013**
	%	%	%
Beijing	1.95	1.95	1.22
Fujian	94.08	94.01	93.02
Guangdong	1.39	1.04	2.06
Heilongjiang	—	—	0.99
Jiangsu	0.05	0.25	—
Jiangxi	0.51	0.97	0.54
Liaoning	0.16	0.14	1.78
Shandong	0.39	0.34	0.02
Yunnan	—	—	0.37
Zhejiang	1.47	1.30	—
Total	100.0	100.0	100.0

The Group's primary market is Fujian Province. Its production plants are connected to an extensive network of highways. Due to the Group's proximity to a majority of its customers, the Group can provide cost-effective and timely delivery to its customers. Sales made outside Fujian Province are mainly poker cards.

For the Track Record Period, the Group's five largest customers accounted for approximately 12.8%, 15.9% and 14.6% of its total revenue, respectively, and the largest customer accounted for approximately 2.7%, 3.5% and 3.0% of the Group's total revenue, respectively. None of the Directors, their associates or any Shareholder who, to the knowledge of the Directors, owns more than 5% of the issued share capital of the Company immediately following completion of the Share Offer and the Capitalisation Issue (taking no account of any Shares which may be taken up under the Share Offer), has any interest in any of these five largest customers.

Except the effect of the long Chinese New Year holidays, the Group had not experienced any material seasonal fluctuation in its sales pattern during the Track Record Period.

Sales and marketing activities

As the Latest Practicable Date, the Group's sales and marketing department had approximately 18 personnel organized into three sales teams for paperboard products, corrugated medium board and box, and poker cards respectively.

Sales representatives of the Group are responsible for order administration matters including handling order enquiries, liaising on production schedule and product delivery with production department and, if necessary, logistic companies upon confirmation of orders. They also visit potential customers to explore new business opportunities.

Sales representatives visit existing customers to obtain their feedback on the Group's products and market information, including changes in product demand and specifications and business conditions. The Group is a member of various industry organisations including Fujian Paper Association (福建造紙協會) and Chinese Stationery and Sporting Goods Association (中國文教體育用品協會), which provide another channel for the Group to exchange industry and market information with other industry players.

To motivate the sales representatives to expand sales, the management reward their work performance with an incentive payment. For the Track Record Period, the Group incurred incentive payment of approximately RMB953,000, RMB1,096,000 and RMB1,088,000 respectively.

Sales and marketing channels

All of the Group's products are made for direct sales.

For paperboard products, the target customer groups are manufacturers and trading companies. As manufacturing customers are direct users of the Group's products, they generally place orders with the Group directly. Since the Group does not serve small volume purchase orders for logistic efficiency, some trading companies specialized in trading of paper and paperboard products act as wholesalers to collect and consolidate small orders from their own network of small scale manufacturers and place orders with the Group. The Group does not have any contractual relationship with customers of such trading companies.

For corrugated medium board and box products, the target customer groups include orchards and food processing factories, manufacturers and trading companies. As these customers are also end users, they place purchase orders directly with the Group.

For poker card products, the target customer groups include retailers and trading companies who directly place purchase orders with the Group. These retailers are generally local individual small retail shops such as grocers and stationery shops and they stock up their own inventory from the Group for retail sale. Since the Group does not serve small volume of purchase orders for logistic efficiency, trading companies placing orders for the Group's poker card products mainly serve as wholesalers for a group of small retail shops or retail store chains in further areas. These trading companies collect and consolidate small orders from their customer networks and then select and place purchase orders with suppliers (including the Group) in accordance with customers' needs. The Group does not have any contractual relationship with customers of such trading companies. There is no consignment or distribution arrangement between the Group and these trading companies. The Directors confirm that these trading companies are Independent Third Parties with no past or present relationship or any agreements, arrangements or understanding with the Company, its subsidiaries, shareholders, directors or senior management or any of their respective associates save for the sale and purchase of the Group's products.

The Group usually procures new customers through the following methods:

(1) Customer direct approach: As transportation costs are a major component of the total purchase cost (product cost plus transportation cost) for the Group's paperboards and corrugated medium board and box products, customers in neighbouring areas directly approach the Group to source necessary products. Hence, the majority of sales orders for paperboards and corrugated medium board and box products were from customers in Zhangzhou and Xiamen for the Track Record Period.

(2) Business referral: Occasionally the Group receives business referrals from existing customers and through the social and business network of the management team.

(3) Customer site visit: The Group's sales team visits potential customers through appointments made from cold calls or through business referrals. The sales representatives will introduce the Group's products to these potential customers to solicit new orders. Some of the paperboard customers in further areas such as Jinjiang and Shishi and poker card customers are developed through customer site visits.

(4) Trade fair: The Group has participated in trade fairs and exhibitions in Shenyang, Zhengzhou, Chongqing and Wuhan organised by the People's Government of Changtai County to promote the "Dunxin" brand and its poker card products. The Group has received poker card orders from customers in other provinces through trade fairs.

(5) Advertising and sponsorship: The Group has placed billboards on transportation networks in Fujian Province. In 2011, the Group also sponsored poker cards as free gift for a Hong Kong singer's concert in Fujian Province to raise brand awareness.

Terms of sales and credit policy

The Group normally enters into non-binding annual memoranda of understanding with its customers each year. The annual memoranda of understanding set out the projected annual sales volume with reference to the production capacity of the Group and the customers' production plans for the year, and indicative price levels of individual products. They enable the Group to plan its production schedules.

Actual quantity and price for delivery are agreed upon confirmation of individual sales order on a monthly basis. The major terms of sales to its customers set out in the sales orders include specification, quantity and price of the products, the delivery arrangements and payment terms. The prices and quantities of the products are fixed in the sales orders, which have no price adjustment provision. The Group usually delivers products to its customers within 30 days of entering of the sales orders. Taking into account of production scheduling, the time duration from customer order placing to completion of production order ranges from 3 to 10 days.

The Group adopts cost plus pricing policy. Principal factors for determination of product price include direct manufacturing costs, operating overhead, market demand and pricing of similar products.

The Group determines its product prices on a monthly basis. The finance department will provide product cost information as reference point for determination of prices. The sales department will then make mark up with target gross profit margins to arrive at suggested selling prices and make comparison with the public quoted market prices for similar products if available (e.g. paperboard products). The suggested selling prices are finally approved by Mr. Zheng.

The sales department is responsible for comparing the suggested selling prices with the Group's costing information before the sales orders are confirmed. During the Track Record Period, the Group had not experienced any cost overrun for its products. The Directors have confirmed that the Group's pricing policy is in line with industry practice.

Given the short period involved for fulfilling orders on hand, the Group has a sufficient inventory level (i.e. inventory turnover rate of approximately 39.6 days, 34.9 days and 26.2 days for the Track Record Period) to withstand raw material price fluctuation during such period. For further details of the Group's inventory management policy, please refer to the sub-section headed "Inventory Management" in this section.

In addition, the Group purchases raw materials on a continuous basis and revises product pricing with reference to updated costing information for new sales orders on a monthly basis. In view of above, the Group's exposure to raw material price fluctuation is immaterial in the absence of abrupt significant changes, and the Group is generally able to pass on the increase in production cost to its customers.

The Group offers customers different sales and credit terms depending on their volume of purchases, reputation and credit worthiness. Customers are required to settle the payment via bank remittance, cheque or bills with credit periods ranging from 30 to 120 days upon receipt of the products. Customers have 7 days from the date of delivery of products to raise issue on the products. Pursuant to the Group's credit policy, credit periods ranging from 30 to 120 days are granted to paperboard product customers; 30 to 120 days to corrugated medium board and box customers and 30 to 90 days for poker card customers.

The Group regularly reviews the collection status of the accounts receivables. When any accounts receivables become overdue, the Group will contact the relevant customers to follow up. Based on its assessment of the recoverability of the accounts receivables, the Group will make allowances for bad and doubtful debts accordingly. For the Track Record Period, the Group had not experienced any material bad debt.

Logistics and product delivery

Prior to June 2011, the Group primarily relied on an Independent Third Party logistic service provider for product delivery in local area. The Group enters into an annual logistic service agreement with the service provider which set out the principal terms of services including the unit rates charged for major destinations. The service provider is responsible for all risks relating to the products in transit upon completion of loading.

In order to reduce reliance on external service, the Group set up its own truck fleet for product delivery within Fujian Province and northern region of Guangdong Province in June 2011. The Group primarily arranges product delivery using its own truck fleet, and will use the Independent Third Party logistic service provider if its own truck fleet is fully engaged. As at the Latest Practicable Date, the

Group owned a fleet of 16 trucks, all of which are equipped with global positioning satellite navigation systems, to provide full-year uninterrupted delivery services to customers in major cities in Fujian Province, including Zhangzhou, Xiamen, Longyan, Jinjiang and Fuzhou, as well as the northern region of Guangdong Province such as Shantou.

Customers in further areas such as Beijing generally arrange their own logistics and take delivery at the Group's production plants. Hence, the Group generally does not engage any service provider for delivery to areas outside Fujian Province.

For the Track Record Period, the Group had not made any material claim against the service provider.

PRODUCTION FACILITIES

Production Plants

Currently, the Group owns and operates two production plants at Guanshan Industrial Park and Yanxi Industrial Park in Changtai County, Zhangzhou, Fujian Province. The following map shows the approximate geographical location of the two production plants:

Both production plants are strategically located close to Zhangzhou City and Xiamen City, both are major transportation hubs in Fujian Province. With well-developed highway transportation networks connecting to these two cities, the travel distances from Guanshan Industrial Park to Zhangzhou City and Xiamen City are about 17.5 km and 69.7 km and from Yanxi Industrial Park are about 35.6 km and 63.8 km respectively. The proximity of the Group's production plants to these two cities enables the Group to deliver products to its customers located there efficiently. The network of highways connecting Xiamen City and other major cities in Fujian such as Quanzhou and Fuzhou also facilitate the development of customers in these areas.

Guanshan Production Plant has a total site area of around 156,000 sq.m. and is equipped with three paperboard production lines, one for linerboard products and two for high performance corrugated medium, and ancillary production facilities including coal-fired co-generation power plant and waste water treatment unit. The Group's high performance corrugated medium production facilities were previously leased from Dong Xin. In August 2013, the Group acquired these production facilities including the production plant, lands and production machinery for a total consideration of RMB129,840,000 in cash.

Yanxi Production Plant produces corrugated medium box and poker card products on a site of approximately 21,700 sq.m. It has a workshop for corrugated medium box and another for poker cards. Major facilities installed at Yanxi Production Plant include a computerized high performance corrugated medium board production line, automated high resolution printing machine for printing of poker cards and outer surface of corrugated medium board and an integrated poker card assembly and packaging production line. The production capacities of these production plants are as follows:

A. Guanshan Production Plant — paperboard products

Paper production line	Principal products	Maximum paper width	Maximum speed	Estimated maximum annual production output	Year of commencement of operation
				(Tonnes)	
1	Kraftlinerboard and white top linerboard	3,800 mm	450 m/minutes	109,600	2008
2	High performance corrugated medium	2,900 mm	250 m/minutes	50,000	2000
3	High performance corrugated medium	3,200 mm	300 m/minutes	50,000	2004
Total				209,600	

B. Yanxi Production Plant — Corrugated medium board and box and poker cards

Production line	Principal products	Maximum annual production output	Unit	Year of commencement of operation
1	Corrugated medium board and box	61,600,000	sq.m.	2003
2	Poker cards	173,448,000	sets	2003

The maximum speed and maximum paper width of the corrugated medium board and box production line of Yanxi Production Plant is 80 metres per minute and 1,600 millimetres.

The Group's engineers carry out inspection and maintenance of equipment and machinery on a regular basis to maintain their optimum performance. Linerboard production lines are subject to routine inspections and maintenance schedule and are shut down twice a month for a total of approximately 16 hours (8 hours each time) between change of production schedules. Inspection and maintenance of the corrugated medium board and poker production lines are scheduled between shifts and does not require suspension of production. The Directors have confirmed that the duration of such maintenance schedule is determined with reference to the scale of the Group's production facilities and manpower involved in the maintenance work. For the Track Record Period, there had been no material disruption to the Group's operations as a result of any lack or malfunctioning of equipment and machinery.

The following tables set forth the year of installation/acquisition, condition and age of the Group's major production equipment:

Principal production facilities at Guanshan Production Plant	Age (years)	Estimated remaining useful life (years)	Year of installation/ acquisition
• One 3,800 mm kraftlinerboard and white top linerboard production line	8	10	2006
• One 2,900 mm high performance corrugated medium production line	13.5	4.5	2013
• One 3,200 mm high performance corrugated medium production line	10	8	2013

Note: The Group acquired the 2,900 mm and 3,200 mm high performance corrugated medium production lines from Dong Xin in August 2013.

Principal production facilities at Yanxi Production Plant	Age (years)	Estimated remaining useful life (years)	Year of installation/ acquisition
• One 1,600 mm multi-wall corrugated medium board and box production line with flexo printing machines	4	14	2010
• Offset printing machine	3	13	2011

Note: The estimated useful life of each machine and equipment is based on the estimates of the manufacturer's engineers.

In view of the current conditions of its production facilities, the Group does not have any major replacement plan.

The following table set out the Group's annual designed production capacity, actual production output and approximate utilisation rate of each product line for the Track Record Period:

	Unit	Year ended 31 December 2011	2012	2013
A. Designed Production Capacity				
Guanshan Production Plant				
— Linerboard *(Note 1)*	'000 tonnes	109	109	109
— High performance corrugated medium *(Notes 2 & 3)*	'000 tonnes	N/A	100	100
Yanxi Production Plant				
— Corrugated medium boards and boxes *(Note 4)*	'000 sq.m.	61,600	61,600	61,600
— Poker cards *(Note 5)*	'000 sets	173,448	173,448	173,448
B. Actual Production Output				
Guanshan Production Plant				
— Linerboard	'000 tonnes	108	107	108
— High performance corrugated medium	'000 tonnes	N/A	80	85
Yanxi Production Plant				
— Corrugated medium boards and boxes	'000 sq.m.	24,500	26,016	32,682
— Poker cards	'000 sets	115,000	158,610	167,000
C. Utilisation Rate (%)				
Guanshan Production Plant				
— Linerboard		99%	98%	99%
— High performance corrugated medium		N/A	80%	85%
Yanxi Production Plant				
— Corrugated medium boards and boxes		40%	42%	53%
— Poker cards		66%	91%	96%

Notes:

1. The designed annual production capacity of the linerboard production line is determined on the following assumptions:

   (i) 24 hours 3 shifts per day and 357 days basis after taking into account of routine inspections and maintenance; and

   (ii) the maximum paper width produced from the machine is 3,800 millimeters.

   The production output of papermaking machine (in term of product weight) is determined by the formula of speed (m/min) x paper width (m) x basis weight (g/m^2). In general, there is an inverse relationship between speed and basis weight. i.e. the higher the basis weight (the thicker the paper produced), the lower the speed. Based on the recommendation of the Group's linerboard production line supplier for optimum operating condition, the running speed of 450 m^2/min, the machine's maximum speed, is suitable for production of paperboard product with 100 g/m^2 basis weight. As the maximum paper width is fixed, the production output (in term of product weight) is determined with reference to the different combinations of speed and basis weight. As the combination of 220 g/m^2 (basis weight) and 225m/min (speed) gives the highest production output, it is used as the maximum annual production capacity.

2. The designed annual production capacity of the high performance corrugated medium production line is determined on the following assumptions:

   (i) 24 hours 3 shifts per day and 357 days basis after taking into account of routine inspections and maintenance;

   (ii) for paper production line no. 2, high performance corrugated medium with basis weight of 145 g/m^2 suitable for production under maximum operating speed of 225 metres per minute and maximum paper width of 2,900 millimetres; and

   (iii) for paper production line no. 3, high performance corrugated medium with basis weight of 145 g/m^2 suitable for production under maximum operating speed of 245 metres per minute and maximum paper width of 3,200 millimetres.

3. As high performance corrugated medium was produced through outsourcing arrangement in 2011, the calculation of designed annual production capacity is not applicable for the such period as the Group had no control over Dong Xin's production schedules. Accordingly, the utilisation rate from the Group's perspective is not applicable for the year ended 31 December 2011. For such year, the high performance corrugated medium produced through outsourcing arrangement was approximately 47,000 tonnes. The designed annual production capacity is included after the Group leased the production facilities on 1 January 2012. In August 2013, the Group acquired these production facilities from Dong Xin.

4. The designed annual production capacity of the corrugated medium board and box production line is determined on the following assumptions:

   (i) 22 hours 3 shifts per day and 365 days basis after taking into account of routine inspections and maintenance; and

   (ii) the maximum production capacity of the production facilities is calculated at maximum operating speed of 80 metres per minute with maximum paper width of 1,600 millimetres.

5. The designed annual production capacity of the poker card production line is determined on the following assumptions:

   (i) 22 hours 3 shifts per day and 365 days basis after taking into account of routine inspections and maintenance; and

   (ii) varnishing is the bottleneck in the Group's poker card production chain. As at 31 December 2013, the Group had six varnishing machines with an aggregate maximum production output of 360 sets of poker cards per minute. The capacity of poker card production is calculated based on the following formula:

   Maximum production output per minute × normal operation times as mentioned as 5(i).

The low utilisation rates of the Group's corrugated medium board and box production line at Yanxi Production Plant throughout the Track Record Period was attributed to the fact that the Group only serves customers in neighbouring areas such as Zhangzhou and Xiamen and its business reach has not yet developed to further areas within Fujian Province.

The utilization rate of poker card production line in Yanxi Production Plant increased for the two years ended 31 December 2013. The Group had 4 and 5 new customers who are trading companies for such years respectively. Their aggregate purchases from the Group amounted to approximately RMB44.4

million and RMB36.5 million for the same period. Leveraging on these new customers' sales networks, the Group's own brand poker card sales increased significantly and the utilisation rate of the poker cards production line in Yanxi Production Plant for the same period increased accordingly.

Supporting facilities

Guanshan Production Plant is equipped with the following supporting facilities:

- *Waste water treatment system:* The Group has built its own waste water treatment system to process and recycle waste water generated from the paper making process to compile with the PRC national and local environmental protection laws and regulations. The maximum capacity of waste water treatment system is approximately 10,000 cubic meters of waste water per day which handles all the waste water at Guanshan Production Plant. The system deploys a combination of biochemical and chemical technologies to purify waste water to an extent suitable for recycling in steam generation and system cooling purpose, enabling the Group to reduce overall water consumption. The Group's water consumption level for each tonne of linerboard is approximately 13–15 tonnes, which complies with the standard of 25 tonnes of water for each tonne of paper as stipulated by the PRC authorities since May 2004.

- *Coal-fired co-generation power plant:* Steam and electricity is crucial for the Group's paper making operation. The Group has a coal-fired co-generation power plant with steam and electricity generation capacity per hour of approximately 75 tonnes and 6 mega watts respectively, which is capable of serving all the steam and over 95% of electricity needs of Guanshan Production Plant. The plant deploys steam and electricity co-generation mechanism in that high pressure steam is depressurized for electricity generation until it reaches a suitable level for the drying process in paperboard production such that energy and cost efficiency is achieved.

  The Group completed the construction of the coal-fired co-generation power plant in May 2011, which commenced full operation in June 2011.

  The Directors consider that the benefits for the construction of the co-generation power plant are as follows:

  (1) As both steam and electricity are essential to the Group's operations, the co-generation power plant ensures the stability of their supply for production.

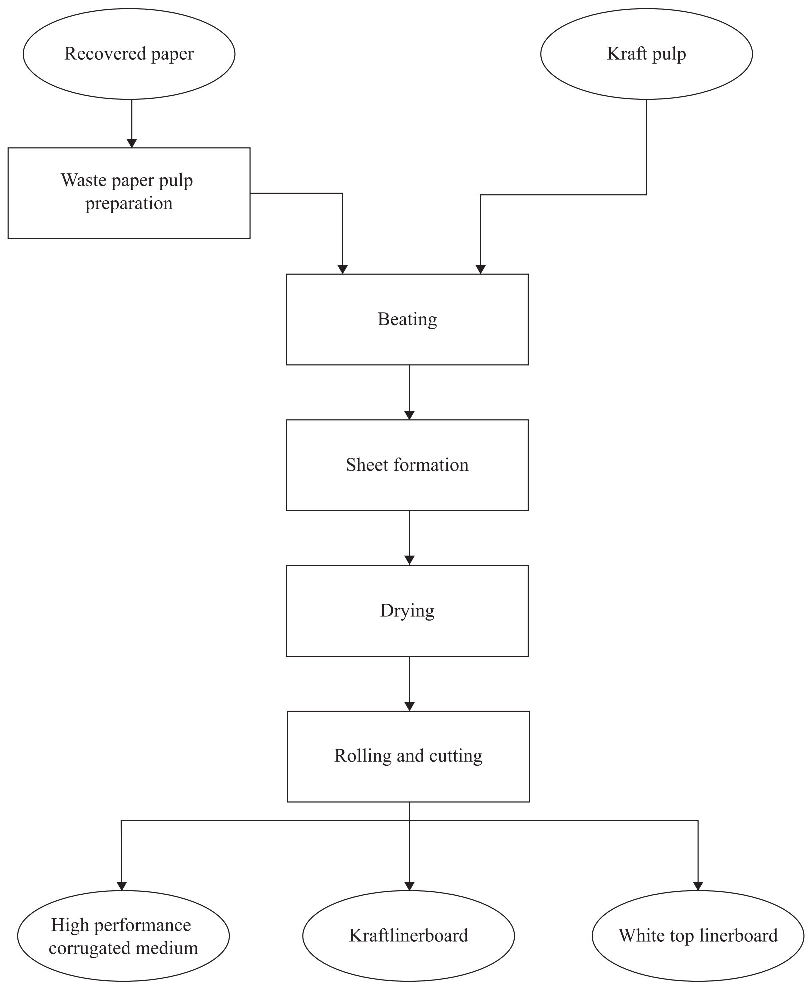
  (2) The plant enables the Group to achieve energy and heat efficiency as the co-generation power plant can generate steam and electricity from a single fuel source. It enables the Group to generate both steam and electricity supply at cost comparable to external electricity supply, therefore achieving cost saving in steam purchase.

  (3) The technology of the co-generation power plant is promoted under the Energy Conversation Law of the PRC (中華人民共和國節約能源法). For further details on the PRC's regulations on co-generation power plant, please refer to the paragraph headed "Regulations for Cogeneration of Heat and Power" in the sub-section headed "Special Provisions" of the section headed "Foreign Investment in Paper and Printing Industry" in Appendix V to this prospectus.

PRODUCTION PROCESS

I. Paperboard

The following chart shows the key steps of the production process for paperboard, including kraftlinerboard, white top linerboard and high performance corrugated medium:



Paperboard produced by the Group is mainly made of waste paper pulp, which is converted from waste paper and kraft pulp.

Waste paper pulp preparation

The waste paper pulp preparation process involves the following key steps:

1. *Defiberization and dirt removal:* Waste paper is mixed with water in a pulper to loose its fiber. Undesired objects in the waste paper such as sands, plastic and staples are removed by sorting and screening.

2. *Deinking:* Deinking is the process to remove ink and colour from printed and coloured waste paper for the production of deinked pulp. Ink is flaked off, dispersed, suspended, and separated from fibers in waste paper by using mechanical power with additions of alkali and chemicals such as surface-active agents.

3. *Bleaching:* In order to further improve the quality of deinked pulp, bleaching chemicals are applied to increase brightness.

Beating

Beating is a process to swell and trim fibers to improve its water retention ability. This will increase the fiber flexibility in the pulp such that the pulp is more readily suited to lay in a uniform web for interconnecting the fibers in sheet formation. Depends on order requirement, kraft pulp may be added in this process.

Sheet formation

Sheet formation is a process to produce uniform fiber alignment and dispersion, in which fibers are formed into thin wet continuous sheets. The structural properties of the paper such as basis weight, fiber orientation and distribution and visual uniformity are determined at this stage.

Drying

After the sheet formation, the paper sheet formed still has high moisture content. The wet paper sheet is then heated with steam heated dryers to remove the remaining moisture content from the paper sheet through evaporation.

Rolling and cutting

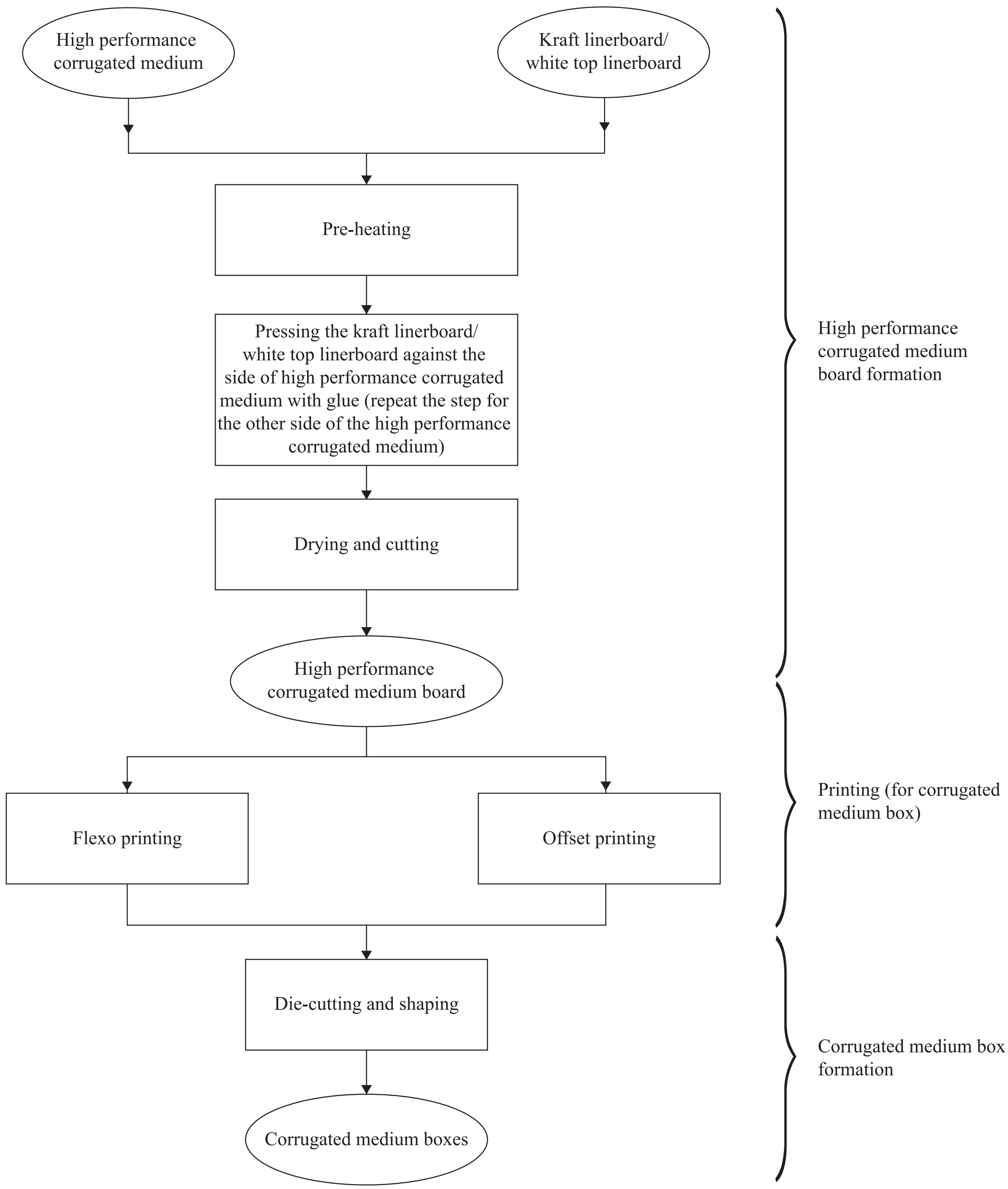
The kraftlinerboard, white top linerboard and high performance corrugated medium are then rolled and cut by the winder into smaller sized paper products according to customers' specifications or common sizes according to previous order patterns.

For each 50 tonnes of paperboard, the approximate time required for each of the following major steps of the production process is as follows:

	Kraftlinerboard/ white top linerboard	**High performance corrugated medium**
Waste paper pulp preparation (includes defiberization and dirt removal, deinking and bleaching)	2.8 hours	2.5 hours
Beating	3.4 hours	3.1 hours
Sheet formation, drying and rolling and cutting	4.0 hours	4.3 hours

II. Corrugated medium boards and boxes

The following chart illustrates the key steps in the production process of corrugated medium boards and boxes:



Corrugated medium board formation stage

The key procedures include the following:

Preheating:

High performance corrugated medium and kraft linerboard/white top linerboard are first softened and pre-heated by steam.

The high performance corrugated medium is then pressed between meshed rolls. The continuous rolling wave structure called flute is then formed.

The softened kraft linerboard/white top linerboard are passed to next step for gluing and pressing.

Gluing and pressing:

The tips of the flutes of the high performance corrugated medium are then placed with glue and pressed against the kraft linerboard/white top linerboard.

The process is repeated on the other side of the high performance corrugated medium and the second layer of pre-heated kraft linerboard/white top linerboard is added.

The (single wall) double-faced high performance corrugated medium board is then formed and further layers such as double wall and triple wall structure can be made by repeating the aforesaid steps accordingly.

Drying and cutting:

After further drying and cutting, the high performance corrugated medium board with the required number of layers is ready for making corrugated medium box.

Printing (for corrugated medium box)

Printing is applied to corrugated medium box if required by customers.

Depending on customers' specifications, flexo printing and/or offset printing techniques are used to print the graphic image or artwork on corrugated medium box.

In offset printing process, additional steps such as varnishing, lamination, die-cutting and laminating offset printed paper on high performance corrugated medium board are applied.

Die-cutting and shaping

Plain or printed high performance corrugated medium board is then sheared by die-cutting machine and folded and clenched into pre-determined shape according to the customers' requirements.

For each 10,000 sq.m. of corrugated medium board and box products, the approximate time required for each of the following major steps of the production process is as follows:

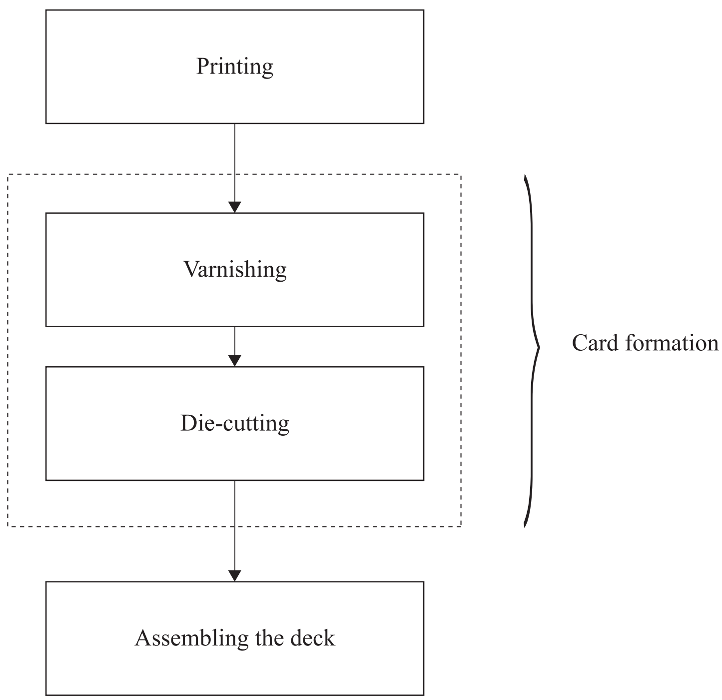
1. High performance corrugated medium board formation (includes preheating, gluing and pressing, drying and cutting): 1 hour

2. Printing: 0.8 hour

3. Die-cutting and shaping: 0.8 hour

III. Poker cards

The following chart illustrates the key steps in the production process of poker cards:



Printing

Depends on the order requirements, poker cards are decorated with pattern either provided by customers or designed by the Group.

Poker stencil are created and mounted on the offset printing machines. In the printing process, specific coated white top poker paper is passed over the offset printing machines and the inks from the plates are transferred to it.

Card formation

After printing, the printed poker card papers undergo the following steps at the card formation stage:

(1) Varnishing: a layer of water-resistant coating is applied on the poker card paper surface.

(2) Die-cutting: the poker card papers are cut into small cards in the cutting machine and card corners are rounded off.

Assembling the deck

The finished poker cards are assembled into complete decks. Each deck is inserted into a package box and wrapped in plastic film.

For each 10,000 sets of poker cards, the approximate time required for each of the following major steps of the production process is as follows:

1. Printing: 0.5 hour

2. Card formation: 1.4 hours

3. Assembling the deck: 0.5 hour

PROCUREMENT

Major raw material purchase

Raw material cost is the largest component in the Group's production cost structure and accounted for approximately 78.6%, 76.8% and 76.0% respectively of its total production cost for the Track Record Period. Major raw materials for the Group's paperboard products include waste paper and pulp. The Group also procures raw paper for production of poker cards and corrugated medium board and box as well as various chemicals used in printing and other production processes.

a. Waste paper

Waste paper including old carton box and newspaper is the most important raw material for the Group's paperboard products. The Group's purchases of waste paper amounted to approximately RMB364,721,000, RMB354,880,000 and RMB312,592,000 respectively for the Track Record Period, representing approximately 51.0%, 47.9% and 43.1% of its total purchase costs for the same period.

To ensure quality and quantity of supply at competitive pricing, the Group procures its waste paper from suppliers in the PRC and Hong Kong. The following table set forth the relative proportion of waste paper supply and respective average purchase costs during the Track Record Period:

		Year ended 31 December		
		2011	**2012**	**2013**
A.	**Proportion of supply (%)**			
	PRC	66.4	58.4	67.8
	Hong Kong	33.6	41.6	32.2
	Total	100.0	100.0	100.0
B.	**Average purchase cost (RMB/tonne)**			
	PRC	1,710	1,364	1,270
	Hong Kong	1,673	1,572	1,335
	Overall	1,698	1,444	1,291

Connected Suppliers

For the two years ended 31 December 2012, a majority of the Group's waste paper was supplied by two connected companies. Xin Yuan, the Group's largest supplier for such period, supplied various raw materials from domestic sources including waste paper, kraft pulp, high performance corrugated medium and miscellaneous items such as chemicals to the Group. Zhau Hau Trading, the Group's second largest supplier for such period, primarily supplied waste paper imported from Hong Kong. In February 2013 and July 2013, the Group ceased to place waste paper purchase orders with Xin Yuan and Zhau Hau Trading respectively to avoid reliance on connected suppliers. Save as disclosed above, the Group purchased waste paper from Independent Third Party suppliers during the Track Record Period and up to the Latest Practicable Date. For further details on such connected suppliers, please refer to the paragraph headed "Relationship with Xin Yuan, Zhau Hau Trading and Tun's HK" below.

As Xin Yuan and Zhau Hau Trading are owned by close relatives of Mr. Zheng, including Mr. Chen Zhong Xing (the father and father-in-law of Mr. Chen and Mr. Zheng Dunqian respectively) (also previously by Mr. Zheng himself, Mr. Zheng Dunqian and his wife, and Mr. Chen) and Mr. Cheng Tun Hum, an elder brother of Mr. Zheng and Mr. Zheng Dunqian, respectively, the major benefit for purchasing from these connected suppliers was to ensure priority and stability of waste paper supply through their close family relationship so that Mr. Zheng could devote more of his attention to the management of the Group.

The percentages of the Group's waste paper purchases from Xin Yuan and Zhau Hau Trading, the connected suppliers, to its total waste paper purchases by value during the Track Record Period were as follows:

	Year ended 31 December		
	2011	2012	2013
Xin Yuan	66.4%	38.4%	3.3%
Zhau Hau Trading	16.2%	28.3%	12.8%
Total	82.6%	66.7%	16.1%

The purchases from Xin Yuan were on normal commercial terms and at price levels comparable to other Independent Third Party suppliers. For the Track Record Period, the Group purchased waste paper from Xin Yuan amounting to approximately RMB242,225,000, RMB136,295,000 and RMB10,221,000 respectively, representing approximately 66.4%, 38.4% and 3.3% of its total waste paper purchases. They also represented approximately 33.9%, 18.4% and 1.4% of the Group's total purchase costs respectively for the same period. The total volumes of waste paper supplied by Xin Yuan to the Group for the same period were approximately 141,651 tonnes, 99,777 tonnes and 8,658 tonnes respectively. The waste paper purchased from Xin Yuan includes OCC and old newspaper. During the Track Record Period, the composition of these waste paper types ranged from 68% and 32% to 100% and 0% respectively, as the Group continuously adjusted the proportion of different quality and variety of waste papers to control cost and fix one unit purchase price for waste paper instead of different prices for different grades and variety each month.

From 2009 to June 2013, the Group sourced waste paper from Zhau Hau Trading in Hong Kong. All waste papers were sold to the Group on normal commercial terms and at price levels comparable to other Independent Third Party suppliers. For the Track Record Period, the Group purchased waste paper from Zhau Hau Trading amounting to approximately RMB58,998,000, RMB100,537,000 and RMB39,964,000 respectively, representing approximately 16.2%, 28.3% and 12.8% of its total waste paper purchase. They also represented approximately 8.3%, 13.6% and 5.5% of the Group's total purchase costs respectively for the same period. The total volumes of waste paper supplied by Zhau Hau Trading to the Group for the same period were approximately 34,881 tonnes, 63,581 tonnes and 28,546 tonnes respectively. As the quality of waste paper from Hong Kong in term of pulp fibre content was higher than that of PRC domestic waste paper, the Group increased its purchase of waste paper from Hong Kong in 2012.

The following table set forth the average purchase prices of waste paper sourced from Xin Yuan and Zhau Hau Trading during the Track Record Period:

	Year ended 31 December		
	2011	**2012**	**2013**
Average purchase price (RMB/tonne)			
Xin Yuan	1,710	1,366	1,180
Zhau Hau Trading	1,691	1,581	1,400

Notes:

1. Average purchase price represents the total purchase for the year divided by the total purchase volume for the year.

2. On 1 February 2013 and 1 July 2013, the Group ceased to place purchase orders with Xin Yuan and Zhau Hau Trading respectively. The average purchase prices for Xin Yuan's supply of PRC waste paper and Zhau Hau Trading's supply of Hong Kong imported waste paper represent a one month average price for the period ended 31 January 2013 and a seven month average price for the period ended 31 July 2013 respectively. The average purchase prices for all PRC waste paper and Hong Kong waste paper were RMB1,254 per tonne and RMB1,241 per tonne for the same periods respectively.

The average purchase prices of waste paper sourced from Xin Yuan and Zhau Hau Trading were comparable to the domestic and Hong Kong import market prices during the Track Record Period. The average unit purchase price for waste paper supplied by Xin Yuan and Zhau Hau Trading decreased from approximately RMB1,710 to RMB1,180 and RMB1,691 to RMB1,400 during the Track Record Period respectively. Such decreases were primarily attributed to (1) the general decline in waste paper market prices during the Track Record Period; and (2) the Group's ability to control the cost through adjustment of proportion of different quality and variety of waste papers with improvement of the Group's production technology.

For purchases from other Hong Kong waste paper suppliers, advance payment is required before shipment. Due to foreign exchange restriction in the PRC, Dunxin PRC is only allowed to make the remittance payments for the waste paper purchases after receipt of goods in the PRC and presentation of custom clearance documents for bank's verification. Hence, before 2012, Dunxin PRC, Hong Kong suppliers and Tun's HK separately entered into tri-partite reimbursement agreements to the effect that Tun's HK shall make advance payment to Hong Kong suppliers to enable shipment of goods and Tun's HK will be reimbursed by Dunxin PRC upon receipt of the goods and custom clearance documents. Each tri-partite reimbursement agreement was valid for a period from 1 year to 3 years and all payments due to the supplier within the agreement period were paid in advance by Tun's HK, who was subsequently reimbursed by Dunxin PRC.

Under the reimbursement arrangement, Dunxin PRC instructed Tun's HK to make the advance payments in accordance with the Hong Kong waste paper supplier's invoice on its behalf. Following settlement, Tun's HK obtained the payment receipt from such Hong Kong supplier and passed to Dunxin PRC. Dunxin PRC then recorded the payable and arranged reimbursement of the same to Tun's HK by electronic transfer via banks upon receipt of custom clearance documents from the PRC custom after shipment of individual order of waste paper from Hong Kong to the PRC. The Company's PRC legal advisers have confirmed that Dunxin PRC's arrangement on import payments complies with all the relevant foreign exchange rules and regulations of the PRC.

For the Track Record Period, the total amount of advance payments made by Tun's HK on behalf of the Group were approximately RMB2,910,000, nil and nil respectively, representing approximately 2.4%, nil and nil of the Group's total purchase from Hong Kong suppliers. They also represented approximately 0.4%, nil and nil of the Group's total purchase costs respectively for the same period. The Directors have confirmed that the advance payments were generally reimbursed by the Group within 1 month. No charge has been paid by the Group to Tun's HK for such advance payments made on its behalf.

In early 2011, Dunxin PRC began to arrange for its trade financing, including letters of credit and trust receipt loans, for all overseas purchases and has ceased the advance payment arrangement with Tun's HK since 1 September 2011. In view of the improvement in the Group's current ratios (from 1.3x to 1.9x) and quick ratios (from 1.0x to 1.7x) throughout the Track Record Period, there is no distortion of the Group's liquidity position following the reduction and cessation of the advance payment arrangement.

Waste paper procurement process

During the Track Record Period, the Group had in total 10, 9 and 11 waste paper suppliers (including Xin Yuan and Zhau Hau Trading) in the PRC, Hong Kong and overseas.

As at the Latest Practicable Date, the Group had in total 11 Independent Third Party waste paper suppliers, consisting of 6 waste paper trading companies in the PRC and 5 importers in Hong Kong and overseas. Three of these suppliers have over 2 years of business relationship with the Group. Since the Group ceased to place purchase orders with Xin Yuan and Zhau Hau Trading in February 2013 and July 2013 respectively, the Group has sourced waste paper from 8 new Independent Third Party suppliers. The credit terms, pricing and quality of the new raw material offered by those new Independent Third Party suppliers are comparable to those of the connected suppliers. All of the Group's waste paper importers possess the required licences for supply of waste paper in the PRC.

The Group's procurement team conducts site visits to potential suppliers and completes supplier assessments based on selection criteria including the price and quality of the raw materials, location, scale of supply and delivery capability of suppliers. Following the management review of the assessment with satisfactory result, the Group will include the new supplier in its supplier list. The Group obtains quotations from various suppliers to compare the prices and quality for order placing. During the Track Record Period, procurement decisions were approved by Mr. Zheng. Given the purchases from Xin Yuan and Zhau Hau Trading accounted for a significant portion of the Group's total purchase in the two years ended 31 December 2012, the Group adopted internal control measures to compare purchase prices quoted by connected suppliers with publicly quoted market prices to ensure the terms of purchase from connected suppliers were fair and reasonable. To enhance the corporate governance of the Group, Mr. Jiang Da Can, the deputy general manager for poker card and high performance corrugated medium board and box production lines, and Mr. Chou Ming-Yen, the head of paperboard production line, are responsible to approve all purchases on a daily basis, including those from connected suppliers, and report to the Board for review. Please refer to the section headed "Directors, Senior Management and Employees" of this prospectus for details of Mr. Jiang Da Can and Mr. Chou Ming-Yen's experiences and qualifications. The independent non-executive Directors, appointed on 15 May 2013 and 9 July 2013 respectively, have reviewed and checked all purchases from connected suppliers against those from Independent Third Party suppliers on a quarterly basis from 1 November 2012 to 31 July 2013. They have confirmed that the purchases from connected suppliers were (i) in the usual and ordinary course of business of the Group; (ii) on normal commercial terms; and (iii) in accordance with the relevant agreements governing them and on terms that were fair and reasonable and in the interests of the Shareholders as a whole. In addition, the Group has engaged BDO Financial Services Limited ("BDOFS") on 1 November 2012 to perform internal control review over the procurement process from connected suppliers for the period from 1 November 2012 to 31 July 2013. BDOFS has performed walkthrough and control testing for the internal control review from the effective implementation dates of these enhanced internal control measures to 31 July 2013. On that basis, BDOFS concurs with the Company's view that such internal control measures have been operated effectively as designed to address the control objectives.

From 1 November 2012 and up to 31 July 2013, no material variation between prices of raw materials sold by the connected suppliers and market prices had been noted by the Audit Committee. For details of the price trend of waste paper during the Track Record Period, please refer to the sub-section headed "Raw materials" in the section headed "Industry Overview" of this prospectus. Save as disclosed above, the Group purchased waste paper from Independent Third Party suppliers during the Track Record Period and up to the Latest Practicable Date. During the Track Record Period and up to the Latest Practicable Date, the Group had not experienced any difficulty in sourcing waste paper from Independent Third Party suppliers. Moreover, as waste paper is common raw material readily available in the markets, the Directors do not foresee any significant difficulty in its sourcing activities.

b. Pulp

Pulp is another essential raw material component. The Group uses waste paper pulp, bleached and unbleached kraft pulp for production of kraftlinerboard and white top linerboard to increase their consistency of appearance and strength. For the Track Record Period, the Group's total purchases of pulp amounted to approximately RMB68,381,000, RMB74,644,000 and RMB70,874,000 respectively, representing approximately 9.6%, 10.1% and 9.8% of the Group's total purchase costs respectively for the same period. The following table provides a breakdown of supply of pulp and the average purchase costs by location for the Track Record Period:

	Year ended 31 December		
	2011	**2012**	**2013**
A. Proportion of supply (%)			
PRC	78.9	96.7	100.0
Overseas	21.1	3.3	—
Total	100.0	100.0	100.0
B. Average purchase cost (RMB/tonne)			
PRC	4,474	4,359	4,569
Overseas	4,327	3,875	—
Total	4,442	4,341	4,569

For the two years ended 31 December 2012, Xin Yuan was also the top two pulp supplier. All the Group's purchases from Xin Yuan were on normal commercial terms and at price level comparable to suppliers. The total purchases of pulp from Xin Yuan for the Track Record Period amounted to approximately RMB53,929,000, RMB7,948,000 and nil respectively, representing 78.9%, 10.6% and nil of the Group's pulp purchases. It also represents approximately 7.5%, 1.1% and nil of the Group's total purchase costs respectively for the same period. The total volume of pulp supplied by Xin Yuan to the Group for the same period were approximately 12,055 tonnes, 1,743 tonnes and nil tonnes respectively, the majority of which was waste paper pulp. Waste paper pulp purchased from Xin Yuan was used to enrich the fibre content of the Group's paperboard products for improvement of paper strength. Since 2011, the Group has increased the proportion of imported waste paper in its production process. As imported waste paper has better pulp fibre content compared to domestic waste paper, the Group reduces the use of waste paper pulp and ceased to place pulp purchase order with Xin Yuan in February 2012.

The following table set forth the average purchase prices of pulp sourced from Xin Yuan during the Track Record Period:

	Year ended 31 December		
	2011	**2012**	**2013**
Average purchase cost (RMB/tonne)			
Pulp	4,473	4,560	—

Notes:

1. Average purchase price represents the total purchase for the year divided by the total purchase volume for the year.

2. The Group ceased to place pulp purchase order with Xin Yuan in February 2012. The average purchase prices for Xin Yuan's supply of PRC pulp for the year ended 31 December 2012 represent one month average price for the period ended 31 January 2012. The average purchase price for all PRC pulp in the same period was RMB4,560 per tonne.

The average purchase prices of pulp sourced from Xin Yuan were comparable to the domestic market prices during the Track Record Period.

The Group primarily used pulp sourced from 3 Independent Third Party suppliers in the PRC for its production as of the Latest Practicable Date.

Save as disclosed above, the Group purchased pulp from Independent Third Party suppliers during the Track Record Period and up to the Latest Practicable Date.

c. Raw papers

The Group also uses various types of raw papers for production of corrugated medium board and box products and poker cards. The major materials used in corrugated medium board and box production are linerboard and high performance corrugated medium. Although the Group manufactures various types of paperboard products, it purchases raw papers from suppliers to fulfil orders for products such as fruit carton box with lower quality grade materials. The average selling price of the Group's high performance corrugated medium produced in Dong Xin facilities was higher than those purchased from suppliers for the Group's corrugated medium board and box production for the Track Record Period due to the difference in product grading. This procurement strategy enables the Group to maximize its profitability by selling its linerboard production output with higher quality at a higher price. Beginning in 2012, the Group also uses self-produced paperboard products for production orders with higher quality requirements. The total quantity of self-produced kraftlinerboard and high performance corrugated medium for the two years ended 31 December 2013 used in production of the Group's corrugated medium board and box products were approximately 822 tonnes and 245 tonnes, and 1,269 tonnes and 426 tonnes respectively. During the Track Record Period, the quantity of self-produced kraftlinerboard and high performance corrugated medium used in the production of the Group's corrugated medium board and box represented approximately nil, 2.6% and 3.3% and nil, 20.5% and 22.3% of the total kraftlinerboard and corrugated medium used by the Group in the production of such products respectively.

Currently, the Group sources raw papers for poker cards from suppliers who are Independent Third Parties. The Group plans to build a white board production line upon the Listing to further integrate its operations. For details of the construction plan, please refer to the section headed "Future Plans and Use of Proceeds" of this prospectus.

For the Track Record Period, the Group's total costs for purchases of various types of raw paper amounted to approximately RMB111,716,000, RMB115,414,000 and RMB130,669,000 respectively. They also represented approximately 15.6%, 15.6% and 18.0% of the Group's total purchase costs respectively for the same period. The Group's average purchase costs of raw paper amounted to approximately RMB4,292 per tonne, RMB4,010 per tonne and RMB3,628 per tonne respectively during the Track Record Period.

As at the Latest Practicable Date, the Group had 8 raw paper suppliers, all of whom are domestic suppliers and Independent Third Parties.

Xin Yuan, being the second largest supplier of raw papers for the two years ended 31 December 2012, supplied high performance corrugated medium to the Group and the total purchases from Xin Yuan for the Track Record Period were approximately RMB26,686,000, RMB27,080,000 and nil respectively, representing 23.9%, 23.5%, and nil of the Group's purchases of raw paper and approximately 3.7%, 3.7% and nil of the Group's total purchase costs respectively for the same period. The total volume of high performance corrugated medium supplied by Xin Yuan to the Group amounted to 7,642 tonnes, 8,212 tonnes and nil tonne for the same period respectively.

The following table set forth the average purchase prices of high performance corrugated medium sourced from Xin Yuan during the Track Record Period:

	Year ended 31 December		
	2011	**2012**	**2013**
Average purchase cost (RMB/tonne) *(Note)*			
High performance corrugated medium	3,492	3,298	—

Note: Average purchase price represents the total purchase for the year divided by the total purchase volume for the year.

In the two years ended 31 December 2012, the Group purchased all high performance corrugated medium from Xin Yuan and no purchase was made from Independent Third Party suppliers. The average market prices for high performance corrugated medium quoted on Umpaper website, an Independent Third Party market information provider, were RMB3,503 and RMB3,240 per tonne for the same period respectively.

In the year ended 31 December 2013, all of the Group's purchases of high performance corrugated medium were from Independent Third Party suppliers. The Group's average purchase cost was RMB2,646 per tonne.

All purchases from Xin Yuan for the Track Record Period were on normal commercial terms and at price level comparable to Independent Third Party suppliers.

In January 2013, the Group ceased to purchase raw papers from Xin Yuan to avoid reliance on it.

d. Chemicals

The Group also uses various kinds of chemicals in its production process including ink, water resistant chemicals and reinforcing chemicals. As at the Latest Practicable Date, the Group had 19 chemicals suppliers (all Independent Third Parties), 18 of whom are in the PRC and one overseas. To the best knowledge and belief of the Directors, supplies of chemicals are adequate and the Group has not experienced any significant problem in sourcing of these raw materials.

For the Track Record Period, the Group's purchase costs of chemicals were approximately RMB62,747,000, RMB72,773,000 and RMB75,816,000 respectively, of which approximately RMB1,538,000, RMB1,984,000 and nil of the purchases were supplied by Xin Yuan for the same period. The Group's total purchases of chemicals amounted to approximately 8.8%, 9.8% and 10.5% of the Group's total purchase costs respectively and the purchases from Xin Yuan amounted to approximately 2.5%, 2.7% and nil of the Group's total purchases of chemicals and approximately 0.2%, 0.3% and nil of the Group's total purchase costs respectively for the same period. In 1 January 2013, the Group ceased to purchase chemicals from Xin Yuan to avoid reliance on it.

e. General terms of purchase

The Group has adopted the same contract terms in respect of each type of purchase of waste paper, namely domestic procurement and import, as well as other raw materials for all suppliers (including the connected suppliers during the Track Record Period). During the Track Record Period and up to the Latest Practicable Date, the Group had not experienced any material default of any connected or Independent Third Party supplier.

For domestic purchase of waste paper and other raw materials, the Group generally enters into legally non-binding annual memoranda of understanding with major suppliers to set out the projected purchase volume in the forthcoming year, which is subject to changes in accordance with the Group's actual production plan. They also specify the credit term granted by suppliers, generally within the range of 30 to 180 days upon delivery and acceptance of goods, but do not specify the mode of payment. Actual purchase quantities, specifications, prices and mode of payment are fixed in subsequent individual purchase orders.

The Group's domestic purchase is usually settled by way of telegraphic transfer remittance or bank remittance.

For waste paper import, the Group generally enters into supply contract for individual lot of supply. It set out detailed terms of supply including product description, quantity, unit prices and payment terms. Settlement of import purchase is usually by way of telegraphic transfer remittance or letter of credit upon receipt of custom clearance documents.

After placing a domestic purchase order or entering into an overseas supply contract at an agreed price, the relevant suppliers (including connected suppliers during the Track Record Period) will bear all the risk of volatility in the price.

The prices of raw materials purchased from the connected suppliers during the Track Record Period were determined with reference to the market prices at the time of the relevant purchase order placed by the Group.

Other procurements

a. Utilities

Utilities are the second largest cost component in the Group's production cost structure. The Group purchases water and electricity from local utility companies. In June 2011, the coal-fired co-generation power plant in Guanshan Production Plant commenced full operation, with capacity to supply all its steam need and over 95% of its electricity need. The coal-fired co-generation power plant enables the Group to secure its own steam supply and to achieve cost saving and efficiency through co-generation mechanism. For details of the Group's coal-fired co-generation power plant, please refer to the sub-section headed "Production Facilities" in this section.

For the Track Record Period, the Group's utility cost and fuel expense were approximately RMB70,709,000, RMB97,265,000 and RMB101,136,000 respectively, representing 9.4%, 11.9% and 12.8% of its total production cost for the same period. The increase for the year 2012 was mainly attributed to the leasing arrangement of production facilities with Dong Xin in that year whereby the Group had to bear the utility cost for its production of high performance corrugated medium products. The increase for year 2013 was mainly due to an increase in production volume of high performance corrugated medium products.

b. Outsourcing and production facility lease arrangement

From 2006 to 2011, the Group had entered into outsourcing arrangement with Dong Xin for production of high performance corrugated medium. Its then production facilities, primarily consisting of two production lines with capacity of approximately 100,000 tonnes of high performance corrugated medium, are close to Guanshan Production Plant.

Dong Xin is a company established in the PRC on 19 April 2000 and was initially equally owned by Mr. Ngai Sio Ho (魏少河), an Independent Third Party, and Mr. Cheng Tun Hum, the elder brother of Mr. Zheng. As Mr. Cheng Tun Hum is a Hong Kong resident and has his own business affairs in Hong Kong, Mr. Zheng was appointed as the general manager of Dong Xin to represent his brother to manage its daily operations since its establishment. When Mr. Zheng wanted to devote more time to Dunxin PRC for supervision of the construction work of its linerboard production line in late 2005, Mr. Cheng Tun Hum sold his entire interest to Mr. Ngai and Mr. Zheng resigned as general manager of Dong Xin in December 2005.

Subsequently, due to Dong Xin's unsatisfactory business performance, Mr. Ngai sold his entire interest in Dong Xin to another independent investor Mr. Ho Ka Ming (何嘉銘) in July 2011. Dong Xin then agreed to lease its production facilities to Dunxin PRC from January 2012 and invited Mr. Zheng Dunqian to hold the position of general manager in Dong Xin to assist in handover affairs during the transitional period. Following the signing of the lease agreement in December 2011, Dunxin PRC assumed the management of Dong Xin's production facilities and Mr. Zheng Dunqian resigned his position in Dong Xin.

The outsourcing arrangement enabled the Group to increase its range of products to meet customers' needs and to capture customer demand in paperboard products beyond its owned production capacity. As switching product types with substantially different production technique and product specification would jeopardize its production efficiency, it was more efficient to use the Group's own production line for higher quality grade products, in particular white top linerboard, and to outsource production of lower quality grade products such as high performance corrugated medium.

The Group and Dong Xin entered into outsourcing contracts on a yearly basis. Under the outsourcing contracts, the Group provided raw materials such as waste paper and chemicals for production by Dong Xin. Dong Xin charged outsourcing fees based on the volume of high performance corrugated medium produced. The outsourcing charge was agreed on arm's length basis and was determined with reference to the Group's overhead cost structure for production of same product.

Although the Group did not produce high performance corrugated medium itself before 2012, its production line is capable of producing the same and the management has knowledge on its production. The major cost components of corrugated medium are raw material costs and overhead costs which mainly include utility charge, labour cost and depreciation. As raw materials were provided to Dong Xin under the outsourcing arrangement, the Group determined the outsourcing charge with reference to the overhead costs, being the remaining cost component, as if its production line were used to produce corrugated medium.

For the year ended 31 December 2011, all of the high performance corrugated medium products with volume of approximately 46,995 tonnes were outsourced to Dong Xin and the Group incurred outsourcing charges of approximately RMB31,252,000, representing approximately 4.2% of its total production cost for the year.

The Group ceased the outsourcing arrangement upon its expiry at the end of 2011. Instead, on 28 December 2011, the Group signed a lease agreement with Dong Xin to lease its production facilities for the Group's production. The lease term was for one year up to 31 December 2012. The annual rent was RMB20,160,000 and was determined with reference to the depreciation charge of the leased corrugated medium production line since the Group would bear the raw material costs and all other overhead costs including utility charge and labour cost under the lease arrangement.

The Group renewed the lease agreement with Dong Xin for a term of 3 years from 1 January 2013 to 31 December 2015 at the monthly rent of RMB1,680,000. In order to secure the production capability of paperboard products in the long run, the Group entered into an asset acquisition agreement to acquire these production facilities, including land, buildings and machinery, from Dong Xin in August 2013 and ceased the abovementioned lease agreement with Dong Xin upon completion of the acquisition in August 2013.

For the two years ended 31 December 2013, the Group incurred total rent of approximately RMB20,160,000 and RMB12,952,000, representing approximately 2.5% and 1.6% of its total production cost for the same period respectively.

Suppliers

The Group's suppliers mainly consist of raw material suppliers, utility suppliers, and equipment and facility suppliers.

The Group generally maintains stable business relationships with its suppliers. It also seeks to enlarge its supplier base, in particular for waste paper, pulp and raw paper to ensure stable supply and avoid reliance on connected suppliers, namely Xin Yuan and Zhau Hau Trading. Except the new waste paper suppliers for replacement of the connected suppliers, most of its suppliers has a trading history with the Group for more than 3 years.

The Directors have confirmed that there are other suppliers for the Group's major raw materials such as waste paper, raw paper and pulp in both local and overseas markets. In general, the bargaining power between the Group and its suppliers depends on the volume of purchase. Thus, with larger scale of purchase, the Group may enjoy priority of supply and other better sales terms such as time for delivery and after sales follow up from suppliers.

The Group's domestic purchases are denominated in Renminbi whereas most purchases from overseas suppliers are denominated in Hong Kong dollars or US dollars. For the Track Record Period, about 83.0%, 93.2% and 98.4% respectively of the Group's raw material purchases were denominated in Renminbi and the balance in Hong Kong dollars and US dollars, with credit periods ranging from 30 to 180 days. The Group had not delayed any payments to any connected or independent suppliers and had not experienced any material change in the credit terms and period granted by its suppliers during the Track Record Period and up to the Latest Practicable Date.

For the Track Record Period, the aggregate purchase from the five largest suppliers accounted for approximately 71.8%, 65.7% and 45.9% of the Group's total purchase costs respectively. Purchase from the largest supplier, Xin Yuan (for the two years ended 31 December 2012) and an Independent Third Party supplier (for the year ended 31 December 2013), accounted for approximately 45.4%, 23.4% and 1.4% and nil, 12.3% and 12.9% respectively of the Group's total purchase costs for the same period.

Save as disclosed above, none of the Directors and their respective associates or, so far as the Directors are aware, any Shareholders who own 5% or more of the issued Shares immediately following completion of the Share Offer and the Capitalisation Issue (taking no account of any Shares which may be taken up under the Share Offer), had any interests in any of the top five suppliers during the Track Record Period.

During the Track Record Period and up to the Latest Practicable Date, the Group had not experienced any material interruption of its operations caused by shortage of raw material supply.

The Company's PRC legal advisers have advised that all suppliers of waste paper and hazardous chemicals to the Group have obtained the necessary licenses and permits for trading and/or importing such materials. They have also advised that, as the Group does not handle hazardous chemicals regulated by the relevant PRC rules and regulations, with the confirmation of the competent authorities, the Group does not need to obtain any license or permit.

Relationship with Xin Yuan, Zhau Hau Trading and Tun's HK

Xin Yuan

(i) *Background*

Xin Yuan is a limited liability company established in November 2003 in the PRC with an initial registered capital of RMB500,000 and was owned as to 70% and 30% by Mr. Zheng and Mr. Chen respectively for provision of waste paper procurement service to Dong Xin. Following the withdrawal of investment in Dong Xin by Mr. Cheng Tun Hum, an elder brother of Mr. Zheng and Mr. Zheng Dunqian, both executive Directors, in March 2006, Xin Yuan began to service Dunxin PRC.

In response to local development strategy as disclosed in the section headed "History and Corporate Structure", Xin Yuan became a subsidiary of Dunxin PRC upon the transfer of Mr. Zheng's 70% interest in April 2007 for the purpose of expanding Dunxin PRC as a conglomerate. As the construction work of the Group's linerboard production line was completed in late 2006, Mr. Zheng needed to devote more of his time in the supervision of the trial run and environmental compliance work of the production line as well as development of new customer network for paperboard products. Therefore, he decided to transfer his interests in Xin Yuan to his close relatives and entrusted them to handle the procurement activity so that Dunxin PRC can continue to secure domestic waste paper supply. For this reason the ownership of Xin Yuan was transferred from Dunxin PRC and Mr. Chen to Mr. Zheng Dunqian and his wife in December 2007 at the then registered capital of RMB500,000 in cash.

In order to strengthen the management team of the Group, Mr. Zheng invited his brother Mr. Zheng Dunqian to join in early 2012. As Mr. Zheng Dunqian committed himself to devote more time and effort in Dunxin PRC's management, his and his wife's equity interests in Xin Yuan were transferred to Mr. Chen (who on 20 August 2011 sold his entire equity interest in Dunxin PRC and planned to retire from the management of Dunxin PRC) in February 2012 at its registered capital of RMB8 million in cash. (Note: The registered capital of Xin Yuan was increased to RMB8 million after the transfer to Mr. Zheng Dunqian and his wife). The objective of the transfer was to ensure the Group could have reliable supply of waste paper and other raw materials from Xin Yuan.

Mr. Zheng and Mr. Zheng Dunqian intended to focus on the Group's daily operations and business development. In order to concentrate on the preparation works for the Listing, on 1 March 2012, Mr. Chen transferred his entire interest in Xin Yuan at its registered capital of RMB8 million in cash to his father, Mr. Chen Zhong Xing, to handle the business. Upon handing over the operations of Xin Yuan to his father, Mr. Chen continues to serve as the Group's chief financial officer to oversee the Group's financial and reporting matters.

(ii) *Business nature and transactions with the Group*

The principal business activity of Xin Yuan is trading of recycled resources including waste paper and other merchandises including raw paper, pulp and chemicals. It acts as merchandiser for its customers to identify sources of recycled resource supply and arranges delivery of customers' orders directly from source of supply to customers' designated loading points. It does not own any production facilities and thus it does not maintain production capacity for raw materials supplied to the Group.

The Group adopted the same contract terms, including payment terms, for Xin Yuan as with other domestic Independent Third Party suppliers. As the transaction volume with Xin Yuan was significantly larger than the Group's Independent Third Party suppliers for the two year ended 31 December 2012, the credit period granted to the Group by Xin Yuan was 150 days as compared to 30 days to 180 days granted by other suppliers. It is a general market practice in the PRC that the length of credit periods granted by suppliers (including Xin Yuan) depends on the scale of the purchases. The Group has made enquiry with its existing suppliers in the PRC, who confirm that they will be granted similar credit periods if its purchases are of similar scale as from Xin Yuan according to their own credit policies. Currently, eight of the Group's Independent Third Party suppliers have granted credit periods up to approximately 180 days and 120 days for waste paper and raw paper purchase respectively.

During the Track Record Period, the Group generally settled the amount due to Xin Yuan within the credit period and there was no material overdue problem. All purchases from Xin Yuan for the Track Record Period were on normal commercial terms and at price levels comparable to other suppliers.

Two confirmations both dated 11 January 2013 and issued by Changtai County Municipal Office of State Administration Taxation (長泰縣國家稅務局) and Changtai County Local Taxation Bureau (長泰縣地方稅務局) confirmed that as at 31 December 2012 there was no dispute, challenge and/or enquiry by the relevant competent tax authorities in the PRC in relation to the Group's tax position and filings, and the transactions conducted between the Group and Xin Yuan.

For the Track Record Period, the Group's total purchases, including wastes paper and other raw materials, from Xin Yuan amounted to approximately RMB324,377,000, RMB173,307,000 and RMB10,221,000 respectively, representing approximately 76.6%, 99.6% and 5.7% respectively of Xin Yuan's total revenue and approximately 45.4%, 23.4% and 1.4% respectively of the Group's total purchase costs respectively for the same period.

(iii) *Reasons for not including in the Group*

The Directors consider that waste paper procurement is a relatively unsystematic business activity associated with certain inherent management issues including (1) the source of waste paper supply is unstable and procurement staff is required to devote effort in identifying supply sources from various channels at all times; and (2) waste paper purchase transactions are often settled in cash which poses significant internal control risk in respect of treasury management. From the management point of view, the inclusion of the business of waste paper procurement in the Group would expose the Group to higher operational risks and so is inappropriate to be the part of a listed group.

Further, the Group aimed to reduce its reliance on Xin Yuan in supply of raw materials and to expand its sources of supplies. In February 2012, the Group ceased the purchase of waste paper pulp from Xin Yuan and ceased all other raw material purchases including waste papers, raw papers and chemicals from Xin Yuan in February 2013.

Therefore, the Group has not included Xin Yuan as part of the Group and there is no plan for the Group to acquire it in the foreseeable future.

Zhau Hau Trading

(i) *Background*

Zhau Hau Trading is an unlimited company registered in Hong Kong and is owned as to 51% and 49% by Mr. Xiao Jinzhuan and Mr. Cheng Tun Hum respectively. Mr. Xiao has confirmed that he is an Independent Third Party. Zhau Hau Trading owns the Licence of Registration for Overseas Supplier Enterprise of Imported Solid Wastes as Raw Materials (進口可用作原料的固體廢物國外供貨商註冊登記證書) (formerly known as the License of Registration for Overseas Supplier Enterprise of Imported Scrap Materials (進口廢物原料境外供貨企業註冊證書)) issued by AQSIQ and is qualified for exporting waste paper to China. For further details of Zhau Hau Trading's business history and regulations on import of waste paper to China, please refer to the section headed "History and Corporate Structure" and Appendix V headed "Description of Relevant PRC Laws and Regulations" to this prospectus.

(ii) *Business nature and transactions with the Group*

The principal business activity of Zhau Hau Trading is export of waste paper to the PRC. It primarily procures waste paper for the Group from Hong Kong suppliers including Tun's HK since Mr. Cheng Tun Hum acquired its ownership. Since Tun's HK began to operate a waste paper collection station at Hong Kong in early 2011, Zhau Hau Trading solely obtained waste paper from Tun's HK for supply to the Group. It does not own any production facilities and thus it does not maintain production capacity for raw materials supplied to the Group.

The Group adopted the same general purchase terms, including pricing and credit terms, for Zhau Hau Trading as with other overseas Independent Third Party suppliers. The Group generally settled all imported waste paper purchases, including from Zhau Hau Trading, with trade finance arrangement such as letter of credit issued by PRC banks. During the Track Record Period, the Group issued letter of credit upon entering a supply contract in accordance with usual trade finance practice and there was no material overdue problem.

For the Track Record Period, the Group's total waste paper purchases from Zhau Hau Trading amounted to approximately RMB58,988,000, RMB100,537,000 and RMB39,964,000 respectively. It also represents approximately 8.3%, 13.6% and 5.5% of the Group's total purchase costs respectively for the same period. Zhau Hau Trading's sales of waste paper to the Group represented 100%, 100% and 44.8% of its total revenue for the same period. In July 2013, the Group ceased the purchase of raw materials from Zhau Hau Trading to avoid reliance on connected suppliers.

(iii) *Reason for not including in the Group*

Zhau Hau Trading is an unincorporated business registered in Hong Kong and its sole function is to export waste paper from Hong Kong to the Group with its license. According to the Measures for the Inspection, Quarantine, Supervision and Administration of Imported Solid Waste That Can Be Used as Raw Materials (進口可用作原料的固體廢物檢驗檢疫監督管理辦法) promulgated by AQSIQ, the license held by Zhau Hau Trading is not transferable. Given its legal status as an unlimited company, the inclusion of Zhau Hau Trading in the Group may pose potential risk arising from hidden liabilities of its previous owners.

Tun's HK

(i) *Background*

Tun's HK is a company incorporated in Hong Kong on 15 April 2005 and is wholly owned by Mr. Cheng Tun Hum. It is engaged in various business activities including collection and trading of waste paper, manufacture of gilding paper products such as calendars and diaries as well as property investment. It operates a waste paper collection station in Hong Kong with annual supply capability of approximately 64,000 tonnes. Prior to July 2013, all waste paper collected by Tun's HK was sold to Zhau Hau Trading for export to the Group. Save for the reimbursement arrangement as disclosed in this section, Tun's HK does not have any direct transaction with the Group.

(ii) *Reason for not including in the Group*

As Tun's HK is engaged in a number of different business activities, in particular property investment, the Directors consider Tun's HK does not strategically fit in the Group's development plan.

Independence of the Group's operations

The raw materials supplied by the connected suppliers were on normal commercial terms and with reference to the market prices at relevant times throughout the Track Record Period.

For the Track Record Period, the Group adopted the same contract terms for all suppliers (including the connected suppliers), including the term that all amounts due to suppliers would be settled upon shipment of the goods to and acceptance by the Group. After placing a domestic purchase order or entering into an overseas supply contract at an agreed price, the relevant suppliers (including connected suppliers) would bear all the risk of volatility in the price. During the Track Record Period, the Group had not experienced any material default of any connected or Independent Third Party supplier.

In view of the above, the Group's results for the Track Record Period were representative of that of an independent company without the support of Xin Yuan, Zhau Hau Trading and Tun's HK.

As Xin Yuan was wholly owned by Mr. Zheng Dunqian and his wife for the period from 24 December 2007 to 9 February 2012, he acted as an executive director of Xin Yuan from 24 December 2007 to 5 June 2011 to ensure priority and stability of waste paper supply to the Group. During the Track Record Period and up to the Latest Practicable Date, save that Mr. Zheng Dunqian was an executive director of Xin Yuan during the aforesaid period, the Directors have confirmed that none of the Controlling Shareholders, the Directors and members of the senior management of Group had funded the capital and operations of Xin Yuan and Zhau Hau Trading nor involved in the operations and management of Xin Yuan, Zhau Hau Trading or Tun's HK. The Directors have also confirmed that no Director or member of the senior management of the Group will be involved in the operations and management of Xin Yuan, Zhau Hau Trading or Tun's HK in future.

Elimination of the Group's reliance on Xin Yuan and Zhau Hau Trading

In order to eliminate its reliance on Xin Yuan and Zhau Hau Trading, and with satisfactory supply from Independent Third Party waste paper suppliers, the Group completely ceased to place purchase orders with Xin Yuan and Zhau Hau Trading in February 2013 and July 2013 respectively.

Counterparty risk management on waste paper purchase

The Directors consider that the increase in purchase from Independent Third Party waste paper suppliers would not result in any significant change in the Group's counterparty risk profile.

Counterparty default risk

For domestic purchase, the Group is granted with credit term upon its acceptance of goods from suppliers. For import purchase, the Group will continue to use trade finance arrangement such as letter of credit to settle amount due upon receipt of custom clearance documents. Both of these settlement arrangements are usual trading practices for safeguarding the counterparty's default risk.

Counterparty delivery risk

Since waste paper is common raw material available in the domestic and overseas markets, the Directors do not foresee any significant difficulty in identifying new suppliers. As mentioned in the paragraph headed "Suppliers" above, the Group had 11 Independent Third Party suppliers in the PRC and Hong Kong as at the Latest Practicable Date. Since the Group ceased all purchases from connected suppliers, it has not experienced any difficulty in sourcing sufficient waste paper for its operations.

Given that (1) the Group generally keeps waste paper and pulp at inventory level sufficient for approximately 15 days of production needs; (2) the time duration from customer order placing to completion of production order ranges from 3 to 10 days; (3) the Group places waste paper purchase orders to different suppliers on a continuous basis; and (4) the Group has well diversified sources of independent waste paper supply (both domestic and import suppliers), the Directors consider the delay in delivery by any individual new supplier will not cause any material disruption to the Group's production.

QUALITY CONTROL

The Directors believe that the Group's commitment to provide quality products is critical to the Group's success. Hence, the Group has adopted various quality control measures and installed monitoring systems in the production process to ensure the product output is in compliance with the national as well as the Group's internal quality standard.

The Group has also applied quality management guidelines of ISO 9001:2008 and received the certification covering the production process including corrugated medium board and box, and design and production of poker cards in 2013.

As at the Latest Practicable Date, the Group had about 18 staff in its quality control department responsible for conducting inspection and testing work to monitor quality in different production aspects:

I. Raw materials inspection

Incoming raw materials are subjected to random inspections to ensure that their quality and composition conform to the Group's requirements. For waste paper, the Group conducts physical inspections to ensure that the moisture and impurity levels are acceptable. Raw materials that fail to comply with the Group's requirements are returned to the suppliers for replacement.

II. Production process inspection

During the production process, staff of the quality control department monitor the quality of products at various production stages. The quality control staff monitor the production environment of the Group's paperboard production line, such as temperature, according to the Group's requirements and order specifications. They also conduct random sample testing on semi-finished products of corrugated medium boards and poker cards to prevent unqualified semi-finished products from moving to the next production stage.

III. Finished products inspection

Upon arrival of finished products at the warehouse, quality control staff perform final sample tests in respect of various properties such as density, strength, thickness and moisture content. The Group has adopted strict product stacking, loading and packing requirements to ensure the quality of its products. It also has a policy to recycle defective products as raw materials for production of paperboard products.

INVENTORY MANAGEMENT

The Directors recognise the importance of inventory management in order to meet customers' orders on a timely basis. As at 31 December 2011 and 2012 and 2013, the Group's inventory amounted to approximately RMB84,341,000, RMB71,992,000 and RMB44,109,000 respectively, representing 16.9%, 9.0% and 5.5% of its total assets for the same period ends. Inventory items are raw materials and finished goods.

Raw materials in the Group's inventory primarily comprise waste paper, pulp and various types of raw papers. It is the Group's policy to maintain raw material inventory level in accordance with anticipated production schedules. Taking into account the transportation lead time for different raw materials, the Group generally keeps waste paper and pulp at inventory level sufficient for at least 10 days of production needs and raw paper at inventory level sufficient for approximately 5 days of production needs.

Finished goods primarily comprise paperboard products. In order to operate its production facilities in a smooth and efficient manner, the Group generally schedules the production of paperboard with common specification based on projected order quantity as specified in the non-binding annual memoranda of understanding with customers and historical order pattern. The Group only arranges production schedules for paperboard of special order, poker cards and corrugated medium box upon receipt of customers' order confirmations, such that inventories of finished goods are mainly items pending shipment.

For the Track Record Period, the Group's average inventory turnover rate (i.e. the average of inventory balance at the beginning and end of the year over the cost of sales for the same year) was approximately 39.6 days, 34.9 days and 26.2 days respectively.

The Group adopts various procedures to monitor the inventory movement including preparation and review of stock list on a monthly basis and performance of physical stock count on a half-yearly basis to assess any damaged stock and identify any discrepancy from book value. It is the Group's policy to provide impairment charge when damaged inventories or discrepancy are identified during inventory count. During the Track Record Period, the Group had not recorded any damaged inventories and thus no provision for inventory damage was made for the same period.

COMPETITION

The paper and paperboard industry in the PRC is fragmented and regional in nature. The eastern China region where Fujian Province is located at is one of the major paper and paperboard manufacturing bases in the PRC. The Group's operation is located at Fujian Province, which overall production volume reached 5.4 million tonnes in 2012, representing 7.38% of the production volume of the eastern region in the year according to *China Paper Association*.

Competition in paper and paperboard industry has increased under the PRC government's policy to encourage consolidation of the fragmented industry, which may result in an increasing number of large scale paper making enterprises. However, as paper manufacturing enterprises tend to locate in the proximity of raw material suppliers and customers in order to reduce transportation costs, the Group mainly competes with the paper and paperboard manufacturers in or near Fujian Province. The major local competitors in Fujian Province includes Fujian LianSheng Paper Industry Co. Limited* (福建省聯盛紙業有限責任公司) and Fujian Qingshan Paper Industry Co., Ltd* (福建省青山紙業股份有限公司). In the second half of 2013, Nine Dragons Paper (Holdings) Limited, the largest paper and paperboard manufacturer in the PRC in terms of production volume, established production lines in Quanzhou, Fujian Province with annual production capacity of 650,000 tonnes of kraftlinerboard and testlinerboard. The competition of the paper and paperboard industry in Fujian Province is expected to intensify in 2014.

The Directors believe that the high start-up costs and capital intensive nature of the paper and paperboard industry as well as the stringent government regulations regarding pollution emission create significant barrier for potential entrants to the industry. Please refer to the sub-section headed "Competition Landscape of PRC Paper and Paperboard Industry" in the section headed "Industry Overview" of this prospectus.

The poker cards industry is competitive. The Group competes with poker cards manufacturers and small-scale printing enterprises which also produces poker cards. Given that the industry is non-capital intensive and requires simple manufacturing technology, the entry barrier for potential poker cards manufacturer in the PRC is low. Moreover, since the importance of brand recognition has been rising, customers may have preference on their purchases such that market concentration is expected to continue to increase.

SAFETY

The Group's manufacturing process involves the operation of heavy machinery. In order to ensure safety in workplace, the Group has built in safety design in its linerboard production line and has fire prevention facilities such as fire engine in place. In addition, various safety measures are adopted in its daily operations. The Group provides necessary work gears to workers including work clothes and helmets. Training is provided to new operators before commencement of service. For special machinery or equipment such as boiler and forklift truck which require licensed operators, the Group will recruit licensed staff or require such staff to pass the licensing examination before commencement of work. The Group also conducts regular staff meetings on safety education.

In May 2011, the Group had a fatal accident at Guanshan Production Plant, resulting in the death of an employee. According to an investigation report issued by the PRC local authority on 12 May 2011, the accident was caused by the unauthorised entry of the employee (who was responsible for feeding waste paper into pulper) to the waste paper pulper. As waste paper is occasionally mixed with valuable items such as notes and coins, he entered into the pulper searching for those items for his own benefit. At the time of the accident, he entered the pulper without notifying others and was killed unnoticed when the Group's operators turned on the pulper.

The investigation report also pointed out that as the accident was caused by the unauthorised action of the deceased and the Group already provided sufficient guidance on production safety, no management staff or operator would be liable for the accident. The Company's PRC legal advisers have advised that as the accident has been properly dealt with in accordance with relevant PRC laws and regulations, the Group, the Directors and its senior management members have not been and will not be sued and also will not be subject to any legal liabilities and penalties. The Group has already paid the related medical expenses and compensation with insurance coverage, amounting to approximately RMB650,000.

Although the accident was not caused by its improper operating practices, in order to prevent similar accident, the Group has installed close circuit television system to monitor the site and an alarm buzzer to notify all workers when the pulper is turned on. In addition, other preventive measures, including placing of warning banners, introduction of staff training as well as updating its operational management manual, are introduced to enhance work safety awareness among employees. Having (i) considered such newly measures implemented by the Group; (ii) discussed with the Directors the measures taken and the progress of implementation after the said accident; and (iii) reviewed the updated operational management manual, the Sole Sponsor is of the view that the Group's existing occupational safety measures are adequate and effective to safeguard the occupational health and safety of the employees.

The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge, the Group had no other accidents causing material disruptions to the Group during the Track Record Period and up to the Latest Practicable Date.

ENVIRONMENTAL COMPLIANCE

The Group is committed to environmental responsibility in all aspects of its business, from procurement of raw materials to treatment of wastes, and save for the non-compliance matters disclosed in the sub-section headed "Legal and Regulatory Matters" in this section, has been operating in accordance with the relevant PRC laws and regulations.

For paperboard production

According to the Development Policy for Paper Making Industry (造紙產業發展政策) promulgated by the NDRC on 15 October 2007, waste paper as the raw material in paper making process is encouraged. In response to the increasing environmental friendly awareness, the Group's paperboard products are mainly manufactured from waste paper, which could minimise the negative impact on the environment.

The major pollutants in the Group's paperboard production plant include waste water, waste gas and cinder. In order to comply with applicable environmental laws and regulations in the PRC, the Group has implemented the following measures:

— The waste water generated from production is purified and recycled for use by the Group's own waste water treatment system, which also enables the Group to lower its overall water consumption level.

— The Group has its own on-site treatment facilities for gaseous pollutants, dust and noise emitted from the operation.

— Solid waste, including plastic and coal fragments from the production process and sludge from the waste water treatment, are separated and disposed of by resale or transported out of the production site for pit filling.

In compliance with the applicable PRC laws and regulations, the Group had obtained all required permits for waste water discharge, noise and air pollutants emission, and solid waste disposal for the paperboard production in Guanshan Production Plant during the Track Record Period and up to the Latest Practicable Date. The Group also passed the cleaner production examination (a compulsory examination under the Cleaner Production Promotion Law of the PRC (中華人民共和國清潔生產促進法) adopted by the PRC government) on 29 August 2012. During the Track Record Period, all the discharge fees for the various pollutants generated were paid by the Group. The following table set out the discharge fees paid and capital expenditure on the waste water treatment system of the Group for the Track Record Period:

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB	*RMB*	*RMB*
Discharge fees paid	245,552	207,470	189,592
Capital expenditure on waste water treatment system	1,573,000	13,190,000	36,313,000

The Directors consider that the expected cost of compliance of the Group's environmental obligations under PRC laws or other voluntarily adopted measures in 2014 would be approximately RMB192,000 for discharge and inspection fee of waste water.

For corrugated medium box and poker card production

The Group obtained the required permit for waste water discharge, noise and air pollutants emission, and solid waste disposal for corrugated medium box and poker cards production at Yanxi Production Plant in July 2012. The Group did not obtain the required permit before the aforesaid date and delayed in undertaking the environmental impact evaluation procedures for the construction of the corrugated medium box and poker cards production lines and acceptance procedures for the corresponding environmental protection facilities required for the construction projects.

Regarding the aforementioned non-compliance as well as the delay of passing the cleaner production examination for Guanshan Production Plant, the Group has received a confirmation issued by Zhangzhou City Environmental Protection Bureau (漳州市環境保護局) dated 17 December 2012 confirming that there has been no penalty imposed and no further action will be instituted against the Group for such non-compliance. Besides, according to the confirmation letter issued by Zhangzhou City Environmental Protection Bureau (漳州市環境保護局) dated 8 February and 6 June 2014, the Group has complied with the applicable environmental laws and regulations and the pollutants discharge level has met the national and local requirements, such that there has been no penalty or fine imposed on the Group during the Track Record Period and up to the Latest Practicable Date.

INTELLECTUAL PROPERTY RIGHTS

The Group's intellectual property rights mainly consist of the trade marks and poker card outlook design patent detailed in the sub-paragraph headed "Intellectual property rights of the Group" in the paragraph headed "Further Information about the Business of the Group" in Appendix VI to this prospectus.

The Group has registered principal trade marks and poker card outlook design necessary for its business operation. The Directors are not aware of any material infringement of the Group's intellectual property rights during the Track Record Period and up to the Latest Practicable Date. As at the Latest Practicable Date, the Directors were also not aware of any pending or threatened claims against any member of the Group relating to infringement of any intellectual property rights owned by third parties.

INSURANCE COVERAGE AND PRODUCT WARRANTY

The Group has maintained insurance policies on its properties, including certain production facilities, equipments and inventories, to cover losses from natural disaster such as fire, flood and typhoon. The insurance policies also cover products in transit and employee accidents. Under the prevailing PRC laws and regulations, the Group is not required to take out any business interruption insurance in respect of its operations as well as product liability insurance against claims or liabilities from use of its products.

The Directors have confirmed that during the Track Record Period, all products sold by the Group had complied with the specifications required by its customers in all material respects and, up to the Latest Practicable Date, the Group had not received any material claim from its customers relating to any liability arising from or in connection with the use of the Group's products.

During the Track Record Period, save as disclosed in the sub-section headed "Safety", the Group had no material liability claims in respect of industrial accidents arising from its operations nor product liability from Independent Third Party. Hence, the Directors believe that the Group's insurance policies are adequate and sufficient for its operations and are consistent with the common industry practice in the PRC.

PROPERTIES

Owned properties

As at the Latest Practicable Date, the Group held the land use rights of ten parcels of land with a total site area of approximately 183,830.55 sq.m. and the buildings erected thereon with a total gross floor area of approximately 84,518.31 sq.m. in Fujian Province, the PRC. These buildings and structures are used for production, staff quarters, storage, office, investment and ancillary purposes. The Group has obtained all the relevant land use right certificates and building ownership certificates and the Group is entitled to occupy, use, transfer, lease, pledge or otherwise dispose of the properties under the applicable PRC laws.

Certain unused production workshops and buildings located near or at Yanxi Production Plant are classified as investment properties by the Group, of which approximately 4,120 sq.m. are leased to three Independent Third Parties.

To facilitate future development needs, in June 2011, the Group through Mr. Zheng entered into a land use right acquisition contract with the People's Government of Wuan Town, Changtai County to acquire a parcel of land with a site area of approximately 30,000 sq.m. at Guanshan Industrial Park, Wuan Town, Changtai County, Zhangzhou City, Fujian Province, the PRC. This parcel of land is intended for construction of the new coated white board production line as mentioned in the section headed "Future Plans and Use of Proceeds". As this parcel of land is adjacent to its existing Guanshan Production Plant, construction of the new paperboard production line thereon enables it to share the use of the existing waste water treatment facilities and steam supply from the coal-fired co-generation power plant at Guanshan Production Plant. The Group completed the land acquisition and obtained the land use right certificate on 21 December 2012.

The texts of a letter, a summary of valuation and valuation certificates on the Group's owned properties prepared by Grant Sherman Appraisal Limited, an independent valuer, are set out in Appendix III to this prospectus.

Leased properties

The Group has rented a property at Office No. 3, 13th Floor, Boss Commercial Centre, 28 Ferry Street, Kowloon, Hong Kong from an Independent Third Party for use as its Hong Kong head office.

AWARDS AND RECOGNITIONS

The Group has received the following major awards and certifications in respect of its business and products:

Date of grant	Name of awards/ certifications	Details of awards/ certifications	Accrediting body	Validity
March 2012	Famous Branded Products of Fujian Province (福建名牌產品)	Poker card product	The People's Government of Fujian Province (福建省人民政府)	March 2012 to March 2015
November 2013	Renowned Trademark of Fujian Province (福建省著名商標)	Trademark	Administration for Industry and Commerce of Fujian Province (福建省工商行政管理局)	November 2013 to November 2016
December 2011	Well-known Enterprise in Fujian Province (福建省企業知名字號)	Corporate	Administration for Industry and Commerce of Fujian Province (福建省工商行政管理局)	December 2011 to December 2014
September 2013	ISO9001:2008 GB/ T19001-2008 (Quality management system certification) 質量管理體系認証証書	Production of cardboard and corrugated carton, design and production of playing cards	China Quality Certification Centre (中國質量認証中心)	September 2013 to September 2016

LICENCES AND PERMITS

The PRC legal advisers of the Group, Dacheng Law Offices, have confirmed that the Group has obtained all necessary approvals, consents, registrations, licences and permits for all of its operation and are within their respective effective periods as of the Latest Practicable Date. Furthermore, the Directors have confirmed that the Group has never experienced any failure in applying for renewal of the following approvals, consents, registrations, licences and permits since establishment:

	Licences/Permits	Effective Period	Issuing Authorities	Scope
1.	Printing Business Licence (印刷經營許可證)	March 2014 to March 2017	Zhangzhou Municipal Administration of Culture, Broadcasting, Television, Press and Publication (漳州市文化廣電新聞出版局)	To undertake publication printing, decoration and packaging printing, and other printing operational activities
2.	Certificate of Registration of Domestic Consignee of Imported Solid Waste that can be Used as Raw Materials (進口可用作原料的固體廢物國內收貨人註冊登記證書)	December 2012 to December 2015	AQSIQ	To be registered as domestic consignee of solid waste imported from overseas
3.	Import Licence of the People's Republic of China for Automatic-licensing Solid Wastes that can be Used as Raw Materials (中華人民共和國自動許可進口類可用作原料的固體廢物進口許可證)	January 2014 to December 2014 (Annual renewal is required)	Ministry of Environmental Protection of the PRC (中華人民共和國環境保護部)	To import automatic-licensing solid waste that can be used as raw materials from overseas
4.	Pollutants Discharge Permit (排放污染物許可證)	For production facilities at: • Guanshan Industrial Park — October 2013 to October 2016 • Yanxi Industrial Park — July 2012 to March 2015	Changtai County Environmental Protection Bureau (長泰縣環境保護局)	To discharge waste gas, waste water, waste residues and noise at a level which complies with both the national and local standards

LEGAL AND REGULATORY MATTERS

As at the Latest Practicable Date, there were no litigation or arbitration proceedings pending or threatened against the Group that could have a material adverse effect on its financial condition and results of operation. Up to the Latest Practicable Date, the Group had the following non-compliance matters which the Group had rectified and for which the relevant PRC authorities had confirmed that no action would be instituted against the Group and no penalty would be imposed on the Group:

Non-compliance	Period/date of non-compliance	Legal consequence(s) and maximum potential penalty	Remedial action(s) taken/to be taken/latest status	Basis of provisions made for the potential penalty
Delayed in undertaking the environmental impact evaluation procedures for the construction of corrugated medium box and poker cards production lines and acceptance procedures for the corresponding environmental protection facilities required at Yanxi Production Plant.	During the period between 2003 and 2012	The Group commenced the production lines without undertaking the environmental impact evaluation procedures and submitting the corresponding environmental protection facilities to acceptance and checks procedures, the competent authority has the right to order the Group to stop the corresponding production and impose a fine of between RMB50,000 and RMB300,000 on the Group.	The Group has received the relevant approval letter for the environmental impact evaluation from Changtai County Environmental Protection Bureau on 21 June 2012 and obtained the approval letter for the acceptance of the corresponding environmental protection facilities from Changtai County Environmental Protection Bureau on 28 June 2012. A confirmation letter dated 12 September 2012 issued by Changtai County Environmental Protection Bureau *(Note)* and a confirmation letter dated 17 December 2012 issued by Zhangzhou City Environmental Protection Bureau (漳州市環境保獲局) *(Note)* were obtained confirming that no action will be instituted against the Group and no penalty will be imposed on the Group for the non-compliance.	No provision has been made as no action will be taken against the Group by the relevant environmental authority for the non-compliance.

Note: As advised by the Group's PRC legal advisers, Dacheng Law Offices, Changtai County Environmental Protection Bureau and Zhangzhou City Environmental Protection Bureau are the competent and appropriate authorities to issue the respective confirmations under the applicable PRC laws and regulations.

Non-compliance	Period/date of non-compliance	Legal consequence(s) and maximum potential penalty	Remedial action(s) taken/to be taken/latest status	Basis of provisions made for the potential penalty
Failed to obtain the permits for waste water discharge, noise and air pollutants emissions, and solid waste disposal for Yanxi Production Plant	During the period between 2003 and 16 July 2012	The authority in charge of environmental protection under the PRC government above the county level has the right to order the Group to rectify the omission within a prescribed period and impose a fine of up to RMB50,000.	The Group has obtained the permits for the discharge of waste water, noise and air pollutants, and solid waste disposal for Yanxi Production Plant on 17 July 2012. A confirmation letter dated 12 September 2012 issued by Changtai County Environmental Protection Bureau *(Note)* and a confirmation letter dated 17 December 2012 issued by Zhangzhou City Environmental Protection Bureau *(Note)* were obtained confirming that no action will be instituted against the Group and no penalty will be imposed on the Group for the non-compliance.	No provision has been made as no action will be taken against the Group by the relevant environmental authority for the non-compliance.
Failed to carry out the cleaner production examination for Guanshan Production Plant, and report the result of checks to the relevant governmental authorities.	During the period between 2008 and 28 August 2012	The authorities in charge of environmental protection under the PRC government above the county level has the right to order the Group to rectify the omission within a prescribed period, and impose a fine of up to RMB500,000.	The Group has passed the cleaner production examination on 29 August 2012. A confirmation letter dated 12 September 2012 issued by Changtai County Environmental Protection Bureau *(Note)* and a confirmation letter dated 17 December 2012 issued by Zhangzhou City Environmental Protection Bureau *(Note)* were obtained confirming that no action will be instituted against the Group and no penalty will be imposed on the Group for the non-compliance.	No provision has been made as no action will be taken against the Group by the relevant environmental authority for the non-compliance.

Note: As advised by the Group's PRC legal advisers, Dacheng Law Offices, Changtai County Environmental Protection Bureau and Zhangzhou City Environmental Protection Bureau are the competent and appropriate authorities to issue the respective confirmations under the applicable PRC laws and regulations.

Non-compliance	Period/date of non-compliance	Legal consequence(s) and maximum potential penalty	Remedial action(s) taken/to be taken/latest status	Basis of provisions made for the potential penalty
Delayed in undertaking the acceptance procedures for the fire prevention safety inspection of the Group's Guanshan Production Plant and Yanxi Production Plant.	During the period between 2010 to 23 September 2012	Where the Group failed to undertake the acceptance procedures for the fire prevention safety inspection and commenced its operations, the PRC government has the right to order the Group to cease the productions and business operations, and impose a fine of between RMB30,000 and RMB300,000.	The Group has completed the acceptance of the fire prevention safety inspection on 24 September 2012. A confirmation letter dated 24 September 2012 issued by Fire Protection Section of Changtai County (長泰縣公安消防大隊) *(Note)* and a confirmation letter dated 24 December 2012 issued by Fire Protection Section of Zhangzhou City (漳州市公安消防大隊) *(Note)* were obtained confirming that no action will be instituted against the Group and no penalty will be imposed on the Group for the non-compliance.	No provision has been made as no action will be taken against the Group by the relevant fire protection authority for the non-compliance.
Delayed in obtaining the land use right for a boiler room at Yanxi Production Plant (the "Delayed Title")	From 2004 up to 20 December 2012	The authority in charge of land use right above the county level has the right to expropriate the boiler room and related equipment from the Group and impose a fine of up to RMB30,000.	The Group obtained the land use right certificate for the boiler room at Yanxi Production Plant on 21 December 2012. A confirmation letter issued by Changtai County Supervision Team of Land and Resources (長泰縣國土資源監察大隊) *(Note)* dated 30 August 2012 and a confirmation letter dated 27 December 2012 issued by Zhangzhou City Supervision Team of Land and Resources (漳州市國土資源監察支隊) *(Note)* were obtained confirming that Dunxin PRC is not required to relocate or demolish the boiler room and is not subject to any fine, penalty and administrative proceedings before obtaining the land use right certificate.	No provision has been made as no action will be taken against the Group by the relevant authority for the non-compliance.

Note: As advised by the Group's PRC legal advisers, Dacheng Law Offices, Fire Protection Section of Changtai County, Fire Protection Section of Zhangzhou City, Changtai County Supervision Team of Land and Resources and Zhangzhou City Supervision Team of Land and Resources are the competent and appropriate authorities to issue the respective confirmations under the applicable PRC laws and regulations.

The non-compliance incidents mentioned above (except the Delayed Title) were due to the inadvertent and unintended oversight of the Group's directors and senior management in not designating competent staff to handle such compliance work. The Delayed Title was due to the omission of the relevant housing registration department in the PRC. The relevant PRC authorities have confirmed that no action will be instituted against the Group and no penalty will be imposed on the Group. If the relevant PRC authorities have otherwise decided to impose a penalty on the Group, the maximum potential fines for the non-compliance issues will be RMB1,180,000.

STRENGTHENING OF INTERNAL CONTROL MEASURES

To ensure on-going compliances with applicable laws and regulations upon the Listing and to prevent recurrence of non-compliance incidents in the future, the Group has adopted the following measures:

(1) Set up of compliance monitoring committee

In November 2012, the Group updated its operational management manual, which had been reviewed by the Company's PRC legal advisers, to provide guidance on compliance with relevant PRC laws and regulations pertaining to its operations and to assign duty for compliance monitoring. Pursuant to such operational management manual, the Group has set up a compliance monitoring committee consisting of (a) Mr. Gao De Fa ("Mr. Gao") representing the operation and administration departments; and (b) Mr. Lam Ho Keung ("Mr. Lam"), the company secretary of the Company. Mr. Chen Ruomao, an executive Director and the chief financial officer of the Group, supervises the work of Mr. Gao and Mr. Lam. The committee is required to report any non-compliance incidents to the Board and the Audit Committee, who will decide on the remedial actions to be taken. The Group's administration department has undertaken the following monitoring functions:

(a) prepare a list of permits and licenses required by the Group with information on their expiry dates, fees payable and documentations required. Mr. Gao shall review the list on a monthly basis and inform the relevant departments for application or renewal;

(b) communicate with the operation departments on daily basis to ensure the Group will timely obtain the required permits and licenses for its planned activities, such as technical improvement, with regard to the said list of permits and licenses;

(c) review the data provided by the operation departments and compile records to monitor the operation departments' fulfillment of the requirements on relevant regulations and requirements, especially on environmental issues; and

(d) daily report to Mr. Gao the monitoring result and make proposal for improvement.

Mr. Lam has experience acting as external auditor of listed companies where his responsibilities included internal control review and assessment of internal control system effectiveness of listed companies. Prior to joining the Group, Mr. Gao was the head of a coal-fired co-generation power plant in a state-owned sugar production enterprise responsible for overseeing several sizable infrastructure and production plant development projects. He had been assigned by the said state-owned sugar production enterprise to act as a consultant to assist several companies' construction projects, including a sizable paperboard manufacturing company, to handle license application and environmental issues. Please refer to the section headed "Directors, Senior Management and Employees" of this prospectus for details of their experiences and qualifications.

In view of (1) Mr. Gao's experience on infrastructure and production plant development project management, especially environmental issues, and (2) Mr. Lam's knowledge on internal control matters, the Directors believe the compliance monitoring committee possesses the requisite expertise to perform its functions in respect of monitoring the Group's compliance of relevant PRC laws and regulations.

(2) Execution of controls over compliance issues

To ensure effective execution of internal controls, the Group has adopted the following measures since November 2012:

- internal memoranda summarising updated sections in the operational management manual and new development of the relevant PRC laws and regulations shall be circulated to promote the compliance awareness of its staff on a quarterly basis and as required;

- Mr. Lam has been assigned to follow up on the monthly monitor report of the administration department, and report findings on such report to Mr. Chen Ruomao, an executive Director and the chief financial officer of the Group, and to advise the Board on the Listing Rules compliance and disclosure requirements. Also he is responsible for assisting Mr. Chen to:

  - update the operational management manual on a quarterly basis; and

  - design and strengthen internal control measures over legal and financial reporting areas;

- Mr. Chen Ruomao has been assigned to:

  - review and strengthen internal control measures over legal and financial reporting areas; and

  - report the effectiveness of the internal control operations and/or material findings on non-compliance issues to the Board and the Audit Committee; and

- the Group's PRC legal advisers have been appointed to provide ongoing legal advice on relevant PRC laws and regulations applicable to the Group and training on regulations pertaining to the Group's business operations to its management on regular basis upon the Listing.

All the Directors (including the independent non-executive Directors) and Mr. Lam have attended a directors' training session provided by the Hong Kong legal advisers to the Company on 26 September 2012 and 19 January 2014 respectively. They have provided written confirmations to the Company and the Sole Sponsor that they have reviewed the materials in the directors' training pack provided by the Company's Hong Kong legal advisers and understand their obligations, duties and responsibilities as executive Directors/independent non-executive Directors/ company secretary of a listed company. In addition, an internal manual comprising information regarding various provisions of the Listing Rules, the Takeovers Code and the SFO has been provided to the Directors for their reference.

(3) Review of the effectiveness of internal control measures on compliance matters

The Audit Committee (which was set up in May 2013) is responsible for overseeing the financial reporting and the internal control systems and procedures of the Group. It is chaired by Mr. Kwong Kwan Tong, who is a qualified accountant and has industry experience in papermaking business through his past tenure in another Hong Kong listed company, Qunxing Paper Holdings Company Limited. The committee has reviewed the Group's internal control effectiveness, and will make recommendations to the Board to strengthen the internal control measures if required.

The Audit Committee exercises its oversight by:

- reviewing the reports prepared by Mr. Chen Ruomao, an executive Director and the Chief Financial Officer of the Group;
- reviewing compliance related work done and compliance records of the Group on a quarterly basis; and
- discussing non-compliance and internal control issues identified with the management to ensure the operations of the Group comply with the relevant regulatory requirements as well as the Listing Rules.

Since its establishment for review of the Group's internal control matters, the Audit Committee was not aware of any material non-compliance matters up to the Latest Practicable Date.

In January 2013, the Company engaged BDOFS to perform an internal control review over the corporate governance and control over compliance issues of the Company. In September 2013, the Company further requested BDOFS to review the effectiveness of the enhanced control measures implemented by the Company to address the said non-compliance issues for the period from the effective implementation dates of those measures to the Latest Practicable Date. BDOFS is a professional risk advisory firm specialising in the provision of corporate governance and compliance, internal audit and internal control review services to listing applicants and listed companies on various Stock Exchanges since 2008.

BDOFS has performed walkthrough and control testing for the internal control review from the effective implementation dates of these enhanced internal control measures to the Latest Practicable Date. On that basis, BDOFS concurs with the Company's view that it has properly designed and effectively operated the said internal control measures for the purpose of preventing and detecting relevant control risk in relation to non-compliance matters.

Views of the Directors and the Sole Sponsor

On the basis of the aforesaid measures to continuously improve the Group's corporate governance and to prevent recurrence of non-compliance incidents in the future, the Directors are of the view that the Group has adequate internal control procedures in place. Furthermore, having considered the facts and circumstances leading to the non-compliance incidents as disclosed in this section and the Group's internal control measures to avoid recurrence of aforesaid non-compliances issues, the Directors are of the view that these past non-compliance incidents do not affect their suitability to act as directors of a listed issuer under Rules 3.08, 3.09 and 8.15 of the Listing Rules, and the suitability for listing of the Company under Rule 8.04 of the Listing Rules.

The Sole Sponsor considers that (1) the above internal control measures are adequate and effective with regard to the Group's operation needs and to fulfill the requirements under Rule 8.04 of the Listing Rules; and (2) the Directors are competent and honest for discharging their duties under Rules 3.08 and 3.09 of the Listing Rules for the following reasons:

(1) the Group's previous non-compliance incidents were due to the inadvertent and unintended oversight of the Group's management and have been rectified. No legal action which may have any material impact on the Group's operations and financial conditions has been or will be instituted by any relevant authorities;

(2) the Group has engaged legal advisers to provide appropriate legal and compliance guidance and advice to the Group;

(3) the Sole Sponsor has reviewed the Group's newly adopted measures, policies and updated operational management manual and the relevant remedial actions taken by the Group;

(4) the Sole Sponsor has discussed with the Group on the progress of its implementation of the new internal control measures and noted the engagement of BDOFS to conduct internal control reviews and its opinion mentioned above;

(5) the Sole Sponsor has participated in the training sessions provided to the Directors and certain senior management by the Hong Kong legal advisers to the Company. All the Directors and Mr. Lam Ho Keung, the company secretary, have provided written confirmations to the Sole Sponsor that they have reviewed the materials set out in the Directors' training pack provided to them by the Company's Hong Kong legal advisers and understand their obligations, duties and responsibilities as executive Directors/independent non-executive Directors/company secretary of a listed company; and

(6) the Audit Committee, which was set up in May 2013, has reviewed the compliance report, records and related work done of the Group from 1 November 2012 to 31 March 2014 on a quarterly basis:

    (a) a list of the expiration dates of all the Group's permits and licences;

    (b) internal memorandum summarising updated sections in the operational management manual and new development of the relevant laws and regulations of the PRC;

(c) reports prepared by Mr. Gao, Mr. Lam and Mr. Chen in respect of the Group's internal control measures; and

(d) other supporting documents relating to internal control measures.

Since its establishment for review of the Group's internal control matters, the Audit Committee was not aware of any material non-compliance matters from 1 November 2012 to 31 March 2014.

The Company's PRC legal advisers have also confirmed that save for the non-compliance incidents disclosed in the sub-section headed "Legal and regulatory matters", the Group (i) has obtained all necessary licences, approvals and permits, if required, from competent PRC authorities under the PRC laws and regulations in connection with the production at Yanxi Production Plant and Guanshan Production Plant; and (ii) has complied with all relevant PRC laws and regulations in respect of its operations in material respect during the Track Record Period and up to the Latest Practicable Date.

Having considered (1) the Group's non-compliance incidents were caused by inadvertent and unintended oversight the Group's management; (2) the relevant newly adopted internal control measures and remedial actions taken by the Group; and (3) the discussion with the Company's PRC legal advisers on the consequence and nature of the non-compliance incidents, the Sole Sponsor does not consider the Group's non-compliance incidents are of serious nature.

BOARD OF DIRECTORS

The Board is responsible for the overall management of the business of the Group. The table below set out information in respect of members of the Board:

Name	Age	Position in the Group	Date of appointment	Date of joining the Group	Roles and responsibilities
Mr. Zheng Dunmu (鄭敦木)	46	Chairman and executive Director	27 August 2012	Founder	The Group's strategic plan formulation and supervision of daily operation
Mr. Zheng Dunqian[1] (鄭敦遷)	42	Chief Executive Officer and executive Director	27 August 2012	1 January 2012	Overseeing the Group's corrugated medium board and box and poker card business operation
Mr. Chen Ruomao[2] (陳若茂)	41	Chief Financial Officer and executive Director	27 August 2012	Founder	Overseeing the Group's finance and operation and formulating internal accounting and reporting policy
Mr. Kwong Kwan Tong (鄺焜堂)	48	Independent non-executive Director	15 May 2013	15 May 2013	Member of Audit Committee, Remuneration Committee and Nomination Committee
Mr. Ye Deshan (葉德山)	41	Independent non-executive Director	15 May 2013	15 May 2013	Member of Audit Committee, Remuneration Committee and Nomination Committee
Mr. Hu Zhenghui (胡鄭輝)	64	Independent non-executive Director	9 July 2013	9 July 2013	Member of Audit Committee, Remuneration Committee and Nomination Committee

Notes:

1. Mr. Zheng Dunqian is a brother of Mr. Zheng, an executive Director and the Chairman, and the brother-in-law of Mr. Chen Ruomao, an executive Director and the Chief Financial Officer of the Group.

2. Mr. Chen Ruomao is the brother-in-law of Mr. Zheng Dunqian, an executive Director and the Chief Executive Officer of the Group.

Executive Directors

Mr. Zheng Dunmu (鄭敦木), aged 46, is the chairman of the Company, an executive Director and one of the founders of the Group. Mr. Zheng has more than 19 years of management and operational experience in papermaking and packaging materials business. He is primarily responsible for the Group's strategic plan formulation as well as supervision of daily operation. Mr. Zheng is currently a standing committee member of Zhangzhou Changtai Committee of the Political Consultative Conference and a committee member of Fujian Committee of the Political Consultative Conference respectively. He has served as an executive committee member of Chinese Stationery & Sporting Goods Association (中國文教體育用品協會) since 2007 and Changtai Federation of Industry and Commerce since August 2012 respectively, and was an executive committee member of Zhangzhou Federation of Industry and Commence from December 2001 to October 2011. He was appointed as the consultant of Changtai Local Government for encouraging the foreign investment in 2005.

Mr. Zheng Dunmu had not been a director of any companies listed on the Stock Exchange or other exchanges during the three years immediately before the date of this prospectus. Mr. Zheng is a brother of Mr. Zheng Dunqian, who is also an executive Director.

Mr. Zheng Dunqian (鄭敦遷), aged 42, an executive Director and the chief executive officer of the Company, is responsible for overseeing the operation of the Group's corrugated medium board and box and poker card business. He has over 18 years of experience in the papermaking and packaging materials business. He assisted Mr. Zheng to establish the Group in 2000 and served as the sales and production manager of Dunxin PRC until 2007. He joined the Group again in 2012.

Mr. Zheng Dunqian is actively involved in social affairs. He has served as the Honorable Chairman of the Changtai Culture Association (長泰縣文化協會) since year 2012 and the Vice Chairman of the Changtai Federation of Returned Overseas (長泰縣歸國華僑聯合會) since year 2011 respectively. He completed an EMBA at Central University of Finance and Economics, the PRC in June 2004. Mr. Zheng Dunqian had not been a director of any companies listed on the Stock Exchange or other exchanges during the three years immediately before the date of this prospectus. He is a brother of Mr. Zheng, an executive Director, and the brother-in-law of Mr. Chen Ruomao, an executive Director and the Chief Financial Officer of the Group.

Mr. Chen Ruomao (陳若茂), aged 41, is an executive Director and the chief financial officer of the Company. He is responsible for overseeing the finance and operation matters of the Group as well as formulating internal accounting and reporting policy. He co-founded the Group with Mr. Zheng Dunmu in 2000. Prior to that, he worked in Changtai Branch of China Construction Bank as an accountant. He completed an Executive Training Program of Business Administration and Management in the Graduate School of Xiamen University, the PRC in July 2007. Mr. Chen does not have any professional accounting qualifications. He has over 17 years of experience in banking, finance and accounting through his pervious employment with China Construction Bank and his time with the Group. Mr. Chen is familiar with the Group's operations and is capable of discharging his duty in reporting and financial management matters with the support of the Group's accounting team and the company secretary, Mr. Lam Ho Keung, who is a member of the Hong Kong Institute of Certified Public Accountants. During the three years immediately before the date of this prospectus, Mr. Chen had not hold any directorship in public listed companies. Mr. Chen Ruomao is the brother-in-law of Mr. Zheng Dunqian, an executive Director and the chief executive officer of the Group.

Independent Non-Executive Directors

Mr. Kwong Kwan Tong (鄺焜堂), aged 48, is an independent non-executive Director. Mr. Kwong qualified as a certified public accountant in June 1994. He is a fellow member of the Association of Chartered Certified Accountants, and an associate member of the Hong Kong Institute of Certified Public Accountants and the Chartered Institute of Management Accountants. Mr. Kwong has over 25 years of experience in accounting, auditing and financial control through his employment with various companies in Hong Kong and the PRC. He was an independent non-executive director, chairman of audit committee, member of remuneration and nomination committee of China Investment Fund Company Limited (a company listed on the Stock Exchange with stock code 612) from 2008 to 2010, Golden Shield Holdings (Industrial) Limited (a company listed on the Stock Exchange with stock code 2123) from 2010 to February 2014 and Qunxing Paper Holdings Company Limited ("Qunxing") (a company listed on the Stock Exchange with stock code 3868) from September 2007 to March 2014. He is currently the chief financial officer and company secretary of Weichai Power Co., Ltd. (a company listed on the Stock Exchange with stock code 2338 and Shenzhen Stock Exchange). Mr. Kwong joined the Group on 15 May 2013. Save as disclosed above, he has not been a director of any listed companies in the three years immediately preceding the date of this prospectus.

On 30 March 2011, at the request of Qunxing, trading of its shares on the Stock Exchange was suspended pending clarification of certain audit issues raised by its then auditors (the "Former Auditors") for a disclaimer opinion regarding Qunxing's 2010 annual results.

On 12 December 2013, the SFC (i) obtained an injunction order from the High Court of Hong Kong prohibiting disposal of assets of Qunxing and its wholly-owned subsidiary, Best Known Group Limited ("Best Known") in Hong Kong; and (ii) commenced legal proceedings against Qunxing and Best Known alleging that Qunxing had breached several provisions of the SFO. On 20 December 2013, the SFC directed the Stock Exchange to suspend all dealings in Qunxing's shares (which had been suspended from trading since 30 March 2011 at Qunxing's own request) on the same day.

On 21 March 2014, Mr. Kwong resigned as an independent non-executive director of Qunxing on his own accord. Since then, he has no involvement whatsoever in Qunxing. He considers he had properly discharged his duty during his tenure at Qunxing in accordance with the requirements of the Listing Rules.

Mr. Kwong has confirmed that he had not been involved in any matters leading to the suspension of trading of shares of Qunxing on the Stock Exchange and the SFC's legal proceedings against Qunxing up to the Latest Practicable Date.

The Sole Sponsor considers that Mr. Kwong is suitable to act as a Director under Rules 3.08 and 3.09 of the Listing Rules and is competent to perform a compliance and monitoring role in the Company in light of his past involvement in Qunxing for the following reasons:

(1) He had properly discharged his duty as an independent non-executive director of Qunxing and a member and the chairman of its audit committee with regard to corporate governance matters as required under the Listing Rules on a regular basis with his best effort, including the followings:

   i. he paid regular visits to Qunxing's sole operating subsidiary, Shandong Qunxing Paper Limited ("Shandong Qunxing") in the PRC, every year during his tenure to inspect whether its business was operated as usual and identify any matters that should be reported to Qunxing's board of directors;

ii. he proactively communicated with Qunxing's management, other board members and audit committee members and auditors in respect of Qunxing's financial position and internal control matters. As the chairman of the audit committee, he attended regular audit committee meetings, held discussions with former and existing auditors on Qunxing's financial and internal control affairs and communicated with its management and other board members in respect of any material findings and concerns raised by the auditors before approving its audited financial results. Before certain audit issues were raised by the Former Auditors for its 2010 audited results, he had not noticed any unusual matters from the documents provided by the Former Auditors in respect of Qunxing's financial position prior to the year ended 31 December 2010; and

iii. he attended Qunxing's annual general meetings every year during his tenure to make himself available to answer its shareholders' enquiries on its affairs.

As an independent non-executive director of Qunxing, Mr. Kwong was not involved in the daily operation and management of Qunxing. He solely relied on information provided by its management and other experts including auditors and internal control consultants in making judgement to discharge his duty. Regarding the bankruptcy filings of Shandong Qunxing, he had neither any involvement in any related business dealings with it nor any knowledge from Qunxing's management until there was publicly available information.

(2) In respect of the audit issues raised by the Former Auditors for Qunxing's 2010 audited results, he took appropriate and timely actions to address them, including communication with the Former Auditors, legal advisers and other audit committee members, setting up an investigation task force under the audit committee, and to appoint independent forensic experts and consultants to investigate the audit issues and review internal control system of Qunxing. He also monitored the progress and development of the investigations, and took an active role to ensure its compliance with the requirements of the Listing Rules while trading of the shares of Qunxing was suspended.

(3) The legal proceedings of the SFC were taken solely against Qunxing and their former chairman and vice chairman and none of such legal proceedings is against Mr. Kwong personally.

(4) Mr. Kwong had assisted the management of Qunxing and cooperated with regulators including the SFC, Stock Exchange and the interim receivers and managers in their enquires and investigations.

Mr. Ye Deshan (葉德山), aged 41, is an independent non-executive Director. He graduated from Xiamen University (廈門大學) (correspondence course) with a bachelor degree in Business Administration in July 2004, and obtained a master degree in business administration from Xiamen University in 2007. Mr. Ye has more than 21 years' working experience in the logistic industry. Currently he is a Head of Haicang Station under Nan Chang Railway Bureau. As a Head of Haicang Station under Nan Chang Railway Bureau, Mr. Ye is responsible for the management and supervision of more than 203 staffs and coordination of the operation of the Nan Chang Railway Bureau, which processed more than 4.9 million tonnes of cargos in 2013. The Directors believe that his extensive experience in business administration, management, and logistics operation can provide valuable contribution to enhance the effectiveness of Group's operation. He joined the Group on 15 May 2013 and has not been a director of any listed companies in the three years immediately preceding the date of this prospectus.

Mr. Hu Zhenghui (胡鄭輝), aged 64, is an independent non-executive Director. He has over 12 years of management and administration experience in academia. He served at Zhangzhou Normal University as deputy director of business administration faculty from May 1994 to April 1998, deputy director of academic affairs from April 1998 to March 2001, and director of foreign language faculty from October 2006 to November 2010. He also acted as professor for a post-graduate course on business language communication at Zhangzhou Normal University during September 2007 to March 2011. Mr. Hu obtained master degree in Theory of Curriculum and Teaching in June 1998 from Beijing Normal University and was awarded the title "Associate Professor" by Zhangzhou Normal University in 1999.

As a director and deputy director in different faculties of Zhangzhou Normal University, Mr. Hu has assumed various senior management and supervision roles, including curriculum design, establishment of monitoring and appraisal system for operational efficiency, preparation of budget and resources allocation plan. The Directors believe that his extensive experience in management and administration can provide valuable insight to enhance the Group's administration efficiency and resources allocation for its operations.

He joined the Group in July 2013 and has not been a director of any listed companies in the three years immediately preceding the date of this prospectus.

Save as disclosed above and in Appendix VI to this prospectus:

1. the Directors do not have any other directorships held in listed public companies in the last 3 years;

2. the Directors do not have any relationships with any directors, senior management or substantial or controlling shareholders of the Company;

3. the Directors do not have any interests in Shares within the meaning of Part XV of the SFO; and

4. there is no information required to be disclosed pursuant to the requirements of Rule 13.51(2) of the Listing Rules.

SENIOR MANAGEMENT

The table below set out information in respect of members of the senior management:

Name	Age	Position in the Group	Date of appointment	Date of joining the Group	Roles and responsibilities
Jiang Da Can* (江大燦)	38	Deputy general manager	January 2011	November 2000	Responsible for the operation and management of poker card and high performance corrugated medium board and box production lines
Gao De Fa* (高德發)	51	Deputy general manager	January 2012	January 2010	Responsible for the general operation, administration, environmental protection, human resources and production infrastructure development
Chou Ming-Yen (周明炎)	61	Head of paperboard production line	November 2007	November 2007	Responsible for overseeing the operation of Group's paperboard production line
Zheng Wen Bin* (鄭文彬)	43	Head of coalfired co-generation power plant	September 2010	September 2010	Responsible for overseeing the daily operation and administration of the Group's coal-fired co-generation power plant
Chen Qishi (陳其實)	43	Secretary to the Board	December 2012	December 2012	Responsible for company secretarial duties of Dunxin PRC
Yuen Chi Tsun Ronnie (阮子瑨)	30	Finance manager of the Group	July 2013	July 2013	Responsible for the internal control, finance and accounting affairs of the Group
Lam Ho Keung (林浩強)	35	Company secretary	September 2012	September 2012	Responsible for the internal control, company secretarial and financial reporting matters of the Group

Mr. Jiang Da Can* (江大燦), aged 38, is a deputy general manager of the Group since January 2011 and is responsible for the operation and management of poker card and high performance corrugated medium board and box production lines. He has over 18 years of management and operational experience in poker card and packaging material production. He joined the Group in November 2000.

* Denotes an English translation of a Chinese name and is for identification purposes only. If there is any inconsistency between the Chinese name and the English translation, the Chinese version shall prevail.

Mr. Gao De Fa* (高德發), aged 51, is the deputy general manager of the Group since January 2012 and is responsible for the general operation and administration, environmental protection and human resources of Dunxin PRC as well as supervision of its production infrastructure development. He has over 30 years of experience in handling the operation and development of coal-fired co-generation power plant. He joined the Group in January 2010 as a project manager of coal-fired co-generation power plant development project to coordinate the construction of stream and electricity supplies infrastructure. Prior to joining the Group, Mr. Gao was the head of a coal-fired co-generation power plant in a state-owned sugar production enterprise responsible for overseeing several sizable infrastructure and production plant construction projects. He had been assigned by the said state-owned sugar production enterprise to act as a consultant to assist several companies' construction projects, including a sizable paperboard manufacturing company, to handle license application and environmental issues. He graduated from Fujian Radio & TV University majoring in mechanics, and obtained professional qualification as an engineer (工程師) awarded by 福建省人事廳 (Human Resources Bureau of Fujian Province*) in December 1997.

Mr. Chou Ming-Yen (周明炎), aged 61, joined the Group in November 2007. Since then, he is the head of paperboard production line and is responsible for overseeing the operation of Group's paperboard production line. He has over 35 years of experience in paperboard production and sales. Prior to joining the Group, he had worked in a Taiwan listed company engaged in paper manufacturing for about 30 years.

Mr. Zheng Wen Bin* (鄭文彬), aged 43, joined the Group in September 2010 as a head of coal-fired co-generation power plant and is responsible for overseeing the daily operation and administration of the Group's coal-fired co-generation power plant. He has over 16 years of experience in stream and electricity generation industries. Mr. Zheng has received a diploma in Economics and Administration from Fujian Party School of the Communist Party of China in June 2004.

Mr. Chen Qishi (陳其實), aged 43, joined the Group in December 2012. He is the secretary to the board of directors of Dunxin PRC responsible for company secretarial duties of Dunxin PRC. Before he joined the Group, he had worked for two PRC companies engaged in waste paper trading, one as a sales manager from 1995 to 2003 and the other as a general manager from 2003 to 2012. Moreover, he invested in Zhau Hau Trading from February 2007 to February 2009 to conduct waste paper trading in Hong Kong.

Mr. Yuen Chi Tsun Ronnie (阮子瑨), aged 30, is the finance manager of the Group since July 2013. Mr. Yuen joined the Group in July 2013 and is responsible for the internal control, finance and accounting affairs of the Group. He has around 6 years of experience in finance, accounting and internal control matters gained in local and international accounting firms and as a financial manager in a Hong Kong company. Mr. Yuen received a bachelor degree in commerce and a bachelor degree in business systems in October 2007 from Monash University, Australia and has been a full member of CPA Australia since August 2012.

None of the members of the senior management has been a director of any other companies listed on any securities market in Hong Kong or overseas during the three years immediately preceding the date of this prospectus.

COMPANY SECRETARY

Mr. Lam Ho Keung (林浩強), aged 35, joined the Group in September 2012 as the company secretary. He is responsible for company secretarial and financial reporting matters of the Group, including preparation of financial reports and ensuring the Group's compliance with the Listing Rules and other statutory requirements.

Mr. Lam has about 8 years of experience in finance and accounting and had worked in an international accounting firm prior to joining the Group. When acting as external auditor of listed companies, he gained experience in review and assessment of internal control system effectiveness of listed companies. Mr. Lam holds a Bachelor of Science degree from The Chinese University of Hong Kong. He is a member of the Hong Kong Institute of Certified Public Accountants.

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, the Group must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. Currently, the Group's business and operations are primarily located, managed and conducted in the PRC. Save for Mr. Kwong Kwan Tong, none of the Directors is a Hong Kong resident nor ordinarily based in Hong Kong. The Group does not, and for the foreseeable future will not, have two executive Directors residing in Hong Kong.

Accordingly, the Group has applied to the Stock Exchange for a waiver from compliance with the requirements under Rule 8.12 of the Listing Rules. See the section headed "Waiver from Strict Compliance with the Listing Rules" of this prospectus for more details.

EMPLOYEES

As at the Latest Practicable Date, the Group had a total of about 726 employees, of whom 2 are stationed in Hong Kong. The following table is a breakdown of the employees by function:

	Number of employees	Percentage of total number of employees
Management	12	1.6%
General Administration and Finance	120	16.5%
Marketing and Sales	18	2.5%
Manufacturing	558	76.9%
Quality Control	18	2.5%
Total	726	100.0%

The Directors believe the Group has good relationship with its employees. The Group had not experienced any strikes, work stoppages or significant labour disputes or any significant difficulties in recruiting or retaining qualified staff during the Track Record Period and up to the Latest Practicable Date.

The Group recognises the importance of having a team of well-trained employees. Training is provided to new machinery operators before commencement of service. For special machinery or equipment such as boiler and forklift truck which require licensed operators, the Group will recruit licensed staff or require such staff to pass the licensing examination before commencement of work. For details, please refer to the sub-section headed "Safety" in "Business" section of this prospectus.

SOCIAL INSURANCE AND HOUSING FUND

The Group's principal operating subsidiary, Dunxin PRC, is required by the PRC laws and regulations to participate in various social insurance schemes including pension, medical, unemployment, birth and work-related injury insurances.

According to a confirmation letter dated 12 September 2012 issued by the Fujian Province Changtai County Labour and Social Protection Bureau (福建省長泰縣勞動和社會保障局) and confirmation letters dated 7 February and 6 June 2014 issued by Zhangzhou City Labour and Social Protection Bureau (漳州市勞動和社會保障局), Dunxin PRC had registered the social insurance contribution scheme in accordance with relevant laws and regulations. The Group also made contribution to various social insurance schemes including pension, medical, unemployment, birth and work-related injury insurances for all staff in accordance with rules and guidelines applicable in Fujian Province. Changtai County Labour and Social Protection Bureau and the Zhangzhou City Labour and Social Protection Bureau also confirmed that Dunxin PRC did not have any non-contribution record nor was subject to any penalty as a result of any violation of the relevant laws and regulations.

Dunxin PRC is also required to register with the local housing fund managing centre and establish a housing fund contribution account and make full contributions as part of its employees' welfare and benefits. By its confirmation letters dated 12 September 2012, 10 February and 6 June 2014 respectively, the Zhangzhou City Housing Fund Managing Centre (漳州市住房公積金管理中心) confirmed that Dunxin PRC had established housing contribution account and made full contribution to all of its urban employees. It also confirmed that Dunxin PRC did not have any non-contribution record nor was subject to any penalty as result of any violation of the relevant laws and regulations.

As advised by the Company's PRC legal advisers, according to the Interim Provisions of Fujian Province on the Administration of Housing Accumulation Funds and confirmation from the Zhangzhou City Housing Fund Managing Centre dated 10 February 2014, there is no statutory requirement on enterprises registered in Fujian Province to make contribution on housing fund for non-urban employees. Therefore, the Group is only required to make full contribution to its urban employees.

In view of above, the Group has complied with relevant PRC laws and regulations regarding social insurance and housing fund contribution.

AUDIT COMMITTEE

The Company has established an Audit Committee in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 of the Listing Rules. The Audit Committee consists of three independent non-executive Directors, namely Mr. Kwong Kwan Tong, Mr. Ye Deshan, Mr. Hu Zhenghui. Mr. Kwong Kwan Tong is the chairman of the Audit Committee. The primary duties of the Audit Committee are to review and supervise the financial reporting process and the internal control procedures of the Group.

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The Remuneration Committee consists of three independent non-executive Directors, namely Mr. Kwong Kwan Tong, Mr. Ye Deshan, Mr. Hu Zhenghui. Mr. Ye Deshan is the chairman of the Remuneration Committee. The primary functions of the Remuneration Committee are to make recommendations to the Board on the remuneration of the Directors and senior management and to determine on behalf of the Board specific remuneration packages and conditions of employment of the Directors and senior management.

NOMINATION COMMITTEE

The Company has established a Nomination Committee in compliance with the Corporate Governance Code set out in Appendix 14 of the Listing Rules. The Nomination Committee comprises three members, namely, Mr. Kwong Kwan Tong, Mr. Ye Deshan, Mr. Hu Zhenghui with Mr. Hu Zhenghui being the chairman of the Nomination Committee. The Nomination Committee considers and recommends to the Board on appointment of Directors and senior management staff.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The executive Directors receive, in their capacity as the Group's employees, remuneration in the form of salaries, bonus, other allowances and benefits in kind, including the Group's contribution to the pension scheme for the executive Directors, according to the PRC law. The Group determines the Directors' (including independent non-executive Directors) salaries based on the prevailing market practice, the Group's remuneration policy and each Director's duties and responsibilities with the Group. The aggregate amounts of remuneration (including basis salaries, contributions to pension schemes, allowances and benefits in kind and discretionary bonuses) paid to the Directors for the Track Record Period were approximately, RMB258,000, RMB372,000 and RMB470,000 respectively. No bonus was paid to the Directors during the Track Record Period.

The aggregate amounts of remuneration (including basis salaries, contributions to pension schemes, allowances and benefits in kind and discretionary bonuses) paid to the five highest paid individuals for the Track Record Period were approximately RMB633,000, RMB731,000 and RMB735,000 respectively.

No remuneration had been paid by the Group to the Directors or the five highest paid individuals as an inducement to join or upon joining the Group during the Track Record Period. No compensation had been paid to or receivable by such individuals during the Track Record Period for the loss of any office in connection with the management of the affairs of any member of the Group.

Further information about the service contracts entered into between the Company and the Directors is set out in the paragraph heading "Further Information about the Directors, Management, Staff, Substantial Shareholders and Experts" in Appendix VI to this prospectus.

STAFF COSTS

The staff costs of the Group (including Directors' emoluments, which are set out above) charged to the combined statements of comprehensive income for Track Record Period were approximately RMB24.6 million, RMB27.9 million and RMB30.5 million respectively.

COMPLIANCE ADVISER

The Group will appoint Kingsway Capital as the compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise the Group in the following circumstances:

— before the publication of any regulatory announcement, circular or financial report;

— where a transaction, which might be a notifiable or connected transaction under Chapters 14 or 14A of the Listing Rules, is contemplated including share issues and share repurchases;

— where the Group proposes to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or where the business activities, developments or results of the Group deviate from information in this prospectus; and

— where the Stock Exchanges makes an inquiry of the Group under Rule 13.10 of the Listing Rules.

The term of the appointment shall commence on the Listing Date and end on the date on which the Group complies with Rule 13.46 of the Listing Rules in respect of the financial results for the first full financial year commencing after the Listing Date and such appointment may be extended by mutual agreement.

SUBSTANTIAL SHAREHOLDERS

So far as the Group's Directors are aware, immediately following completion of the Share Offer and the Capitalisation Issue (taking no account of any Shares which may be taken up under the Share Offer), the following persons will have interests in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of interest in the Company
Mr. Zheng *(Note 1)*	Interest of controlled corporation	558,450,000	56.25%
Pure Sheen	Beneficial interest	483,990,000	48.75%
Mr. Kung *(Note 2)*	Interest of controlled corporation	117,646,800	11.85%
Gang Bo	Beneficial interest	117,646,800	11.85%

Notes:

1. 483,990,000 Shares, 37,230,000 Shares and 37,230,000 Shares respectively will be owned by Pure Sheen, Radiant Path and Radiant Prestige, all of which are wholly owned by Mr. Zheng.

2. These Shares will be owned by Gang Bo, which is wholly owned by Mr. Kung.

CONTROLLING SHAREHOLDERS

So far as the Directors are aware, immediately following completion of the Share Offer and the Capitalisation Issue (but without taking into account any Shares which may be taken up under the Share Offer), Mr. Zheng, Pure Sheen, Radiant Path and Radiant Prestige collectively are entitled to exercise or control the exercise of 30% or more of the voting power at the general meetings of the Company and are therefore regarded as controlling shareholders of the Company under the Listing Rules.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

The Group is principally engaged in the production and sale of paperboard and related downstream paper and packing products in the PRC. The Directors are satisfied that the Group is capable of carrying on its business independently from and does not have undue reliance on the Controlling Shareholders, taking into consideration, among others, the following factors:

1. Competition

As at the Latest Practicable Date, none of the Controlling Shareholders, the Directors or any of their respective associates was interested in any business (other than the Group) which is, directly or indirectly, in competition with the Group's business. Further the Controlling Shareholders have entered into the Deed of Non-Competition in favour of the Group, the principal terms of which are set out in the sub-section headed "Deed of Non-Competition" below.

2. Independence of business operations and management

The Group owns all production and operating facilities and technology relating to its business operations. The Group's independent senior management team carries out production, sales, marketing and administrative functions relating to the Group's business independently.

Apart from Mr. Zheng, the Board comprises of 2 executive Directors and 3 independent non-executive Directors. Mr. Zheng is also the director of Pure Sheen, Radiant Path and Radiant Prestige respectively. Pure Sheen, Radiant Path and Radiant Prestige are the Company's Controlling Shareholders and the investment holding companies of Mr. Zheng for holding Shares. Save for Mr. Zheng, none of the Directors or the senior management personnel of the Group serves any executive or management role in Pure Sheen, Radiant Path or Radiant Prestige.

Each of the Directors is aware of his fiduciary duty to the Company, including to act for the benefit and in the best interests of the Group and to avoid any conflict of interest between him as a Director and his personal interests. In the event that there is a potential conflict of interest in respect of any transaction to be entered into between the Group and any of the Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant Board meeting in respect of such transaction and shall not be counted in the quorum. In addition, the Group has an independent senior management team to carry out the business decisions of the Group independently. The Board is of the opinion that it is able to function independently from the Controlling Shareholders and their respective associates.

3. Financial independence

The Group has its own independent internal control and accounting systems. Its finance department is able to discharge the treasury functions for cash receipts and payments, accounting, reporting and internal control independently of the Controlling Shareholders.

The Directors accordingly consider that the Group is able to maintain financial independence from the Controlling Shareholders.

DEED OF NON-COMPETITION

Non-competition undertakings

The Controlling Shareholders have entered into the Deed of Non-Competition in favour of the Group, pursuant to which the Controlling Shareholders jointly and severally have undertaken to the Group that they shall not and shall procure their respective associates not to, whether on their own account or in conjunction with or on behalf of any person, firm or company:

(a) carry on or be engaged, concerned, interested directly or indirectly whether as a shareholder (other than as a shareholder of the Company), partner, principal, agent or otherwise in, or in any other business that is similar or is in competition or may compete, directly or indirectly, with any business carried on from time to time and/or any business as described in this prospectus to be carried on by any member of the Group (the "**Restricted Activity**") in Hong Kong or any other territory in which any member of the Group from time to time operates;

(b) in competition with any member of the Group canvass or solicit or accept orders from or do business with any person with whom any of the member of the Group has done business or has negotiated in relation to the Restricted Activity or otherwise endeavour to induce any such person to cease being a customer of any of the member of the Group;

(c) do or say anything which may be harmful to the reputation of any of the member of the Group or which may lead any person to reduce their level of business with any of the member of the Group or seek to improve their terms of trade with any of the member of the Group; or

(d) solicit or entice or endeavour to solicit or entice any of the employees of or consultants to any member of the Group to terminate their employment or appointment with any member of the Group

except that:

(i) any of the Controlling Shareholders and/or his/its associates (as the case may be) may invest, participate in and engage in a project relating to the Restricted Activity if:

  (aa) the terms of such investment, participation or engagement in the Restricted Activity have been disclosed to the Company and the terms of the investment, participation and engagement in the Restricted Activity have been made available to the Shareholders for inspection; and

  (bb) an independent board committee of the Company has decided that the Group does not intend to carry on or engage in such project and has approved that the relevant Controlling Shareholders and/or their respective associates (as the case may be) may invest, participate or engage in such project; and without prejudice to the aforementioned, if subsequently any of the Controlling Shareholders and/or his/its associates (as the case may be) shall be involved, participating or engaged in the relevant project, then the terms of such investment, participation or engagement in such project must be disclosed to the Company and the Shareholders in accordance with the Listing Rules; and

(ii) the restrictions in (a) to (d) above do not apply to any of the Controlling Shareholders and/or its associates (as the case may be) holding or being interested in shares or other securities in any company which conducts or is engaged in any Restricted Activity (the "**Subject Company**") provided that:

(aa) such shares or securities are listed on a recognised stock exchange (as defined in the Listing Rules) and the aggregate number of shares held by such Controlling Shareholder and/or his/its associates (as the case may be) or in which he/it is interested do not amount to more than 5% of the issued shares of the Subject Company from time to time; and

(bb) such Controlling Shareholder and/or any of his/its associates (as the case may be) do not participate in the management of such company.

The non-competition undertaking under the Deed of Non-Competition is conditional upon the Share Offer becoming unconditional as specified under the section headed "Structure and Conditions of the Share Offer" and will remain in effect on the relevant Controlling Shareholder(s) until the earlier of the date on which:

(a) the Shares cease to be listed and traded on the Stock Exchange; or

(b) the relevant Controlling Shareholder(s) and its/their associates, individually or taken as a whole (other than any member of the Group) cease to hold or otherwise interested in, whether directly or indirectly or cease to own, 30% or more of the then issued share capital of the Company or cease to be deemed as Controlling Shareholder(s) of the Company within the meaning as defined in the Listing Rules from time to time.

Corporate governance measures

Pursuant to the Deed of Non-Competition, each of the Controlling Shareholders further irrevocably and jointly and severally has undertaken:

(a) that he/it shall not, and shall procure that his/its associates shall not, for any purpose use any intellectual property rights or use or do anything which is intended or is likely to be confused with any of the intellectual property rights of or relating to any member of the Group at any time during the continuance of the Deed of Non-Competition or at any time thereafter;

(b) that he/it shall, and shall procure that his/its associates shall, refer to the Company any business opportunities offered to him/it and/or his/its associates (as the case may be) which fall within the scope of the Restricted Activity and shall use his/its best endeavours to procure that such business opportunities are offered to the Company or any other member of the Group on terms at least as beneficial as those which are offered to him/it and/or his/its associates (as the case may be);

(c) to give, and to procure that, the Company and its professional advisers are given, promptly and on request by the Company or any other member of the Group, any documents and information regarding the business, activities and affairs of such Controlling Shareholder and/or his/its associates (as the case may be) as are relevant to the undertakings set out in the Deed of Non-Competition for purposes including but not limited to annual review conducted by the independent non-executive Directors for the enforcement of the Deed of Non-Competition;

(d) to make an annual declaration on the compliance with the Deed of Non-Competition; and

(e) that he/it will use his/its best endeavours to procure that his/its employees and/or the employees of his/its associates (as the case may be) (except for those within the Group) to observe the restrictions and undertakings contained in the Deed of Non-Competition.

In this connection, the Group has adopted the following corporate governance measures to manage any potential conflicts of interest arising from any future potential competing business and to safeguard the interests of the Shareholders:

(i) the independent non-executive Directors will review, at least on an annual basis, the compliance of the Controlling Shareholders with the Deed of Non-Competition; and

(ii) the Company will make disclosures in its annual reports or by way of announcements regarding the review of the independent non-executive Directors relating to such compliance with and the enforcement of the Deed of Non-Competition.

SHARE CAPITAL

The following table is prepared on the basis that the Share Offer and the Capitalisation Issue become unconditional (taking no account of any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares granted to the Directors as referred to below).

		HK$
Authorised share capital		
3,000,000,000	Shares	30,000,000
Shares in issue and to be issued, fully paid-up or credited as fully paid:		
10,000	Shares in issue	100
744,590,000	Shares to be issued under the Capitalisation Issue	7,445,900
248,200,000	Shares to be issued pursuant to the Share Offer	2,482,000
992,800,000	Shares	9,928,000

RANKING

The Offer Shares will rank pari passu in all respects with all Shares in issue and to be issued as mentioned in this prospectus and will qualify in full for all dividends and other distributions declared, made or paid after the date of this prospectus except in respect of the Capitalisation Issue.

GENERAL MANDATE GIVEN TO THE DIRECTORS TO ISSUE NEW SHARES

Subject to the Share Offer becoming unconditional, a general unconditional mandate has been granted to the Directors to allot, issue and deal with Shares with a total nominal value of not more than the sum of:

1. 20% of the total nominal amount of the Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue; and

2. the total nominal amount of the Shares repurchased by the Company, if any, pursuant to the repurchase mandate as described below.

This mandate does not apply to situations where the Directors allot, issue or deal with the Shares by way of rights issue, scrip dividend schemes or similar arrangements providing for the allotment and issue of the Shares in lieu of whole or part of any dividend in accordance with the Articles or pursuant to the Share Offer and the Capitalisation Issue.

This mandate will expire:

— at the conclusion of the Company's next annual general meeting;

— at the date by which the Company is required by any applicable laws or the Articles to hold its next annual general meeting; or

— when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

Particulars of this general mandate are set forth under sub-paragraph headed "Written resolutions of the Shareholders passed on 11 June 2014" in the paragraph headed "Further information about the Company and its subsidiaries" in Appendix VI to this prospectus.

GENERAL MANDATE GIVEN TO THE DIRECTORS TO REPURCHASE SHARES

Subject to the Share Offer becoming unconditional, a general unconditional mandate has been granted to the Directors to exercise all the powers of the Company to repurchase Shares with a total nominal value of not more than 10% of the total nominal amount of the Shares in issue and to be issued immediately following completion of the Share Offer and the Capitalisation Issue.

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which are recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules is set forth in the sub-paragraph headed "Repurchase by the Company of its own securities" in the paragraph headed "Further information about the Company and its subsidiaries" in Appendix VI to this prospectus.

This mandate will expire:

— at the conclusion of the Company's next annual general meeting; or

— at the date by which the Company is required by any applicable laws or the Articles to hold its next annual general meeting; or

— when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

Particulars of this general mandate are set forth under sub-paragraph headed "Written resolutions of the Shareholders passed on 11 June 2014" in the paragraph headed "Further information about the Company and its subsidiaries" in Appendix VI to this prospectus.

You should read the following discussion and analysis of the Group's business, results of operations and financial conditions for the Track Record Period in conjunction with the combined financial information and the accompanying notes thereto set forth in the Accountants' Report in Appendix I to this prospectus.

The following discussion and analysis contains certain forward-looking statements and information that involve substantial risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to the section headed "Risk Factors" in this prospectus.

OVERVIEW

The Group is principally engaged in the production and sale of paperboards and related downstream paper and packaging products in the PRC. Currently, the Group operates two production plants at Guanshan Industrial Park and Yanxi Industrial Park in Changtai County, Zhangzhou, Fujian Province. The Guanshan Production Plant is dedicated to production of paperboards whereas Yanxi Production Plant produces corrugated medium boards and boxes and poker cards.

The Group's paperboard products include white top linerboard, kraftlinerboard and high performance corrugated medium. For the Track Record Period, the Group achieved sales volume of paperboard products of approximately 160,117 tonnes, 184,240 tonnes and 196,016 tonnes respectively. Over 90% of the Group's paperboard products are sold in Fujian Province. According to confirmations issued by Fujian Province Paper Association dated 1 August 2012, 20 November 2013 and 11 June 2014 respectively, the Directors believe the Group was the only white top linerboard producer in Fujian Province as at the Latest Practicable Date. This provides the Group with a competitive advantage in term of product uniqueness in Fujian Province, which in turn drives the demand for the Group's other paperboard products.

The Group also produces various types of corrugated medium board and box and poker card products. For the Track Record Period, the Group achieved sales volume of corrugated medium board and box of approximately 24,484,200 sq.m., 26,385,019 sq.m. and 32,850,638 sq.m. respectively, and poker card products of approximately 114,618,000 sets, 161,888,000 sets and 167,822,000 sets respectively. As corrugated medium boards and boxes are immediate downstream application of paperboard products, the Group's market is also in Fujian Province. Its poker card products are classified into own brand and customer orders. For the Track Record Period, the major markets of the Group's poker card products were Fujian, Guangdong and Liaoning Provinces and Beijing.

The Group's sales grew in 2011 and 2012, and declined slightly in 2013. In 2011 and 2012, the Group's revenue increased from approximately RMB973.9 million to RMB1,046.5 million, representing a year-to-year growth of approximately 7.45%, and declined slightly to approximately RMB1,024.6 million in 2013, a decrease of approximately 2.09% from the previous year. By taking a more cautious approach in cost control, the Group's net profit increased from approximately RMB136.2 million to RMB142.7 million during the Track Record Period.

PRINCIPAL FACTORS AFFECTING THE GROUP'S RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The principal factors affecting the Group's results of operations and financial condition include the following:

Volume of local manufacturing and trading activities

The primary market of the Group's products is Fujian Province. During the Track Record Period, sales in Fujian Province accounted for approximately 94.08%, 94.01% and 93.02% of the Group's total revenue respectively, of which approximately 88%, 86% and 86% respectively were derived from the sales of paperboard and corrugated medium board and box. As transportation cost is one of the important factors in determining purchase decision, the development of local economy has a close tie with the demand for the Group's products and in turn its business performance.

In recent years, the economy development in Fujian Province receives attention from the Central Government. On 6 May 2009, the State Council promulgated the Notice on Certain Opinion in Support of Fujian Province to Accelerate the Development of Taiwan Strait West Coast Economic Zone (國務院關於支持福建省加快建設海峽西岸經濟區的若干意見) to promote development in Fujian Province. According to the Fujian Provincial Bureau of Statistics, the total value of goods export from Fujian Province were RMB599.6 billion and RMB617.5 billion in 2011 and 2012 respectively. The gross output value of industrial enterprises above designated size for Fujian Province were RMB2,744.4 billion and RMB2,970.4 billion in 2011 and 2012 respectively. The growth in volume of local manufacturing and trading activities created an increasing demand for paper packaging article, which in turn have positive impact on the Group's business performance, results of operations and financial condition.

Cost of raw materials

The principal raw materials for the Group's products include waste paper, pulp and other raw papers. Waste paper and pulp are the essential raw materials in the production of paperboards whereas other raw papers are used for production of corrugated medium boards and boxes and poker cards.

During the Track Record Period, the cost of waste paper accounted for 46.3%, 43.0% and 39.6% of the Group's total cost of sales respectively, while pulp and other raw papers in aggregate accounted for 22.8%, 24.2% and 25.2% of the Group's total cost of sales respectively. The following table set out the average unit cost of the Group's principal raw materials for the Track Record Period:

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB/tonne	*RMB/tonne*	*RMB/tonne*
Waste paper	1,698	1,444	1,291
Pulp	4,442	4,341	4,569
Raw papers	4,292	4,010	3,628

Given the significance of waste paper in its cost structure, the Group places emphasis on controlling its cost through improvement in production technique and product formula, which enable the Group to substitute higher quality waste paper with lower quality waste paper in domestic market, and use higher quality supply of waste paper from overseas import. In future, the Group also plans to expand its production capacity for white board products production. If the plan materializes, it will enable the Group to further lower the cost of raw papers at improved quality for carton box and poker card products. For further details, please refer to the section headed "Future Plans and Use of Proceeds". As the prices of waste paper, pulp and other raw papers may be affected by the overall economic conditions and market demand for paper products from time to time, the extent of price fluctuation is beyond the Group's control. If the Group is not able to pass on the increased costs of the raw materials to its customers, the Group's profit margins will be affected.

Product offering

The Group's principal products include paperboards, corrugated medium boards and boxes and poker cards. The following table set out the revenue contribution and gross margin of the Group's products for the Track Record Period:

	Year ended 31 December					
	2011		**2012**		**2013**	
	Revenue contribution	**Gross profit margin**	**Revenue contribution**	**Gross profit margin**	**Revenue contribution**	**Gross profit margin**
	%	%	%	%	%	%
Paperboards	76.6	16.5	75.2	17.0	73.5	16.7
Corrugated medium boards and boxes	11.0	32.7	10.7	32.7	12.4	32.4
Poker cards	12.4	41.4	14.1	39.2	14.1	34.8
Total	100.0	21.4	100.0	21.8	100.0	21.2

Sales of paperboard products are the Group's principal revenue source. Currently, the Group offers paperboard products with basis weight ranging from 100 g/m^2 to 220 g/m^2. Paperboards are typical industrial products and their market exhibits a high degree of localization due to transportation cost concern. The Group primarily differentiates itself from other local manufacturers with its product structure. According to confirmations issued by Fujian Province Paper Association dated 1 August 2012, 20 November 2013 and 11 June 2014 respectively, the Directors believe the Group was the only white top linerboard producer in Fujian Province as at the Latest Practicable Date. Hence, the availability of white top linerboard products enables the Group to have a competitive advantage in term of product uniqueness in the local region. Such competitive advantage also drives the demand for the Group's other paperboard products as customers of white top linerboard usually also require kraftlinerboard and high performance corrugated medium for carton box production. The Group's results of operation depend on its ability to offer paperboard products which meet the demand of the market.

On the other hand, despite their relatively low revenue contribution, the Group's other paper products, in particular poker cards, deliver relatively high gross profit margin. To increase its market share, the Group intends to place focus on development of high quality poker card products by full integration of its production chain through (1) expansion of production capacity for white board products for its own poker card raw paper supply; and (2) installation of additional assembling and printing machine to enlarge the production scale. Such change in product strategy is expected to enhance the Group's profitability over time. The ability of the Group to develop high quality poker card products to capture more market share will affect its business performance.

Production volume and efficiency

The Group's business performance is highly dependent on its ability to increase its production volume and maintain high utilization rates at its production facilities. During the Track Record Period, the Group produced linerboard of approximately 108,000 tonnes, 107,000 tonnes and 108,000 tonnes with an utilization rate of 99%, 98% and 99% respectively and high performance corrugated medium of approximately 47,000 tonnes, 80,000 tonnes and 85,000 tonnes with an utilization rate of N/A, 80% and 85% respectively at Guanshan Production Plant. The Group also produced corrugated medium board and box of approximately 24.5 million sq.m., 26.0 million sq.m. and 32.7 million sq.m., with an utilization rate of 40%, 42% and 53% respectively and poker cards of 115.0 million sets, 158.6 million sets and 167.0 million sets with an utilization rate of 66%, 91% and 96% respectively at its Yanxi Production Plant for the same period. The Group's ability to continually expand its production capacity and maintain high utilization rates at its production facilities will affect its future growth in revenue and thus the results of operations in the future.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Group's audited financial information has been prepared in conformity with HKFRSs. The accounting methods, estimates and assumptions that the Group applies in its preparation of financial information may have a significant impact on the Group's results of operations and financial condition. Some of the accounting policies require the management to make assumptions and estimates based on their industry experience. These assumptions and estimates are often based on subjective judgments which are uncertain. Actual results may vary as facts, circumstances and conditions change or as a result of different assumptions.

Below is a summary of the critical accounting policies in accordance to HKFRSs, and estimates and assumptions affecting the application of those critical accounting policies. The Directors believe the following critical accounting policies, estimates and assumptions involve significant risk of causing a material adjustment to the carrying amounts of the Group's assets and liabilities within the next financial year in which they consider important when reviewing the Group's financial information. The Group also has other significant accounting policies which are set forth in detail in note 1 to the Accountants' Report set out in Appendix I to this prospectus.

Basis of consolidation

The Financial Information (as defined in the Accountants' Report set out in Appendix I to this prospectus) incorporates the financial statements of the Company and its subsidiaries comprising the Group for the Track Record Period.

The Financial Information includes the results and financial positions of each of the combined entities from the earliest date presented or since the date when the combined entities first came under control, where this is a shorter period.

The operations of the Group for the Track Record Period consisted of solely those of Dunxin PRC. All other companies comprising the Group, including the Company itself, are newly formed companies and do not have any business other than investment holding. There were no business combinations during the Track Record Period. The newly formed companies are accounted for in accordance with principles similar to that of reverse acquisition from the respective dates when they became part of the Group using book values of their assets and liabilities. Any difference between the net book values and the nominal consideration, if any, is transferred to capital reserve.

All intra-group transactions, balances and unrealised gains on transactions have been eliminated in full on combination. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably. Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. This is usually taken as the time when the goods are delivered and the customers have accepted the goods.

As the delivery term of sales contracts is general, management's judgement is required in assessing the time of transfer of risks and rewards of ownership. The management has concluded that the risk and reward is transferred when the goods are delivered to the buyers' designated places or transporters.

Impairment of receivables

The provision policy for doubtful debts of the Group is based on the ongoing evaluation of the collectability and ageing analysis of the outstanding receivables and on the management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including creditworthiness and the past collection history of each customer and the related parties. If the financial conditions of the customers and other debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

Provision for obsolete inventories

Management reviews the ageing analysis of inventories of the Group at the end of each reporting period, and makes provision for obsolete and slow moving inventory items identified that are no longer suitable for sale. Management estimates the net realisable value for such inventories based primarily on the latest selling prices and current market conditions.

Estimated useful lives of property, plant and equipment

In determining the useful lives of property, plant and equipment, the Group has to consider various factors, such as expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is made based on the experience of the Group with similar assets that are used in a similar way. Depreciation charge is revised if the estimated useful lives of items of property, plant and equipment are different from the previous estimation. Useful lives are reviewed at the end of each reporting period based on changes in circumstances.

RESULTS OF OPERATIONS

The following table set forth selected financial information of the Group for the Track Record Period. The summary is extracted from and should be read in conjunction with the Accountants' Report set out in Appendix I to this prospectus.

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	973,879	1,046,504	1,024,623
Cost of sales	(765,634)	(818,444)	(807,326)
Gross profit	208,245	228,060	217,297
Other income	7,825	6,953	14,544
Distribution costs	(10,387)	(6,107)	(5,897)
Administrative expenses	(13,530)	(30,705)	(22,589)
Finance costs	(10,672)	(10,860)	(12,315)
Profit before income tax	181,481	187,341	191,040
Income tax expense	(45,292)	(48,350)	(48,339)
Profit for the year	136,189	138,991	142,701
Other comprehensive income for the year, net of tax			
Items that may be subsequently reclassified to profit or loss:			
Translation difference of foreign operation	1	—	18
Total comprehensive income for the year	136,190	138,991	142,719
Earnings per Share attributable to owners of the Company			
Basic (RMB cents)	18	19	19

PRINCIPAL INCOME STATEMENT COMPONENTS

The following is a brief discussion on the principal income statement components, including revenue, cost of sales, gross profit and gross margin, other income, distribution costs, administrative expenses, finance costs and income tax expense during the Track Record Period.

Revenue

During the Track Record Period, the Group derived its revenue from sales of (i) paperboards and (ii) other paper products. Revenue represents the invoiced value of the products less 17% value-added tax. The following table set forth a breakdown of revenue by products and their respective sales volumes and average selling prices for the Track Record Period.

(i) *Revenue by products*

	Year ended 31 December					
Product type	**2011**		**2012**		**2013**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
(i) Paperboards						
— White top linerboard	342,549	35.2	290,583	27.8	278,355	27.2
— Kraftlinerboard	196,226	20.1	200,201	19.1	178,034	17.4
— High performance corrugated medium	206,915	21.3	295,739	28.3	296,448	28.9
Subtotal — paperboard	745,690	76.6	786,523	75.2	752,837	73.5
(ii) Other paper products						
— Corrugated medium board and box	107,174	11.0	112,814	10.7	127,260	12.4
— Poker cards	121,015	12.4	147,167	14.1	144,526	14.1
Subtotal — Other paper products	228,189	23.4	259,981	24.8	271,786	26.5
Total revenue	973,879	100.0	1,046,504	100.0	1,024,623	100.0

(ii) *Sales volume and average selling price*

	Year ended 31 December					
	2011		**2012**		**2013**	
Product type	**Total sales volume**	**Average selling price** *(Note)*	**Total sales volume**	**Average selling price** *(Note)*	**Total sales volume**	**Average selling price** *(Note)*
		RMB		*RMB*		*RMB*
(i) Paperboard (tonnes)						
— White top linerboard	65,280	5,247	59,904	4,851	62,780	4,434
— Kraftlinerboard	43,698	4,491	46,453	4,310	46,989	3,789
— High performance corrugated medium	51,139	4,046	77,884	3,797	86,247	3,437
(ii) Other paper products						
— Corrugated medium board and box (sq.m.)	24,484,207	4.38	26,385,019	4.28	32,850,638	3.87
— Poker cards (sets)	114,617,976	1.06	161,888,140	0.91	167,822,046	0.86

Note: Average selling prices represent the revenue for the year divided by the total sales volume for the year.

Paperboards

The revenue contribution from the Group's paperboard products was approximately 76.6%, 75.2% and 73.5% of its total revenue for the Track Record Period respectively. The primary market for the Group's paperboard products is Fujian Province, the PRC. For details of the Group's revenue in term of geographical breakdown, please refer to the sub-section headed "Sales and Marketing" in the section headed "Business".

In 2011 and 2012, the Group paperboard's sales grew from RMB745.7 million to RMB786.5 million, and slightly decreased to approximately RMB752.8 million in 2013. The principal driver for revenue growth of paperboard products in 2011 and 2012 was increase in sales volume, in particular high performance corrugated medium and kraftlinerboards as a result of higher demands from recurring customers as well as new customers. In response to price pressure from suppliers in other provinces in 2013, the Group further lowered the average selling prices on paperboard products. As the Group's paperboard production lines (including the newly acquired corrugated medium production lines) approached their capacity ceilings, the contribution from growth in the Group's paperboard sales volume of approximately 11,775 tonnes or 6.4% was offset by the decrease in average unit selling prices in paperboard products. For further details of change in business volume for the Track Record Period, please refer to the sub-section headed "Period to Period Comparison of Results of Operations" below.

The Group outsourced the production of high performance corrugated medium between 2006 and 2011. During the outsourcing period, Dong Xin primarily dedicated one production line with annual production capacity of approximately 50,000 tonnes for the Group's production orders. Hence, for the year ended 31 December 2011, the growth in high performance corrugated medium product was limited by such allocated production capacity and resulted in a lower growth rate in sales volume when compared to white top linerboard and kraftlinerboard. Beginning in 2012, the Group leased the whole production facilities from Dong Xin and the expansion of production capacity in high performance corrugated medium enabled the Group to capture more orders. In August 2013, with proven demand of its corrugated medium in the market, the Group acquired these production facilities from Dong Xin.

For the Track Record Period, the Group offered paperboard products with basis weight ranging from 100 g/m^2 to 220 g/m^2 and the Group achieved overall sales to production volume ratios of approximately 103.0%, 98.8% and 101.9% respectively. The Group primarily focused on products with basis weight of 105 g/m^2, 135 g/m^2, 140 g/m^2 and 170 g/m^2 respectively and the product output ratios remained fairly stable over the Track Record Period. These four classes of basis weight in aggregate accounted for approximately 77.1%, 72.8% and 72.9% of the production volume of the Group's paperboard products for the same period respectively. Hence, given such high sales to production volume ratios, the production volume of the top four basis weights also serves as good proxy of its sales volume for the same period.

Other paper products

(i) *Corrugated medium boards and boxes*

Sales of corrugated medium boards and boxes accounted for approximately 11.0%, 10.7% and 12.4% of the Group's total revenue for the Track Record Period respectively. As corrugated medium boards and boxes are immediate downstream application of paperboard products, the primary market for the Group's products is also Fujian Province. Similar to paperboard products, the demand for corrugated medium board and box has close relationship with the development of the local economy. The Group primarily sells printed corrugated medium boxes to its customers. The major customer group for the Group's products includes manufacturers and trading companies of various industries, orchids and food processing factories.

For the Track Record Period, the Group achieved a CAGR of sales of corrugated medium boards and boxes of approximately 9.0%, which was also primarily driven by increase in sales volume. Such growth in the Track Record Period was attributed to the increase in recurring customer orders along with the growth in local economic activities as well as development of new customers.

(ii) *Poker cards*

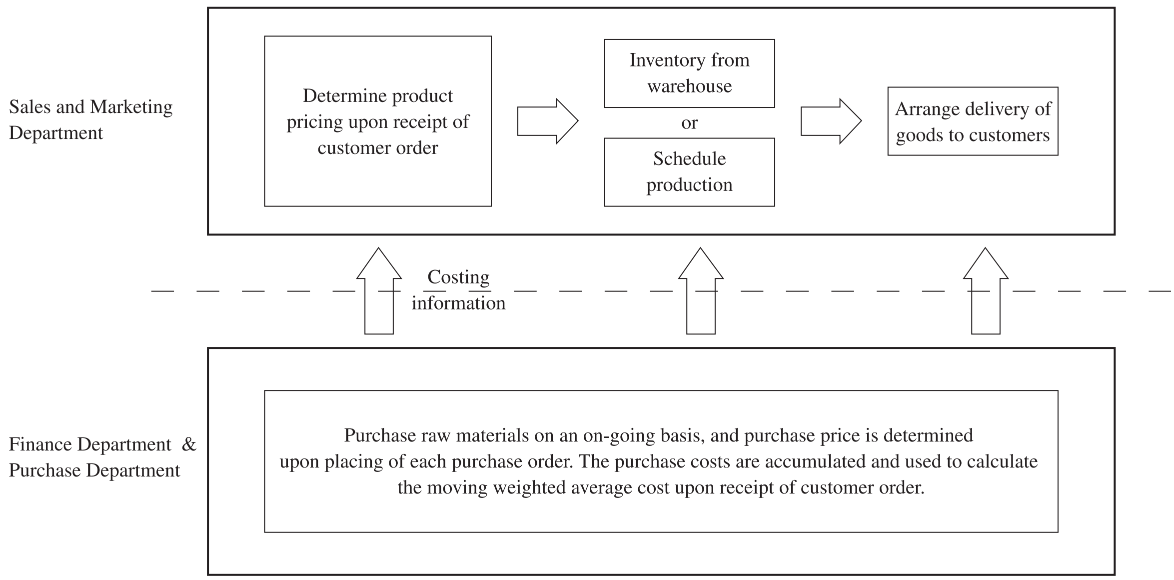
Sales of poker card products accounted for approximately 12.4%, 14.1% and 14.1% of the Group's total revenue for the Track Record Period respectively. The Group's poker card products are classified into own brand and customers' orders. The Group's own brand poker cards are either directly sold to retail customers such as local grocers and stationery shops or to trading companies whereas customers' orders are generally used by customers as gift and souvenir for marketing and advertising purposes. For the Track Record Period, the major markets for the Group's own brand poker card products were Fujian, Guangdong and Liaoning Provinces and Beijing, while most of the customers' orders were from Fujian Province.

In 2011 and 2012, the Group's sales of poker card products grew from RMB121.0 million to RMB147.2 million, and were relatively stable at approximately RMB144.5 million in 2013. The growth in sales of poker card products was primarily driven by increase in sales volume. In view of the non-recurring nature of customers' orders, beginning in 2012, the Group has focused on own brand products in order to maintain a relatively sustainable development, and revenue contribution from customers' orders has reduced since then, representing approximately 41.3%, 11.8% and 4.5% of the Group's poker card sales for the Track Record Period respectively. Given the Group's own brand products generally have lower selling prices as compared to its customers' order products, the slight growth in sales volume in 2013 was offset by a further decrease in the average selling prices, resulting in a slight decline in revenue for the year.

Product pricing

The following diagram illustrates the business flow of product pricing:

Business Flow



The Group generally adopts cost plus pricing policy for determination of product prices on monthly basis. Upon receipt of customer orders, the finance department generates updated costing information based on moving weighted average raw material costs and overhead costs for making pricing decision. The sales and marketing staff will then determine the selling prices by marking up with target gross profit margin and make comparison with available market prices of products (if any).

While the Group has inventory policy to maintain a sufficient level of raw materials to meet production schedule, it places purchase orders of raw material on continuous basis. Given the short production cycle of its products, i.e. a few hours for paperboards, the Group's moving average cost information generally takes into account of changes in raw material prices. With target gross profit margin topping up thereon, in the absence of abrupt change of raw material prices over short period of time, the Group is generally able to pass on the production cost to its customers. With reference to the past financial figures, the Group had not experienced any overrun problem over the Track Period Record.

Cost of sales

The Group's cost of sales includes raw material cost, direct labor cost, utility charge, depreciation of property, plant and equipment, outsourcing cost/factory rental and other manufacturing overhead. The table below set forth the breakdown of major cost components for the Track Record Period:

	Year ended 31 December					
	2011		2012		2013	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Raw material cost	589,219	78.6	624,367	76.8	598,330	76.0
Utility charge	70,709	9.4	97,265	11.9	101,136	12.8
Outsourcing cost/factory rental	31,252	4.2	20,160	2.5	12,952	1.6
Direct labour cost	13,571	1.8	14,306	1.8	15,301	1.9
Depreciation	13,622	1.8	17,804	2.2	23,009	2.9
Others	31,364	4.2	38,850	4.8	37,100	4.8
Total cost of production	749,737	100.0	812,752	100.0	787,828	100.0
Finished goods movement	15,897		5,692		19,498	
Total	765,634		818,444		807,326	

(i) *Raw materials*

Cost of raw materials used in the Group's production, including waste paper, pulp, raw papers and chemicals, is of primary significance to the Group, accounting for approximately 78.6%, 76.8% and 76.0% of the Group's total cost of production for the Track Record Period respectively.

Waste paper accounts for the Group's largest raw material cost component and its purchase amounted to approximately RMB364.7 million, RMB354.9 million and RMB312.6 million respectively for the Track Record Period. It also represents approximately 51.0%, 47.9% and 43.1% of the Group's total purchase costs respectively for the same period.

The Group placed emphasis on control of the unit cost of waste paper throughout the Track Record Period and its average unit costs were approximately RMB1,698 per tonne, RMB1,444 per tonne and RMB1,291 per tonne respectively for the same period. The Group controlled the waste paper purchase cost through (1) improvement in its production technique and product formula, which enables the Group to substitute higher quality waste paper with lower quality waste paper; and (2) use of quality waste paper from overseas import.

For the two years ended 31 December 2012, the Group placed significant reliance on raw material supply from connected suppliers, namely Xin Yuan and Zhau Hau Trading. In February 2013 and July 2013, the Group ceased to place purchase orders with Xin Yuan and Zhau Hau Trading respectively to avoid reliance on connected suppliers.

The Group's total purchase from Xin Yuan for various raw materials, including waste papers, pulp, raw papers and chemicals, amounted to approximately RMB324.4 million, RMB173.3 million and RMB10.2 million respectively. They also represented approximately 45.4%, 23.4% and 1.4% of the Group's total purchase costs respectively for the same period.

The Group's total purchase from Zhau Hau Trading for waste papers amounted to approximately RMB59.0 million, RMB100.5 million and RMB40.0 million respectively. They also represented approximately 8.3%, 13.6% and 5.5% of the Group's total purchase costs respectively for the same period.

For further details on the background of these connected suppliers and their past transaction history with the Group, please refer to section headed "Business" of this prospectus.

(ii) ***Other cost components***

The second largest component in the Group's cost structure is utility charges for steam, water and electricity consumption, accounting for approximately 9.4%, 11.9% and 12.8% of the Group's total cost of production respectively for the Track Record Period. The Group used to purchase steam and electricity from suppliers for its own paperboard production line. In June 2011, the Group's coal-fired co-generation power plant commenced full scale operation at Guanshan Production Plant. For the period from 1 January 2011 to 31 May 2011 prior to the commencement of operation of the co-generation plant, the Group's costs of steam and electricity were approximately RMB17.8 million and RMB14.6 million respectively. The use of the cogeneration plant enables the Group to generate both steam and electricity supply at cost comparable to external electricity supply, which in turn achieve cost saving in steam purchase.

To broaden the choice of paperboard products, the Group outsourced the production of high performance corrugated medium products to Dong Xin in 2011 and leased the whole facilities in 2012. In August 2013, the Group acquired these production facilities from Dong Xin. For the Track Record Period, the Group's outsourcing charge/factory rental accounted for approximately 4.2%, 2.5% and 1.6% respectively of the Group's total cost of production. The outsourcing charge was determined by the production volume at a pre-determined unit rate and increased in line with product output. Upon commencement of the lease, the decrease in outsourcing charge as compared to factory rental was offset by increase in utility charge and direct labour costs.

Under the outsourcing arrangement for the production of the Group's high performance corrugated medium for the period from 2006 to 2011, the Group paid an all-inclusive outsourcing charge to Dong Xin so that the direct labour cost and utility charges were borne by Dong Xin. Upon entering into lease arrangement with Dong Xin in December 2011, the Group paid a fixed rental and borne the utility charges, which amounted to RMB34.4 million and RMB0.2 million for costs of coal (for production of steam) and electricity respectively for the year ended 31 December 2012 and RMB36.5 million and RMB0.2 million for the year ended 31 December 2013.

The following table set out the key cost components for the production of high performance corrugated medium for the Track Record Period:

	Year ended 31 December					
	2011		2012		2013	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Raw material cost	122,335	76.9	184,462	73.2	179,361	73.3
Utility charge	—	—	34,591	13.7	36,764	15.0
Outsourcing cost/factory rental	31,252	19.6	20,160	8.0	12,952	5.3
Direct labour cost	—	—	1,277	0.5	1,698	0.7
Others	5,576	3.5	11,410	4.6	13,845	5.7
Total cost of production	159,163	100.0	251,900	100.0	244,620	100.0
Production volume (tonne)	46,994.99		79,654.21		84,658.01	
Unit production cost (RMB)	3,387		3,162		2,890	
% change on unit production cost	6.8%		–6.6%		–8.6%	

Following the change of production arrangement for the Group's high performance corrugated medium, the aggregate of factory rental and the related direct costs, including utility charge and direct labour cost, for the year ended 31 December 2012 was higher than the outsourcing cost for the year ended 31 December 2011 whereas the unit production cost decreased from RMB3,387 to RMB3,162 for the year ended 31 December 2012. The reduction of unit production cost was attributed to the decrease in raw material cost per unit, in particular, the price of waste paper during the period. Although the unit production overhead cost slightly increased under the leasing arrangement, it enabled the Group to capture more customer orders to boost the Group's profitability.

The acquisition of the production facilities for high performance corrugated medium from Dong Xin in August 2013 enables the Group to secure its use in long run at similar level of production overhead cost. Based on the current pattern, the Directors expect that the production volume and the cost structure of high performance corrugated medium going forward will remain at similar level as in 2013.

(iii) ***Cost control on raw materials***

The following table set out the average unit purchase cost of the Group's major raw materials for the Track Record Period:

	Years ended 31 December		
	2011	**2012**	**2013**
	RMB/tonne	*RMB/tonne*	*RMB/tonne*
A. Overall			
Waste paper	1,698	1,444	1,291
a. PRC	1,710	1,364	1,270
b. Hong Kong	1,673	1,572	1,335
Pulp	4,442	4,341	4,569
a. PRC	4,474	4,359	4,569
b. Overseas	4,327	3,875	—
Raw papers[1]	4,292	4,010	3,628
B. Connected Suppliers			
Waste paper[3]			
a. Xin Yuan (PRC)	1,710	1,366	1,180
b. Zhau Hau Trading (Hong Kong)	1,691	1,581	1,400
Pulp[2]	4,474	4,560	—
Raw papers[1]	3,492	3,298	—

Notes:

1. The overall average raw paper costs is an average of all different types of raw papers including poker raw papers and high performance corrugated medium supplied by Xin Yuan. While Xin Yuan only supplied high performance corrugated medium to the Group, the average raw paper costs for connected suppliers is the average unit purchase cost of high performance corrugated medium.

2. The pulp supplied by Xin Yuan is sourced in the PRC. The Group ceased to place pulp purchase order with Xin Yuan in February 2012. The average purchase prices for Xin Yuan's supply of PRC pulp for the year ended 31 December 2012 represent one month average price for the period ended 31 January 2012. The average purchase price for all PRC pulp in the same period was RMB4,560 per tonne.

3. In February 2013 and July 2013, the Group ceased to place purchase order for raw materials, including waste papers, raw papers and pulp, with Xin Yuan and Zhau Hau Trading respectively to avoid reliance on connected suppliers.

As waste paper is the Group's largest raw material cost component, the Group places great emphasis on management of waste paper cost fluctuation. To maintain the stability of unit cost of waste paper, the Group's management regularly sought low quality waste paper to substitute high quality waste paper in domestic market. At the same time, it also made use of pulp and/or import of waste paper, such that it could maintain a balance between product quality and cost saving.

To control cost of raw papers, the Group generally makes purchase in Fujian Province such that it can reduce the logistic costs and delivery lead time.

Gross profit and gross margin

The following table set forth the gross margins of the Group's products for the Track Record Period:

	Year ended 31 December					
	2011		2012		2013	
Product type	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
(i) Paperboard						
— White top linerboard	56,294	16.4	50,930	17.5	47,314	17.0
— Kraftlinerboard	31,840	16.2	35,110	17.5	32,683	18.3
— High performance corrugated medium	34,983	16.9	47,517	16.1	45,767	15.4
Subtotal — paperboard	123,117	16.5	133,557	17.0	125,764	16.7
(ii) Other paper products						
— Corrugated medium board and box	35,060	32.7	36,851	32.7	41,224	32.4
— Poker cards	50,068	41.4	57,652	39.2	50,309	34.8
Subtotal — Other paper products	85,128	37.3	94,503	36.3	91,533	33.7
Total gross profit	208,245	21.4	228,060	21.8	217,297	21.2

The Group's overall gross profit increased from approximately RMB208.2 million in 2011 to RMB228.1 million in 2012 and slightly decreased to approximately RMB217.3 million in 2013. With adoption of cost plus pricing policy by the Group and the effective control on the key raw material costs such as waste paper, pulp and raw papers, the Group was able to pass the increase in raw material costs to its customers and maintained a stable gross margin during the Track Record Period.

(i) *Paperboards*

The gross profit for the Group's paperboard products increased from approximately RMB123.1 million in 2011 to RMB133.6 million in 2012 and slightly decreased to approximately RMB125.8 million in 2013. The gross profit margin was maintained at a relatively stable level between approximately 16.5% and 17.0% for the same period and its stability was primarily attributable to the Group's ability in controlling waste paper costs.

(ii) *Corrugated medium boards and boxes*

The gross profit for the Group's corrugated medium boards and boxes increased from RMB35.1 million in 2011 to RMB41.2 million in 2013, representing a CAGR of approximately 8.4% for the Track Record Period. Such growth was also primarily attributed to the growth in sales volume. The gross profit margin was maintained at a relatively stable level between approximately 32.4% and 32.7% for the Track Record Period.

(iii) *Poker card products*

The gross profit for the Group's poker cards products increased from approximately RMB50.1 million in 2011 to RMB57.7 million in 2012 and decreased to RMB50.3 million in 2013. The gross profit margin of the Group's poker card products decreased from approximately 41.4% to 34.8% from 2011 to 2013. Such decline in gross profit margin was due to the Group's shift of product focus to own brand pokers with lower profit margin in return for more sustainable development.

(iv) *Sensitivity analysis on overall gross profit*

The following table set forth a sensitivity analysis of the Group's total gross profit on change in prices of the major products and raw materials for the Track Record Period:

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
(a) Scenario I:			
Change in all product prices			
+15%	354,328	385,036	370,990
–15%	62,164	71,084	63,604
(b) Scenario II:			
Change in waste paper prices			
+15%	155,107	175,293	169,289
–15%	261,385	280,827	265,305
(c) Scenario III:			
Combined cases			
Best scenario[1]	407,467	437,803	418,998
Worst scenario[2]	9,025	18,317	15,596

Notes:

1. Best scenario is derived from a combination of increase in product prices by 15% and decrease in waste paper prices by 15% simultaneously.

2. Worst scenario is derived from a combination of decrease in product prices by 15% and increase in waste paper prices by 15% simultaneously.

3. For the Track Record Period, except the drop of poker cards selling price from 2011 to 2012 due to the Group's strategy to reduce reliance on customers' orders, all fluctuations in prices of the Group's products and waste paper purchased were within 15%. The sensitivity analysis basis is benchmarking to the historical fluctuation during the Track Record Period and thus 15% price fluctuation is used.

Other income

Other income includes bank interest income, exchange gain, scrap sales and sundry income. The table below set forth the breakdown of other income during the Track Record Period:

	Year ended 31 December					
	2011		2012		2013	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Bank interest income	585	7.5	656	9.4	1,097	7.5
Exchange gain	1,685	21.5	94	1.4	276	1.9
Scrap sales	4,891	62.5	5,526	79.4	9,094	62.6
Rental income	293	3.8	281	4.0	369	2.5
Sundry income	371	4.7	396	5.8	3,708	25.5
	7,825	100.0	6,953	100.0	14,544	100.0

Distribution costs

The following table set forth the Group's distribution costs for the Track Record Period:

	Year ended 31 December					
	2011		2012		2013	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Staff costs	1,464	14.1	1,525	25.0	1,575	26.7
Transportation costs	8,564	82.4	4,116	67.4	3,777	64.1
Entertainment expenses	92	0.9	162	2.7	133	2.2
Travelling expenses	44	0.4	28	0.4	21	0.4
Advertising and promotional expenses	40	0.4	20	0.3	89	1.5
Depreciation expenses	177	1.7	244	4.0	291	4.9
Others	6	0.1	12	0.2	11	0.2
Total	10,387	100.0	6,107	100.0	5,897	100.0

Transportation costs are the largest component in the Group's distribution cost structure and mainly represented delivery cost for the Group's products to customers. Such costs represented approximately 0.88%, 0.39% and 0.37% of the Group's total revenue for the same period. Prior to 2011, the Group used an Independent Third Party logistic provider for the delivery of paperboards and corrugated medium boards and boxes to customers. The decrease in transportation costs in the Track Record Period was due to cost saving from increased use of the Group's own truck fleet since its set up in June 2011.

The staff costs mainly represented the salaries payable to the Group's sales employees. They varied directly with the Group's business volume and represented approximately 0.15%, 0.15% and 0.15% of the Group's total revenue for the Track Record Period.

Entertainment expenses for the Track Record Period were RMB92,000, RMB162,000 and RMB133,000 respectively. The aforesaid amounts were included as part of distribution costs as these expenses were primarily incurred by the Group's sales representatives during their site visits of customers.

Administrative expenses

The following table set forth the Group's administrative expenses for the Track Record Period:

	Year ended 31 December					
	2011		2012		2013	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Office expenses	1,455	10.8	1,667	5.4	1,083	4.8
Staff costs	4,647	34.3	8,146	26.5	7,794	34.5
Depreciation expenses	1,760	13.0	2,010	6.5	2,382	10.5
Listing expenses	—	0.0	5,944	19.4	2,018	8.9
VAT related and other tax surcharges	4,357	32.2	8,234	26.8	7,237	32.0
Disposal loss of fixed assets	—	0.0	1,564	5.1	—	0.0
Others	1,311	9.7	3,140	10.3	2,075	9.3
Total	13,530	100.0	30,705	100.0	22,589	100.0

The administrative expenses mainly included staff costs, and represented approximately 1.39%, 2.93% and 2.20% of the Group's total revenue for the Track Record Period. It increased by approximately RMB17.2 million or 127.4%, from approximately RMB13.5 million for the year ended 31 December 2011 to approximately RMB30.7 million for the year ended 31 December 2012. The increase was mainly attributed to increases in a number of recurring general administrative expenses of approximately RMB9.7 million. These increases in recurring expenses included an increase in staff costs of approximately RMB3.5 million due to general pay rise; an increase in VAT related and other tax surcharges of approximately RMB3.9 million mainly due to (i) lower inward VAT deduction from capital expenditure in 2012 and (ii) increase in outward VAT as a result of increase in revenue; an increase in warehouse rental payable to Ten Xin of approximately RMB0.5 million due to full year lease and an increase of office administration, entertainment and vehicle expenses of approximately RMB0.9 million. In addition, the Group incurred certain one off expenses including a disposal loss of fixed assets of approximately RMB1.6 million and the listing expenses of approximately RMB5.9 million charged in the Group's income statement in the period.

The administrative expenses decreased by approximately RMB8.1 million or 26.4%, from approximately RMB30.7 million for the year ended 31 December 2012 to approximately RMB22.6 million for the year ended 31 December 2013. The decrease was mainly attributed to a drop in certain one off expenses including a decrease of approximately RMB1.6 million in disposal loss of fixed assets and a decrease of approximately RMB3.9 million in listing expenses. In addition, the recurring general administrative expenses decreased by approximately RMB2.6 million for the same year, including a decrease in staff costs of approximately RMB0.4 million mainly due to a decrease in number of staff in the administrative department; a decrease in VAT related and other tax surcharges of approximately RMB1.0 million mainly due to increase in inward VAT deduction from capital expenditure for the year; and a decrease of office administration, entertainment and vehicle expenses of approximately RMB1.1 million.

Finance costs

Finance costs mainly included interest on bank loans wholly repayable within five years. During the Track Record Period, the Group's finance costs were approximately RMB10.7 million, RMB10.9 million and RMB12.3 million respectively.

Taxation

Taxation represented the amount of corporate income tax paid by the Group. The Group has subsidiaries incorporated in BVI and the PRC. Under the laws of BVI, the Group was not subject to any income or capital gain tax. During the Track Record Period, since the Group did not have any assessable profit arising in Hong Kong, it did not make any provision for Hong Kong profits tax while the Group was subject to the PRC enterprise income tax since its principal operating activities were carried out in the PRC.

According to the EIT Law, the tax rate was unified at 25% of taxable income for all PRC companies effective from 1 January 2008. The applicable tax rate was 25% for the Track Record Period.

The following table set forth the reconciliation of income tax expenses applicable to profit before income tax at the statutory tax rate to the income tax expense at the effective tax rate for the Track Record Period:

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Profit before tax	181,481	187,341	191,040
Tax at EIT rate	45,370	46,836	47,760
Effect of expenses not deductible	37	1,514	579
Effect of income not taxable	(115)	—	—
Income tax expense	45,292	48,350	48,339

The Directors have confirmed that the Group has made all required tax filings and has settled all outstanding tax liabilities with the relevant tax authorities in the PRC. They have also confirmed that the Group is not subject to any dispute or potential dispute with the tax authorities in the PRC.

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year ended 31 December 2013 compared with year ended 31 December 2012

Revenue

Revenue decreased by approximately RMB21.9 million or 2.1%, from approximately RMB1,046.5 million for the year ended 31 December 2012 to approximately RMB1,024.6 million for the year ended 31 December 2013, with an approximately RMB33.7 million or 4.3% decrease in revenue from paperboard products, which was offset by approximately RMB11.8 million or 4.5% increase in revenue from other paper products.

(i) *Paperboards*

Revenue from sales of paperboard products decreased from approximately RMB786.5 million for the year ended 31 December 2012 to approximately RMB752.8 million for the year ended 31 December 2013, representing a year to year decrease of approximately 4.3%.

Since the tough business environment persisted in 2013, the Group, further lowered the average selling prices of its paperboard products in response to price pressure from other suppliers. As all of the Group's paperboard production lines, including the newly acquired corrugated medium production lines, approached their capacity ceilings, the contribution from growth in the Group's paperboard sales volume of approximately 11,775 tonnes or 6.4% was offset by a greater extent of decrease in average unit selling price in paperboard products, resulting in an decrease in overall paper sales as mentioned in the previous paragraph.

The average unit selling price of paperboard products decreased from approximately RMB4,269 per tonne for the year ended 31 December 2012 to RMB3,841 per tonne for the year ended 31 December 2013, representing a decrease of RMB428 per tonne or 10.0%, reflecting (1) market competition as mentioned in the previous paragraph; (2) a slight increase in percentage of contribution from high performance corrugated medium from 42.3% to 43.9%, which had the lowest selling price among the Group's paperboard products; and (3) a decrease of approximately 10.6% in the average unit purchase cost of waste paper from RMB1,444 per tonne for the year ended 31 December 2012 to RMB1,291 per tonne for the year ended 31 December 2013.

Although the Group was the only white top linerboard producer in Fujian Province for the year, if its selling price were significantly higher than the total cost (including product price and transportation cost) for purchasing from suppliers in other provinces, the Group might lose its price competitiveness. In response to price pressure from suppliers in other provinces, the Group slightly lowered the selling price of its white top linerboard in order to remain competitive in Fujian Province.

(ii) *Corrugated medium boards and boxes*

Revenue from sales of corrugated medium boards and boxes increased from approximately RMB112.8 million for the year ended 31 December 2012 to approximately RMB127.3 million for the year ended 31 December 2013, representing a year to year growth of approximately 12.9%. The average unit selling price of corrugated medium boards and boxes decreased from approximately RMB4.28 per square metre for the year ended 31 December 2012 to RMB3.87 per square metre for the year ended 31 December 2013.

The growth in the Group's sales of corrugated medium board and box products for the period was driven by sales volume growth of approximately 6,466 kilo sq.m. or 24.5% due to larger purchase volume from existing customers and partially offset by the effect of decrease in the average unit selling price of such products.

(iii) *Poker Cards*

Revenue from sales of poker card products slightly decreased from approximately RMB147.2 million for the year ended 31 December 2012 to RMB144.5 million for the year ended 31 December 2013, representing a year to year decline of approximately 1.8%. Such change was due to the growth in sales volume but was offset by the decrease in average unit selling price of poker card products. The sales volume of poker card products increased from approximately 161.9 million sets to 167.8 million sets, representing a year to year growth in volume of approximately 3.6%; whereas the average unit selling price of poker card products decreased by approximately 5.5% from approximately RMB0.91 per set for the year ended 31 December 2012 to RMB0.86 per set for the year ended 31 December 2013. Such decline in average selling price was caused by further reduction of revenue contribution from higher priced customers' order poker card products following the Group's shift of focus on its own brand products since 2012.

Cost of Sales

Cost of sales decreased approximately RMB11.1 million or 1.4% from approximately RMB818.4 million for the year ended 31 December 2012 to approximately RMB807.3 million for the year ended 31 December 2013 mainly due to the decrease in raw material cost.

Raw material cost decreased from approximately RMB624.4 million for the year ended 31 December 2012 to RMB598.3 million for the year ended 31 December 2013, representing a decrease of approximately RMB26.1 million or 4.2%. Such decrease was mainly attributed to the decline in average unit purchase cost of waste paper.

The average unit purchase cost of waste paper decreased from approximately RMB1,444 per tonne for the year 31 December 2012 to RMB1,291 per tonne for the year ended 31 December 2013, representing a decrease of approximately 10.6% for the same period. It was primarily driven by the decrease in the average unit purchase cost of both domestic waste paper and imported waste paper. From 2012 to 2013, the average unit purchase cost of domestic waste paper and imported waste paper decreased from approximately RMB1,364 per tonne to RMB1,270 per tonne and from approximately RMB1,572 per tonne to RMB1,335 per tonne respectively.

For raw paper, the average unit purchase cost decreased by approximately 9.5% from approximately RMB4,010 per tonne to RMB3,628 per tonne over the same period. Such decreases was in line with the general market conditions. For further details on the general price movement of the Group's raw materials, please refer to section headed "Industry Overview" of this prospectus.

In August 2013, the Group acquired the production facilities including production plant, lands and production machinery previously leased from Dong Xin, resulting in a decrease in rental charge from approximately RMB20.2 million in 2012 to approximately RMB13.0 million in 2013 but was offset by an increase in depreciation from approximately RMB17.8 million in 2012 to approximately RMB23.0 million in 2013 respectively.

Save for the change in waste paper costs, raw paper costs and change of production arrangement for high performance corrugated medium, there was no material variation in the cost structure over the comparative period.

Gross profit and gross margin

The gross profit decreased by approximately RMB10.8 million or 4.7% from approximately RMB228.1 million for the year ended 31 December 2012 to approximately RMB217.3 million for the year ended 31 December 2013, and the Group's gross profit margin slightly decreased by approximately 0.6% for the same period. The gross profit margin remained relatively stable as the Group adopts cost plus pricing policy and tight control on costing. The decrease in gross profit margin was primarily attributed to a decrease in the average unit selling price of the Group's products.

(i) *Paperboards*

The gross profit of paperboard products decreased from approximately RMB133.6 million for the year ended 31 December 2012 to approximately RMB125.8 million for the year ended 31 December 2013, representing a decrease of approximately RMB7.8 million or 5.8%, whereas its gross profit margin slightly decreased from 17% for the year ended 31 December 2012 to 16.7% for the year ended 31 December 2013. Such decrease in gross profit was caused by (1) a slight decline in revenue of approximately 4.3%; and (2) a slight decrease in profit margin of approximately 0.3% for the same period. The slight decrease in gross profit margin was attributed to the drop in average selling price of paperboard products of approximately 10.0%, partially offset by the drop in average purchase cost of waste paper of approximately 10.6%.

The acquisition of production facilities previously leased from Dong Xin in August 2013 resulted in a decrease in rental charge from approximately RMB20.2 million in the year ended 31 December 2012 to approximately RMB13.0 million in the year ended 31 December 2013 and an increase in depreciation from approximately RMB17.8 million in the year ended 31 December 2012 to approximately RMB23.0 million in the year ended 31 December 2013. The Group's gross margin of high performance corrugated medium products slightly decreased from approximately 16.1% for the year ended 31 December 2012 to approximately 15.4% for the year ended 31 December 2013. The effect of the decrease in gross profit margin was partly offset by an increase in sales volume, resulting in a decrease in gross profit contribution by approximately RMB1.7 million or 3.6% from high performance corrugated medium products.

(ii) *Corrugated medium boards and boxes*

The gross profit of corrugated medium boards and boxes increased from approximately RMB36.9 million for the year ended 31 December 2012 to approximately RMB41.2 million for the year ended 31 December 2013, representing an increase of approximately RMB4.3 million or 11.7%, whereas their gross profit margin remained relatively stable between 32.7% to 32.4% for the two years ended 31 December 2013. The increase in gross profit was primarily driven by an increase in sales volume of approximately 24.5%.

(iii) *Poker cards*

The gross profit of poker card products decreased from RMB57.7 million for the year ended 31 December 2012 to approximately RMB50.3 million for the year ended 31 December 2013, representing a decrease of approximately RMB7.4 million or 12.8%, whereas their gross profit margin decreased from 39.2% for the year ended 31 December 2012 to 34.8% for the year ended 31 December 2013. The decrease in gross profit and gross profit margin was due to the decrease in average unit selling price of poker card products, which effect was partially offset by increase in sales volume.

Other income

Other income increased by approximately RMB7.5 million or 107.1% from approximately RMB7.0 million for the year ended 31 December 2012 to approximately RMB14.5 million for the year ended 31 December 2013, primarily attributable to the increase in scrap sales.

Distribution costs

Distribution costs decreased by approximately RMB0.2 million or 3.3% from approximately RMB6.1 million for the year ended 31 December 2012 to approximately RMB5.9 million for the year ended 31 December 2013. The decrease in distribution costs was primarily due to addition of vehicles for the Group's own truck fleet to reduce the use of third party logistic providers for product delivery during the year ended 31 December 2013.

Administrative expenses

Administrative expenses decreased by approximately RMB8.1 million or 26.4% from approximately RMB30.7 million for the year ended 31 December 2012 to approximately RMB22.6 million for the year ended 31 December 2013. The decrease was mainly attributed to a drop in certain one off expenses including a decrease of approximately RMB1.6 million in disposal loss of fixed assets and a decrease of approximately RMB3.9 million in listing expenses. In addition, the recurring general administrative expenses decreased by approximately RMB2.6 million for the year, including a decrease in staff costs of approximately RMB0.4 million mainly due to a decrease in number of staff in the administrative department; a decrease in VAT related and other tax surcharges of approximately RMB1.0 million mainly due to increase in inward VAT deduction from capital expenditure for the year; and a decrease of office administration, entertainment and vehicle expenses of approximately RMB1.1 million.

Finance costs

Finance costs mainly included interests on bank loans wholly repayable within five years. They increased by approximately RMB1.4 million or 12.8%, from approximately RMB10.9 million for the year ended 31 December 2012 to approximately RMB12.3 million for the year ended 31 December 2013.

Income tax expense

Income tax expense decreased by approximately RMB0.1 million or 0.2% from approximately RMB48.4 million for the year ended 31 December 2012 to approximately RMB48.3 million for the year ended 31 December 2013, which was primarily attributable to the decrease in non-deductible expenses items.

The Group's effective tax rate remained stable with a slight decrease of approximately 0.5% from approximately 25.8% for the year ended 31 December 2012 to approximately 25.3% for the year ended 31 December 2013.

Profit for the year

Profit for the year increased by approximately RMB3.7 million or 2.7%, from approximately RMB139.0 million for year ended 31 December 2012 to approximately RMB142.7 million of the year ended 31 December 2013 for the reasons mentioned above.

Year ended 31 December 2012 compared with year ended 31 December 2011

Revenue

Revenue increased by approximately RMB72.6 million or 7.5%, from approximately RMB973.9 million for the year ended 31 December 2011 to approximately RMB1,046.5 million for the year ended 31 December 2012, with an approximately RMB40.8 million or 5.5% increase in revenue from paperboard and approximately RMB31.8 million or 13.9% increase in revenue from other paper products.

(i) *Paperboards*

Revenue from sales of paperboard products increased from approximately RMB745.7 million for the year ended 31 December 2011 to approximately RMB786.5 million for the year ended 31 December 2012, representing a year to year growth of approximately 5.5%.

The primary driver of revenue growth in the Group's paperboard products was sales volume. As the Group's self owned production line for white top linerboard and kraftlinerboard approached its capacity ceiling, the growth in the Group's paperboard sales volume of approximately 24,124 tonnes or 15.0% was mainly contributed by the increase in sales volume of approximately 26,745 tonnes of high performance corrugated medium with lease of Dong Xin's production facilities. Such increase was slightly offset by decrease in sales volume of approximately 5,376 tonnes of white top linerboard due to a slowdown of economy and cautious trading sentiment for the year.

In view of the tough business environment and its own production line reaching capacity ceiling, the management optimized the Group's customer portfolio by focusing on serving customers with large purchase orders and good credit profile and eliminating those of small scale purchases or with inferior credit profile. The management believed that such adjustment in customer strategy could improve the Group's quality of income.

The average unit selling price of paperboard products decreased from approximately RMB4,657 per tonne for the year ended 31 December 2011 to RMB4,269 per tonne for the year ended 31 December 2012, representing a decrease of RMB388 per tonne or 8.3%, as a result of (1) an increase in percentage of contribution from high performance corrugated medium from 31.9% to 42.3%, which had the lowest selling price among the Group's paperboard products; and (2) a decrease of approximately 15.0% in average unit purchase cost of waste paper from RMB1,698 per tonne for the year ended 31 December 2011 to RMB1,444 per tonne for the year ended 31 December 2012; and (3) the tough business environment as reflected in the general decline in market prices in 2012.

(ii) *Corrugated medium boards and boxes*

Revenue from sales of corrugated medium boards and boxes increased from approximately RMB107.2 million for the year ended 31 December 2011 to approximately RMB112.8 million for the year ended 31 December 2012, representing a year to year growth of approximately 5.2%. The average unit selling price of corrugated medium boards and boxes remained stable with only a slight decrease from approximately RMB4.38 per square metre for the year ended 31 December 2011 to RMB4.28 per square metre for the year ended 31 December 2012.

The growth in the Group's sales of corrugated medium boards and boxes products for the year was driven by sales volume growth of approximately 1,901 kilo sq.m. or 7.8% due to larger volume purchases by recurring customers.

(iii) *Poker cards*

Revenue from sales of poker cards products increased from approximately RMB121.0 million for the year ended 31 December 2011 to RMB147.2 million for the year ended 31 December 2012, representing a year to year growth of approximately 21.7%. The growth in the Group's poker cards sales was primarily driven by the increase in sales volume from approximately 114.6 million sets to 161.9 million sets, representing a year to year growth in volume of approximately 41.3%. Such growth was due to the substantial increase in sales of own brand products as a result of the Group's strategy to reduce reliance on customers' orders. Despite lower profit margin, the management considered that focusing on the development of own brand market sector could achieve a more sustainable growth in the future.

The increase in the sales of the Group's own branded poker products was due to the addition of four new customers who are trading companies. For the year ended 31 December 2012, their aggregate purchases from the Group amounted to approximately RMB44.4 million. Leverage on these new customers' sales networks, the Group's own brand poker card sales increased significantly for the period.

As the selling prices of the Group's own brand products were lower than those of customers' orders, the average unit selling price of poker card products decreased by approximately 14.2% from approximately RMB1.06 per set for the year ended 31 December 2011 to RMB0.91 per set for the year ended 31 December 2012.

Cost of sales

Cost of sales increased by approximately RMB52.8 million or 6.9%, from approximately RMB765.6 million for the year ended 31 December 2011 to approximately RMB818.4 million for the year ended 31 December 2012. The increase was in line with the growth of the Group's revenue of approximately 7.5% and was primarily driven by greater consumption of raw materials for the increased sales volume.

Raw material cost increased from approximately RMB589.2 million for the year ended 31 December 2011 to RMB624.4 million for the year ended 31 December 2012, representing an increase of approximately RMB35.2 million or 6.0% and accounting for approximately 66.7% of the increase in cost of sales for the year. Such increase was mainly attributed to growth in consumption of waste paper, pulp as well as raw papers. In particular, the quantity of waste paper used in production increased by approximately 34,000 tonnes or 16.3% from approximately 209,000 tonnes for the year ended 31 December 2011 to approximately 243,000 tonnes for the year ended 31 December 2012, which was in line with the increase in the Group's paperboards sales volume of 15.1% for the same period.

The average unit purchase cost of waste paper decreased from approximately RMB1,698 per tonne for the year ended 31 December 2011 to RMB1,444 per tonne for the year 31 December 2012, representing a decrease of approximately 15.0% for the same period. It was primarily driven by decrease in average unit purchase cost of domestic waste paper from approximately RMB1,710 per tonne to RMB1,364 per tonne over the same period.

For raw papers, the average unit purchase cost decreased by approximately 6.6% from approximately RMB4,292 per tonne to RMB4,010 per tonne over the same period. Such decreases were in line with the general market conditions. For further details on the general price movement of the Group's raw materials, please refer to section headed "Industry Overview" of this prospectus.

Beginning in January 2012, the Group has switched the arrangement for production of high performance corrugated medium from outsourcing to lease of production facilities, resulting in a change of outsourcing charge of approximately RMB31.3 million for the year ended 31 December 2011 to a rental charge of approximately RMB20.2 million for the year ended 31 December 2012, or a decrease of payment of approximately RMB11.1 million for the same period. Following such change, the Group borne the direct labour cost and utility charges which were all inclusive in the outsourcing arrangement. As such, the change did not result in any significant change in the production cost structure of high performance corrugated medium.

Save for the change in waste paper costs and production arrangement for high performance corrugated medium, there was no material variation in the cost structure over the same period.

Gross profit and gross margin

Gross profit increased by approximately RMB19.9 million or 9.6%, from approximately RMB208.2 million for the year ended 31 December 2011 to approximately RMB228.1 million for the year ended 31 December 2012 while the Group's gross profit margin increased by approximately 0.4%. Since the Group adopts cost plus pricing policy, the gross profit margin remained relatively stable and the increase in gross profit was mainly due to the growth in sales volume.

(i) *Paperboards*

The gross profit of paperboard products increased from approximately RMB123.1 million for the year ended 31 December 2011 to approximately RMB133.6 million for the year ended 31 December 2012, representing an increase of approximately RMB10.5 million or 8.5%, whereas its gross profit margin slightly increased from 16.5% for the year ended 31 December 2011 to 17.0% for the year 31 December 2012. Such increase in gross profit was driven by (1) the revenue growth of approximately 5.5%; and (2) a slight increase in profit margin of approximately 0.5% for the same period due to the drop in average unit purchase cost of waste paper of approximately 15.0%, which effect was partially offset by a decrease in average selling price of paperboard products of approximately 8.3%.

Beginning in January 2012, the Group had switched production of high performance corrugated medium from outsourcing arrangement to facility leasing arrangement, which provided the Group with greater flexibility on production scheduling as compared to outsourcing arrangement. There was no material adverse financial impact for entering the lease arrangement. The Group's gross margin of high performance corrugated medium slightly decreased from approximately 16.9% for the year ended 31 December 2011 to approximately 16.1% for the year ended 31 December 2012. As the leasing arrangement enabled the Group to increase its production volume, the effect of the decrease in gross profit margin was offset by increase in sales volume, resulting in increase in gross profit contribution by approximately RMB12.5 million or 35.8% from high performance corrugated medium products.

(ii) *Corrugated medium boards and boxes*

The gross profit of corrugated medium boards and boxes increased from approximately RMB35.1 million for the year ended 31 December 2011 to approximately RMB36.9 million for the year ended 31 December 2012, representing an increase of approximately RMB1.8 million or 5.1%, whereas their gross profit margin remained stable at 32.7% for the two years ended 31 December 2012. The increase in gross profit was primarily driven by an increase in sales volume of approximately 7.8%.

(iii) *Poker cards*

The gross profit of poker card products increased from approximately RMB50.1 million for the year ended 31 December 2011 to approximately RMB57.7 million for the year ended 31 December 2012, representing an increase of approximately RMB7.6 million or 15.2%, whereas their gross profit margin slightly decreased from 41.4% for the year ended 31 December 2011 to 39.2% for the year ended 31 December 2012. The increase in gross profit and decrease in gross profit margin was driven by an increase in sales volume and a decrease in the average selling price of poker card products as a result of the Group's shifting focus to own brand products mentioned above.

Other income

Other income decreased by approximately RMB0.8 million or 10.3%, from approximately RMB7.8 million for the year ended 31 December 2011 to approximately RMB7.0 million for the year ended 31 December 2012, primarily attributable to the decrease in exchange gain.

Distribution costs

Distribution costs decreased by approximately RMB4.3 million or 41.3%, from approximately RMB10.4 million for the year ended 31 December 2011 to approximately RMB6.1 million for the year ended 31 December 2012. The decrease in distribution costs was primarily due to the increased use of Group's own truck fleet for product delivery instead of third party logistic provider during the year 2012.

Administrative expenses

Administrative expenses increased by approximately RMB17.2 million or 127.4% from approximately RMB13.5 million for the year ended 31 December 2011 to approximately RMB30.7 million for the year ended 31 December 2012. The increase was mainly attributed to increases in a number of recurring general administrative expenses of approximately RMB9.7 million. These increases in recurring expenses include an increase in staff costs of approximately RMB3.5 million due to general pay rise; an increase in VAT related and other tax surcharges of approximately RMB3.9 million mainly due to (i) lower inward VAT deduction from capital expenditure for the period and (ii) increase in outward VAT as a result of increase in revenue; an increase in warehouse rental payable to Ten Xin of approximately RMB0.5 million due to full year lease and an increase of office administration, entertainment and vehicle expenses of approximately RMB0.9 million. In addition, the Group incurred certain one off expenses including a disposal loss of fixed assets of approximately RMB1.6 million and the listing expenses of approximately RMB5.9 million charged in the Group's income statement for the period.

Finance costs

Finance costs mainly included interest on bank loans wholly repayable within five year. It remained relatively stable with an increase of approximately RMB0.2 million or 1.9%, from approximately RMB10.7 million for the year ended 31 December 2011 to approximately RMB10.9 million for the year ended 31 December 2012.

Income tax expense

Income tax expense increased by approximately RMB3.1 million or 6.8% from approximately RMB45.3 million for the year ended 31 December 2011 to approximately RMB48.4 million for the year ended 31 December 2012, which was primarily attributable to the increase in the Group's profit. The Group's effective tax rate remained stable with a slight increase of approximately 0.8% from approximately 25.0% for the year ended 31 December 2011 to approximately 25.8% for the year ended 31 December 2012.

Profit for the year

Profit for the year increased by approximately RMB2.8 million or 2.1%, from approximately RMB136.2 million for the year ended 31 December 2011 to approximately RMB139.0 million for the year ended 31 December 2012 for the reasons mentioned above.

SELECTED DATA ON COMBINED STATEMENT OF FINANCIAL POSITION AND FINANCIAL RATIOS

The following table set forth information from the Group's combined statement of financial position extracted from the Accountants' Report set out in Appendix I to this prospectus:

	As at 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	171,997	172,056	308,997
Investment properties	1,061	842	4,789
Prepaid land lease payments	13,444	16,914	22,179
Deposit for land use rights and property, plant and equipment	7,320	4,440	1,815
	193,822	194,252	337,780
Current assets			
Inventories	84,341	71,992	44,109
Trade and bills receivables	190,026	265,513	228,533
Prepayment and other receivables	111	2,508	2,756
Amount due from a director	2,265	—	—
Pledged bank deposits	14,170	10,600	9,380
Cash and cash equivalents	15,497	259,057	173,944
	306,410	609,670	458,722
Current liabilities			
Trade and bills payables	96,823	216,281	115,612
Accruals and other payables	8,697	7,305	9,908
Bank borrowings	110,372	149,103	103,000
Amount due to a director	27	698	293
Amounts due to shareholders	19	5,685	2,355
Current tax liabilities	11,555	15,120	12,885
	227,493	394,192	244,053
Net Current Assets	78,917	215,478	214,669
Total assets less current liabilities	272,739	409,730	552,449
Non-current liability			
Bank borrowings	2,000	—	—
Net assets	270,739	409,730	552,449
EQUITY			
Equity attributable to owners of the Company			
Share Capital	—	—	—
Reserves	270,739	409,730	552,449
Total Equity	270,739	409,730	552,449

The Group had net current assets of approximately RMB78.9 million, RMB215.5 million and RMB214.7 million respectively at the year end dates of the Track Record Period.

The Group's current assets mainly comprise cash and cash equivalents, pledged bank deposits, bills receivables, trade receivables and inventories while the Group's current liabilities primarily consist of trade and bills payables, bank borrowings and current tax liabilities.

Net current assets increased from RMB78.9 million as at 31 December 2011 to RMB215.5 million as at 31 December 2012. The increase of RMB136.6 million was mainly attributable to an increase in trade and bills receivables of RMB75.5 million as a result of the Group's relaxing its credit term in response to tough trading environment, and an increase in cash and cash equivalents of RMB243.6 million mainly due to lower capital expenditure and no dividend paid out for the year, partially offset by an increase in trade and bills payable of RMB119.5 million as a result of tightening of cash flow due to the slowdown of settlement of trade and bills receivables.

Net current assets decreased from RMB215.5 million as at 31 December 2012 to RMB214.7 million as at 31 December 2013. The decrease of RMB0.8 million was mainly attributed to (1) decrease in cash and cash equivalents of RMB85.2 million as a result of the acquisition of production facilities from Dong Xin; (2) decrease in trade and bills receivable of RMB37.0 million as a result of the decrease in revenue due to lower average selling prices; and (3) decrease in inventories of RMB27.9 million as a result of increase in sales volume, which were partially offset by (a) decrease in trade and bills payable of RMB100.7 million due to decrease in purchase volume in the fourth quarter of year 2013; (b) decrease in bank borrowings of RMB46.1 million; and (c) decrease in current tax liabilities of RMB2.2 million.

Trade and bills receivables

The trade and bills receivables mainly represent the balance due from customers, net of impairment loss to which credit terms are granted. Pursuant to its credit policy, the Group offers customers different credit terms depending on the volume of purchases, reputation and credit worthiness of the customers. Credit periods granted to paperboard product customers ranges from 30 to 120 days; corrugated medium box customers ranges from 30 to 120 days and poker card customers ranges from 30 to 90 days following delivery of products.

The following table set forth the Group's trade and bills receivable balances as at each balance sheet date for the Track Record Period:

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables, net	134,195	265,513	228,533
Bills receivables	55,831	—	—
Total	190,026	265,513	228,533

The following table set forth the aging analysis of trade and bills receivables, net of impairment loss, based on the relevant due dates as at each balance sheet date for the Track Record Period:

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Trade and bills receivables (net of impairment loss)			
0–30 days	99,251	117,973	109,753
31–60 days	40,327	93,380	73,840
61–90 days	11,829	43,530	32,916
91–180 days	38,619	10,630	12,024
	190,026	265,513	228,533

The trade and bills receivables increased by RMB75.5 million or 39.7% from approximately RMB190.0 million as at 31 December 2011 to approximately RMB265.5 million as at 31 December 2012. In view of the tough business environment for paperboard products in particular the general decline in market price in 2012, the Group relaxed the restrictions on trade receivables and extended the credit period granted to 11 of its major customers, including its top five customers, 2 of which from 60 days to 120 days and 9 from 90 days to 120 days for the year ended 31 December 2012 to retain these quality customers and thus the trade and bills receivables as at 31 December 2012 increased accordingly. The revenue contribution from the 11 major customers with extended credit periods amounted to RMB335.7 million for the year ended 31 December 2012 and all their amounts due as at 31 December 2012 were subsequently settled in 2013.

The trade and bills receivables decreased by RMB37.0 million or 13.9% from approximately RMB265.5 million as at 31 December 2012 to approximately RMB228.5 million as at 31 December 2013. Such decrease in trade and bills receivables was primarily due to the decrease in revenue as a result of the Group's lowering of the average selling prices in response to the persisted tough business environment as reflected in the general decline in market prices in 2013.

In 2013, the Group continued to maintain the relaxed trade credit policy to certain quality customers. On top of the 11 customers whose credit periods were extended to 120 days in year 2012, it extended the credit periods granted to another 11 quality customers, 5 of whom from 30 days to 45 days, 4 from 45 days to 60 days and 2 from 60 days to 90 days for the year ended 31 December 2013. The revenue contribution from these 11 customers with extended credit periods amounted to RMB88.6 million for the year ended 31 December 2013.

The receivables aged from 91 days to 180 days as at 31 December 2013 were due from 6 paperboard customers and 1 corrugated medium board and box products customer respectively. All of these customers have been trading with the Group for more than 2 years. During the Track Record Period, the Group had not experienced any recoverability problems in payments by these customers. As at 31 March 2014, all of these receivables were subsequently settled.

As at 31 December 2012 and 2013, trade and bills receivables that were past due but not impaired were related to independent customers who had good track records with the Group. Based on the Group's assessment, save as mentioned below, no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

For the Track Record Period, the Group's impairment provision were approximately RMB453,000, RMB453,000 and RMB453,000 respectively. Such impairment losses are the provisions assessed on individual basis and made for outstanding receivables which are not expected to be recovered.

As at the Latest Practicable Date, all of trade and bills receivables as at 31 December 2013 were settled.

The following table set forth the Group's trade and bills receivables turnover days for the Track Record Period:

	Year ended 31 December		
	2011	**2012**	**2013**
Trade and bills receivables turnover days *(Note)*	59.3	79.4	88.0

Note: Trade and bills receivables turnover days equal to the average of beginning and closing trade and bills receivables of the year divided by the revenue during such year and then multiplied by 365 days.

The trade and bills receivables turnover days were approximately 59.3 days, 79.4 days and 88.0 days for the Track Record Period. The increase in trade and bills receivables turnover days for the two years ended 31 December 2013 was primarily due to the longer average credit period granted to the Group's customers mentioned above.

Inventories

The Group's inventories consist of raw materials and finished goods. The inventories are stated at the lower of cost and net realizable value. In year 2013, the decrease in inventories was mainly due to fluctuation in average purchase price of waste paper in the second half of 2013, and in response, the management had put tighter control on inventory level of raw materials, which, combined with increase in sales volume in 2013, further decreased the level of finished goods. The following table set forth the Group's inventories ending balances for the Track Record Period:

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	33,788	27,132	18,747
Finished goods	50,553	44,860	25,362
Total	84,341	71,992	44,109

The following table set forth the Group's inventories turnover days for the Track Record Period:

	Year ended 31 December		
	2011	**2012**	**2013**
Inventories turnover days *(Note)*	39.6	34.9	26.2

Note: Inventories turnover days equals to the average beginning and closing inventory of the year divided by the cost of sales during such year and then multiplied by 365 days.

Inventories turnover days decreased by 11.9% from approximately 39.6 days for the year ended 31 December 2011 to approximately 34.9 days for the year ended 31 December 2012, and further decreased by 24.9% to approximately 26.2 days for the year ended 31 December 2013. The improvement in inventories turnover days for the three years ended 31 December 2013 was in line with the Group's increasing business volume, and was also attributed to the Group's tightening control on inventory level since 2012 in response to the tough trading environment caused by the decline in general market prices of paperboard products.

As at the Latest Practicable Date, all of the Group's inventories as at 31 December 2013 were utilized.

Prepayment and other receivables

The Group's prepayments and other receivables mainly consist of prepayments. Prepayments of approximately RMB2.0 million and RMB2.6 million as at 31 December 2012 and 2013 respectively mainly represented the legal and professional expenses prepaid for preparation of the Listing. There was no prepayment balance outstanding as at 31 December 2011. For further details on the legal and professional expenses for preparation of the Listing, please refer to the sub-section headed "Listing Expenses" below.

Trade and bills payables

The Group's trade and bills payables mainly comprise payables for raw material purchases and suppliers generally offer the Group credit terms of approximately 30 to 180 days. In year 2013, the decrease in trade and bill payables was mainly due to decrease in purchases in the fourth quarter of that year. The following table set forth the ageing analysis of the trade and bills payables based on invoice dates for the Track Record Period:

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Trade and bills payables			
0–30 days	68,590	72,805	71,543
31–60 days	19,300	36,179	6,988
61–90 days	3,591	51,950	11,047
Over 90 days	5,342	55,347	26,034
	96,823	216,281	115,612

The following table set forth the Group's trade and bills payables turnover days for the Track Record Period:

	Year ended 31 December		
	2011	2012	2013
Trade and bills payables turnover days *(Note)*	59.2	69.8	75.0

Note: The figure of trade and bills payables turnover days equals to the average of beginning and closing trade and bills payables of the year divided by the cost of sales during such year and then multiplied by 365 days.

The trade and bills payables turnover days increased from approximately 59.2 days for the year ended 31 December 2011 to 69.8 days for the year ended 31 December 2012 and increased to 75.0 days for the year ended 31 December 2013. The rise of 10.6 days from 2011 to 2012 was primarily attributable to the Group's extension of the credit periods granted to its customers since January 2012. It slowed down the Group's collection of trade receivables to settle its trade payables, which led to the increase in trade and bills payables turnover days for the year ended 31 December 2012.

In 2013, as the Group continued to maintain its extended credit policy for certain quality customers and relaxed the credit periods granted to another 11 customers, the Group's collection of trade receivables to settle its trade payables also slowed down, which resulted in the extension of trade and bills payables turnover days of 5.2 days for the year ended 31 December 2013.

As the Group's trade payables turnover days increased in response to the increase in trade and bills receivables turnover days, its working capital cycle remained relatively stable with a slight increase of approximately 4.8 days from approximately 39.7 days for the year ended 31 December 2011 to approximately 44.5 days for the year ended 31 December 2012 and a slight decrease to 39.2 days for the year ended 31 December 2013. As at the Latest Practicable Date, approximately RMB93.5 million, representing approximately 80.9% of trade and bills payables as at 31 December 2013, were settled.

Bank borrowings

The table below set forth an analysis of the Group's bank borrowings for the Track Record Period:

	As at 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Secured bank loans	112,372	149,103	103,000
Unsecured bank loans	—	—	—
	112,372	149,103	103,000
Bank loans repayable:			
— Within one year	110,372	149,103	103,000
— After one year but within 5 years	2,000	—	—
	112,372	149,103	103,000

Bank borrowings increased by RMB36.7 million from approximately RMB112.4 million as at 31 December 2011 to approximately RMB149.1 million as at 31 December 2012 due to growth in import of waste paper from Hong Kong in 2012. The bank borrowings as at 31 December 2011 mainly consisted of trade finance facilities due to the substantial increase in import of waste paper from Hong Kong through Zhau Hau Trading in 2011 which generally required settlement made with trade finance such as letters of credit and trust receipt loans.

Bank borrowings decreased by RMB46.1 million from approximately RMB149.1 million as at 31 December 2012 to approximately RMB103.0 million as at 31 December 2013 as the Group utilized more of its internal resources, such as cash and cash equivalent on hand, to support the operations instead of obtaining external finance.

The table below set forth the ranges of effective interest rates of the Group's borrowings for the Track Record Period:

	As at 31 December		
	2011	**2012**	**2013**
Current			
Variable-rate borrowings	3.28%–7.54%	3.40%–8.10%	3.40%–8.10%
Fixed-rate borrowings	6.06%–8.98%	5.20%–7.80%	4.30%–7.80%

All of the Group's bank loans above were drawn for working capital purpose. The loans were mostly 1 year short term loans and were either secured against certain fixed assets by the Group or certain personal guarantees including guarantee from the major shareholder, Mr. Zheng. All such personal guarantees were released as at 31 December 2012. Please refer to note 31 to the Accountants' Report in Appendix I to this prospectus for the details of pledges and guarantees.

The Group's loan agreements contain standard terms, conditions and covenants that are customary for commercial bank loans in the PRC. Such covenants primarily include requirements that the Group shall obtain the lenders' prior consent or notify them for certain transactions, such as disposal of material assets, merger or consolidation and liquidation or winding-up.

The Company has confirmed that the Group has complied with all the covenants of the banking facilities at all times.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group has historically met its working capital and other capital requirements principally from cash generated from operations, bank borrowings and capital injection from its shareholders. The Group's primary uses of cash include payment for purchases from suppliers and various operating expenses. During the Track Record Period, there were no material changes in the Group's fundamental drivers of the sources and uses of cash.

The following table set forth a summary of the Group's net cash flows for the Track Record Period:

Cash flows

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Cash and cash equivalents at beginning of the year	224,673	15,497	259,057
Net cash generated from operating activities	44,861	234,351	139,752
Net cash used in investing activities	(105,160)	(18,136)	(167,328)
Net cash (used in)/generated from financing activities	(148,878)	27,345	(57,555)
Net (decrease)/increase in cash and cash equivalents	(209,177)	243,560	(85,131)
Effect of foreign exchange rate change	1	—	18
Cash and cash equivalents at end of the year	15,497	259,057	173,944

Cash flows from operating activities

The net cash generated from operating activities was RMB139.8 million for the year ended 31 December 2013, which was primarily attributable to (1) the operating profit before working capital changes of RMB227.5 million; (2) decrease in inventories of RMB27.9 million due to increase in sales volume and tightening control on inventory level in response to tough trading environment; and (3) decrease in trade and bills receivables of RMB37.0 million due to decrease in revenue, partially offset by decrease in trade and bills payables of RMB100.7 million due to decrease in purchases in the fourth quarter of year 2013 and tax paid of RMB50.6 million.

The net cash generated from operating activities was RMB234.4 million for the year ended 31 December 2012, which was primarily attributable to the operating profit before working capital changes of RMB218.0 million and an increase in trade and bills payables of RMB119.5 million, partially offset by an increase in trade and bills receivables of RMB75.5 million and tax paid of RMB44.8 million. This was driven by the extension of credit periods to the Group's customers in the year ended 31 December 2012 which slowed down the Group's collection of trade receivables to settle the trade payables.

The net cash generated from operating activities was RMB44.9 million for the year ended 31 December 2011, which was primarily attributable to the operating profit before working capital changes of RMB205.4 million, partially offset by an increase in trade and bills receivables of RMB63.9 million due to the increase in sales volume for the year, a decrease in trade and bills payables of RMB54.7 million due to the use of bills receivables collected from customers for settlement of trade payables and tax paid of RMB41.7 million.

Cash flows from investing activities

The net cash used in investing activities for the year ended 31 December 2013 was RMB167.3 million, which was primarily due to purchase of property, plant and equipment of RMB162.1 million and payment to acquire land lease of RMB5.7 million, of which approximately RMB129.8 million was paid to Dong Xin for acquisition of the corrugated medium production facilities.

Net cash used in investing activities for the year ended 31 December 2012 was RMB18.1 million, which was primarily due to purchase of property, plant and equipment of RMB22.1 million, partially offset by a decrease in pledged bank deposits of RMB3.6 million.

Net cash used in investing activities for the year ended 31 December 2011 was approximately RMB105.2 million, which was primarily due to purchase of property, plant and equipment of RMB87.0 million and an increase in pledged bank deposits of RMB11.4 million.

Cash flows from financing activities

Net cash used in financing activities for the year ended 31 December 2013 was approximately RMB57.6 million, which was primarily for repayment of bank borrowings of RMB186.1 million and interest payment of RMB11.5 million, partially offset by fund from new bank borrowings of RMB140.0 million.

Net cash generated from financing activities for the year ended 31 December 2012 was approximately RMB27.3 million, primarily as a result of fund from new bank borrowings of RMB317.5 million, partially offset by repayment of bank borrowings of RMB280.8 million.

Net cash used in financing activities for the year ended 31 December 2011 was approximately RMB148.9 million, primarily as a result of repayment of bank borrowings of RMB318.1 million, dividend payment of RMB90 million declared in the year ended 31 December 2010 and interest paid of RMB8.7 million, partially offset by fund from new bank borrowings of RMB267.9 million.

Net current assets

The following table set forth information on the current assets, current liabilities and net current assets of the Group as at 30 April 2014:

	RMB'000
Current assets	
Inventories	59,698
Trade and bills receivables	216,353
Prepayments and other receivables	2,983
Pledged bank deposits	8,520
Cash and cash equivalents	299,591
	587,145
Current liabilities	
Trade and bills payables	194,465
Accruals and other payables	6,186
Bank borrowings	104,242
Current tax liabilities	4,052
	308,945
Net current assets	278,200

As at 30 April 2014, the Group's net current assets increased from approximately RMB214.7 million as at 31 December 2013 to approximately RMB278.2 million. Such increase in net current assets was attributed to (1) increase in cash and cash equivalents due to settlement of outstanding trade and bills receivables for the year ended 31 December 2013; (2) increase in inventories which were partially offset by decrease in trade and bills receivables; (3) decrease in accruals and other payables, trade and bills payables and current tax liabilities; and (4) decrease in amounts due to the director and shareholder respectively as the Group repaid the amounts due in March 2014 as planned.

KEY FINANCIAL RATIOS

The following tables set forth the Group's key financial ratios for the Track Record Period:

	As at 31 December		
	2011	2012	2013
Current ratio(1)	1.3	1.5	1.9
Quick ratio(2)	1.0	1.4	1.7
Gearing ratio(3)	41.5%	36.4%	18.6%
Debt to equity ratio(4)	35.8%	(26.8)%	(12.8)%

	Year ended 31 December		
	2011	2012	2013
Interest coverage(5)	22.0	21.0	17.7
Return on equity(6)	55.0%	40.9%	29.7%
Return on assets(7)	25.9%	21.3%	17.8%
Net profit margin before interest and tax(8)	19.5%	18.8%	19.8%
Net profit margin(9)	14.0%	13.3%	13.9%

(1) Current ratio represents current assets divided by current liabilities.

(2) Quick ratio represents current assets (net of inventories) divided by current liabilities.

(3) Gearing ratio represents total borrowings divided by total equity.

(4) Debt to equity ratio is calculated by dividing net debt by total equity.

(5) Interest coverage represents profit before interest and tax divided by interest recorded during the year.

(6) Return on equity is calculated by dividing profit for the year by average of beginning and closing of total equity plus dividend declared but not paid of the year.

(7) Return on assets is calculated by dividing profit for the year by average of beginning and closing of total assets of the year.

(8) Net profit margin before interest and tax is calculated by dividing net profit before interest and tax by revenue.

(9) Net profit margin is calculated by dividing profit for the year by revenue.

Current ratio

As at 31 December 2011, 2012 and 2013, the Group's current ratios were approximately 1.3, 1.5 and 1.9 respectively. The increase in current ratio during the Track Record Period was primarily attributable to improvement of financial positions in cash and cash equivalents, trade and bills payables and bank borrowings due to stable business performance for the same period.

Quick ratio

As at 31 December 2011, 2012 and 2013, the Group's quick ratios were approximately 1.0, 1.4 and 1.7 respectively. The quick ratios were close to current ratios during the Track Record Period as the inventory only accounted for a relatively low portion of total current asset as compared to other current asset items for the Track Record Period and the movement in current ratios has direct consequence on quick ratios.

Gearing ratio

As at 31 December 2011, 2012 and 2013, the Group's gearing ratios were approximately 41.5%, 36.4% and 18.6% respectively. The improvement in gearing ratio was primarily due to the increase in reserve (in particular retained earnings for the Group's business development and operations) during the Track Record Period as a result of increase in net profit in the same period.

Debt to equity ratio

As at 31 December 2011, 2012 and 2013, the Group's debt to equity ratio was approximately 35.8%, (26.8)% and (12.8)% respectively. Negative ratio as at 31 December 2012 and 2013 was primarily due to higher cash balance retained by the Group and reduction of the use of debt financing to support its operations.

Interest coverage

The Group's interest coverage for the Track Record Period, was approximately 22.0, 21.0 and 17.7 respectively. The ratio remained stable for the two years ended 31 December 2012. In year 2013, the decrease in interest coverage was mainly due to certain term loans utilised in the year with higher interest rate as compared to previous years.

Return on equity

The Group's return on equity was approximately 55.0%, 40.9% and 29.7% for the three years ended 31 December 2013. The decrease in return on equity was attributed to the slowdown in the Group's earning growth.

Return on assets

The Group's return on assets was approximately 25.9%, 21.3% and 17.8% for the three years ended 31 December 2013. The decrease in return on assets was in line with return on equity. As the Group deployed certain proportion of borrowings in financing its operations, the difference between these two performance ratios, i.e. return on equity and return on assets, reflected the Group's effectiveness in leveraging its capital to deliver business growth for the same period.

Net profit margin before interest and tax

The net profit margin before interest and tax was approximately 19.5%, 18.8% and 19.8% respectively for the Track Record Period. The net profit margin before interest and tax remained stable mainly due to the Group's adoption of cost plus policy and its effective control on the key raw material costs mentioned in the paragraph headed "Gross margin" above and there was no material change in the Group's expenses structure during the Track Record Period.

Net profit margin

The net profit margin was approximately 14.0%, 13.3% and 13.9% respectively for the Track Record Period. Attributed to the factors mentioned in the paragraphs headed "Gross margin" and "Net profit margin before interest and tax" above, the net profit margin was also stable during the Track Record Period.

CAPITAL COMMITMENT

As at the year end dates for the Track Record Period, the Group had the following capital commitments which were not provided for in the Group's combined financial information:

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Purchase of property, plant and equipment and prepaid land lease payments	30,806	11,010	1,765

Save as disclosed herein, the Group does not have any other material capital commitments.

CAPITAL EXPENDITURE

The capital expenditure principally related to the construction of production plants, purchase of equipment and machinery and prepaid land lease payments. Historically, the Group funded its capital expenditure through internal cash resources and bank borrowings. The following table set forth the Group's capital expenditure for the Track Record Period:

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Prepaid land lease payments	—	900	5,700
Property, plant and equipment	65,185	2,408	162,130
Construction in progress	21,806	19,683	—
	86,991	22,991	167,830

The significant increase in capital expenditure from approximately RMB23.0 million in the year ended 31 December 2012 to approximately RMB167.8 million in the year ended 31 December 2013 was primarily attributed to the acquisition of production facilities including the production plant, lands and production machinery in August 2013 from Dong Xin for a total consideration of RMB129,840,000 in cash.

Capital expenditure management

The Group's planned capital expenditures for the year ending 31 December 2014 are approximately HK$8.5 million and primarily related to expansion of its production capacity. The Directors plan to fund the future capital expenditures with the Group's internal generated funds, bank borrowings and net proceeds of the Share Offer. Please refer to the section headed "Future Plans and Use of Proceeds" of this prospectus for further details. The Group's actual capital expenditures may differ from the amounts set out above due to various factors, including future cash flows, results of operations and financial condition, changes in global economy, the availability of financing on terms acceptable by the Group and the regulatory environments in Hong Kong and the PRC and other factors.

OPERATING COMMITMENTS

The Group as lessee

During the Track Record Period, the Group leases an office in Hong Kong, and production facilities and warehouse in the PRC under various operating leases. The leases typically had an initial term of one to five years.

The following table set forth the Group's total future minimum lease payments under non-cancellable operating leases as of the dates indicated:

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	900	21,329	90
In the second to fifth year inclusive	3,150	42,570	55
	4,050	63,899	145

As the Group ceased to lease production facilities from Dong Xin and acquired such production facilities in August 2013, there was a significant decrease in future minimum lease payments as at 31 December 2013. For details please refer to the paragraph headed "Operating Lease Arrangement" in Appendix I — Accountants' Report.

RELATED PARTY TRANSACTIONS

During the Track Record Period, the Group had entered into certain transactions with related parties. As at the Latest Practicable Date, the Group ceased all transactions with related parties.

The following table set forth the material related party transactions which the Group entered into during the Track Record Period:

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Purchase of raw materials from			
— Xin Yuan	324,377	173,307	10,221
— Zhau Hau Trading	58,998	100,537	39,964
	383,375	273,844	50,185
Advance payments made on behalf of the Group by			
— Tun's HK	2,910	—	—
Rental payment made to			
— Ten Xin	450	900	675

The following table set forth the balances with the related parties as of each date indicated:

(i) Due from related parties

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Non-trade nature			
Amount due from a director			
— Mr. Zheng	2,265	—	—

(ii) Due to related parties

	As at 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Trade nature			
Trade and bills payables			
— Xin Yuan	38,750	54,019	—
— Zhau Hau Trading	23,818	43,760	—
	62,568	97,779	—
Non-trade nature			
Amount due to a director			
— Mr. Zheng	27	698	293
Amounts due to shareholders			
— Mr. Kung	—	5,631	2,355
— Ms. Chen	19	54	—
	19	5,685	2,355
	62,615	104,162	2,648

All amounts due to the director and shareholders were settled on 1 March 2014. For further details, please refer to the section headed "Business" and notes 11, 21, 23, 27, 31 and 33 to the Accountants' Report in Appendix I to this prospectus.

The Directors have confirmed that the aforementioned transactions with the related parties were conducted on normal commercial terms and were fair and reasonable and in the interest of the Shareholders as a whole. The Directors also believe that those transactions with related parties and amounts due to and due from related parties did not distort the Group's result of operations during the Track Record Period.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, the Group had not entered into any off-balance sheet transaction.

DIRECTORS' OPINION ON THE SUFFICIENCY OF THE GROUP'S WORKING CAPITAL

The Directors are of the opinion that, taking into account the financial resources available to the Group, including internally generated fund, the available banking facilities and the estimated net proceeds from the Share Offer, in the absence of unforeseen circumstances, the working capital available to the Group is sufficient for the Group's present requirements and for at least the next 12 months from the date of this prospectus. In addition, the Directors have confirmed that the Group does not have any plan to raise material external debt financing as of the date of this prospectus. Based on the above financial resources available to the Group, the Sole Sponsor and the Company's reporting accountants concur with the Directors' view.

STATEMENT OF INDEBTEDNESS

As at 30 April 2014, being the latest practicable date to ascertain the indebtedness of the Group, the Group had outstanding bank loans of RMB104.2 million, which was interest-bearing from 4.53% to 7.80%, repayable within one year and secured by the Group's assets, including buildings, plant and machinery, power plant equipment, investment properties, prepaid land lease payments, inventories and pledged bank deposits, with total carrying value of RMB145.2 million. The Group had also obtained banking facilities of approximately RMB120.8 million as at 30 April 2014 from various banks in the PRC, of which approximately RMB16.6 million was not utilized.

Save as aforesaid and apart from the normal trade and other payables in the ordinary course of the business, as at the close of business on 30 April 2014, the Group did not have other outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

The Directors confirm that there has been no material change in the indebtedness and contingent liabilities of the Group since 30 April 2014.

Contingent liabilities

At each year end date for the Track Record Period, neither the Group nor the Company had any significant contingent liabilities.

Disclaimers

Save as aforesaid and apart from intra-group liabilities, the Group did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding as at 30 April 2014.

DIVIDEND POLICY

The Group declared and paid dividends of nil, nil and nil for the Track Record Period, respectively. During the period from 1 January 2014 to the Latest Practicable Date, the Company had not declared or paid any dividend to its shareholders. After completion of the Share Offer, Shareholders will be entitled to receive dividends which the Company declares from time to time.

Currently, the Company does not maintain any fixed dividend payout ratio. The Board will review the Company's dividend policy from time to time taking into consideration the Group's operations, earnings, capital requirements, general financial conditions and other relevant factors. Subject to the aforesaid factors, it is the Company's present intention to declare dividends to Shareholders in such amounts based on the Company's profitability, financial conditions, cash requirements and level of distributable reserves in each financial year. The dividends of the Company will be paid by way of interim and/or final dividends. In addition, any payment of final dividend for a financial year is subject to the Shareholders' approval.

In view of the capital requirements of its future plan, the Company does not intend to pay any dividend to the Shareholders in the foreseeable future. The Directors will review the Group's profitability and cash flow from time to time in considering any dividend payment to the Shareholders.

In respect of temporary differences attributable to the profits earned by Group's subsidiaries as at 31 December 2011, 2012 and 2013, as the Group is able to control the timing of reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future, the Group has decided not to establish a deferred tax provision for withholding taxes payable on dividends from its overseas subsidiaries.

LISTING EXPENSES

The Directors estimate that the total listing expenses would amount to approximately RMB33.1 million. In accordance with HKAS32, transaction costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would not have been incurred. Listing expenses that are wholly and directly attributable to the issue of Shares under the Share Offer, including underwriting commission of approximately RMB18.6 million, would be accounted for as a deduction from equity when the Share Offer is completed. The remaining costs of RMB14.5 million include mainly the fees of the Sole Sponsor, legal advisers and reporting accountants and are considered to be related to the listing of Shares in issue as of the Latest Practicable Date and Shares to be issued under the Capitalization Issue and the Share Offer. Accordingly, such costs are allocated by reference to the number of Shares to be issued under the Share Offer over the total number of Shares to be listed, and are charged to share premium and profit or loss respectively. The Directors consider that the above accounting treatment is in line with HKAS32. Based on an Offer Price of HK$1.4 per Offer Share, the table below set forth the allocation of listing expenses between the amounts recognised or to be recognised as expenses in the statements of comprehensive income and as prepayment in the statements of financial position:

	During the Track Record Period	**Until the completion of the Share Offer**	**Total amounts**
	RMB in million	*RMB in million*	*RMB in million*
Listing expenses recognised or to be recognised as expenses in the statements of comprehensive income	8.0	6.5	14.5
Listing expenses recognised or to be recognised as prepayment, which would be offset against share premium upon Listing	2.6	16.0	18.6
Total	**10.6**	**22.5**	**33.1**

Note: Listing expenses of RMB8.0 million recognised in the statements of comprehensive income during the Track Record Period were reflected in professional expenses and listing expenses under administrative expenses.

DISTRIBUTABLE RESERVES

There was no distributable reserves of the Company available for distribution to the Shareholders as of the Latest Practicable Date.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted combined net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustration purpose only, and is set out to illustrate the effect of the Share Offer on the combined net tangible assets of the Group as at 31 December 2013 as if it were completed on 31 December 2013. The unaudited pro forma adjusted combined net tangible assets has been prepared for illustration purpose only and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of the Group attributable to equity holders of the Company as of 31 December 2013 or any future dates following completion of the Share Offer. It is prepared based on the audited combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2013 as set out in the Accountants' Report in Appendix I to this prospectus, and adjusted as described below:

	Audited combined net tangible assets attributable to owners of the Company as at 31 December 2013	**Estimated net proceeds of the Share Offer**	**Unaudited pro forma adjusted combined net tangible assets**	**Unaudited pro forma adjusted combined net tangible assets per Share**	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$ equivalent*
Based on the Offer Price of HK$1.4 per Offer Share	552,449	255,508	807,957	0.81	1.03

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Group is exposed to various types of market risk in the ordinary course of its business, including credit, liquidity, and interest rate risks.

Credit risk

The Group's credit risk mainly arises from pledges of bank deposits, cash and cash equivalents, trade and bills receivables, other receivables and amount due from a director. The carrying amounts of these balances represent the Group's maximum exposure of risk in relation to financial assets. For further details, please refer to note 34 to Appendix I — Accountants' Report.

Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due, and it results from amount and maturity mismatches of assets and liabilities. The Group maintains sufficient cash to meet its liquidity requirements through banking facilities, bank borrowings and cash and cash equivalents, which are generated from financing activities and operating activities respectively. For further details, please refer to note 34 to Appendix I — Accountants' Report.

Interest rate risk

The Group's interest rate risk arises primarily from interest bearing bank borrowings. Bank borrowings at variable rates expose the Group to cash flow interest rate risk. For further details, please refer to note 34 to Appendix I — Accountants' Report.

PROPERTY INTERESTS AND VALUATION OF PROPERTIES

The properties of the Group were revalued at RMB191,200,000 as at 31 March 2014 by Grant Sherman Appraisal Limited. Details of the valuation are summarized in Appendix III to this prospectus.

A statement of the reconciliation of the audited net book value of the property interests of the Group as at 31 December 2013 and the valuation of such property interests as at 31 March 2014 as required under Rule 5.07 of the Listing Rules is set out below:

	RMB'000
Net book value of property interests of the Group as at 31 December 2013	
— Buildings	86,359
— Prepaid land lease payments	22,179
— Investment properties	4,789
Net book value as at 31 December 2013 (audited)	113,327
Movement for the period from 1 January 2014 to 31 March 2014	
Less: Amortization for the period (unaudited)	(133)
Depreciation for the period (unaudited)	(1,919)
Net book value as at 31 March 2014 (unaudited)	111,275
Valuation surplus as at 31 March 2014 (unaudited)	79,925
Valuation as at 31 March 2014 as per Appendix III	191,200

DISCLOSURE REQUIRED UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

The Directors have confirmed that as at the Latest Practicable Date, there were no circumstances which, had the Group been required to comply with Rules 13.13 to 13.19 of the Listing Rules, would have given rise to a disclosure requirement under such Rules.

NO MATERIAL ADVERSE CHANGE

The Directors have confirmed that there has been no material adverse change in the financial or trading position or prospects of the Group since 31 December 2013 and up to the date of this prospectus, and there is no event since 31 December 2013 and up to the date of this prospectus which will materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus, in each case except as otherwise disclosed herein.

FUTURE PLANS

By leveraging on its expertise and experience in production of paperboard and other paper products, the Group intends to implement the following business strategies to achieve growth for enhancement of Shareholders' return in the future.

Expansion of product range and production capacity of paperboard products

Introduction

The Group plans to expand its paperboard product range to include coated white board products, which are commonly used for production of high end packing materials such as small boxes for luxury consumer products and paper shopping bags. However, as the Group's existing production capacity for paperboard products has already been substantially fully utilised, the Group proposes to set up new production facilities with annual production capacity of about 100,000 tonnes of five-ply coated white board products in the vacant land of its Guanshan Production Plant.

Market outlook of coated white board products

Coated white board is normally used for high quality commercial packaging with better printability and foldability for mid-to-high end consumer products such as cigarettes, pharmaceutical products as well as food and beverages.

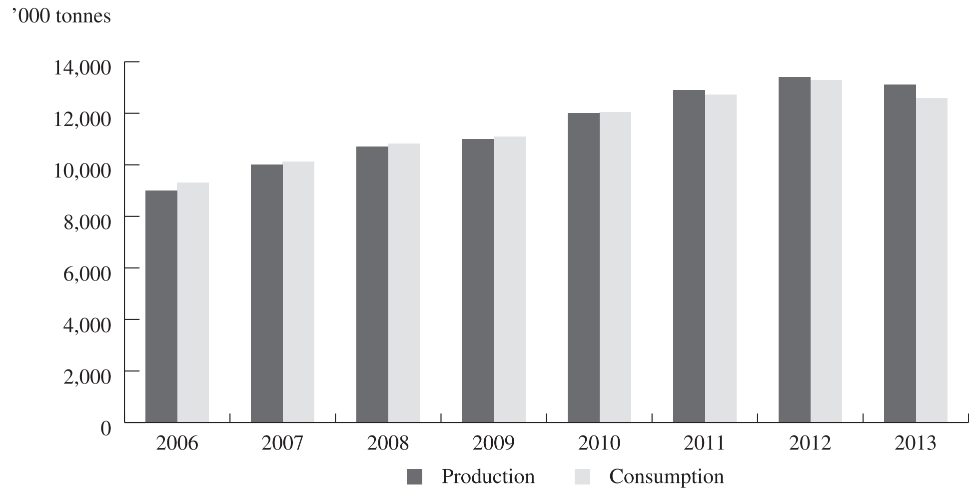
According to *China Paper Association*, the total domestic consumption volume of coated white board products increased from 9.3 million tonnes to approximately 12.6 million tonnes during the period from 2006 to 2013, representing a CAGR of approximately 4.4%. The total domestic production volume of coated white board products in the PRC increased from approximately 9.0 million tonnes to approximately 13.1 million tonnes during the same period, representing a CAGR of approximately 5.5%. During the period from 2006 to 2010, there had been a shortfall to meet the domestic demand for coated white board. By the year 2011, the domestic demand was met by increase in production capacity.

The following table shows the domestic production and consumption volume of coated white board in the PRC from 2006 to 2013:

	Production volume	**Consumption volume**
	('000 tonnes)	*('000 tonnes)*
2006	9,000	9,310
2007	10,000	10,120
2008	10,700	10,810
2009	11,000	11,100
2010	12,000	12,040
2011	12,900	12,720
2012	13,400	13,290
2013	13,100	12,590

Source: China Paper Association, May 2014

Production and Consumption Volume of Coated White Board in the PRC: 2006–2013



Source: China Paper Association, May 2014

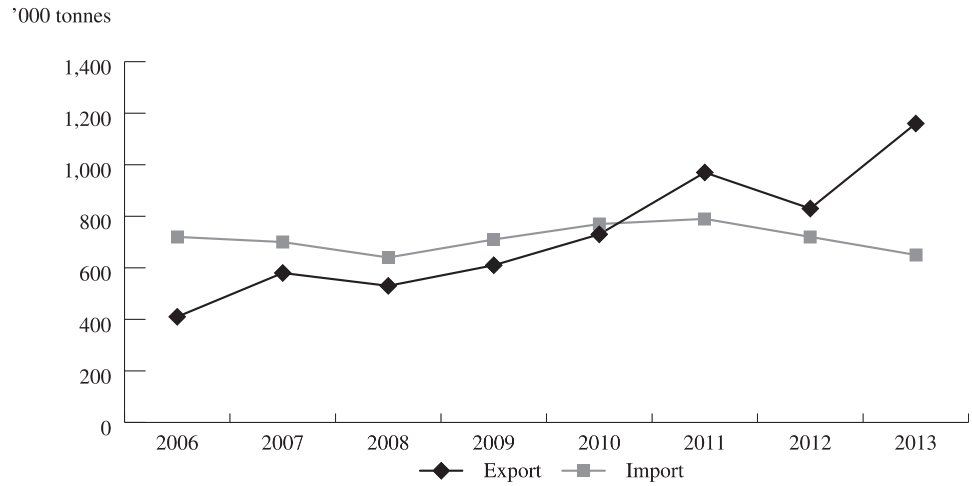
During the period between 2006 and 2010, there had been a trend of shortfall in domestic supply for coated white board products to meet the domestic demand, and the industry relied on imports to narrow such demand gap. The net exports of coated white board products in the year 2013 illustrates that the PRC production output level has met the domestic demand with an increasing global demand for domestic exports.

The following table shows the export and import level of coated white board in the PRC industry from 2006 to 2013:

	Export level	Import level	Net import level
	('000 tonnes)	*('000 tonnes)*	*('000 tonnes)*
2006	410	720	310
2007	580	700	120
2008	530	640	110
2009	610	710	100
2010	730	770	40
2011	970	790	(180)
2012	830	720	(110)
2013	1,160	650	(510)

Source: China Paper Association, May 2014

Export and Import Level of Coated White Board in the PRC: 2006–2013



Source: China Paper Association, May 2014

According to Almanac of China Paper Industry 2013, the production capacity of the major coated white board manufacturers amounted to 9,400,000 tonnes in 2012. The operations of the top five coated white board manufacturers, in terms of production capacity in 2012, are mainly located at Zhejiang, Guangdong and Shandong Provinces and their annual production capacity of coated white board amounted to 4,450,000 tonnes, representing 33.2% of the PRC total in the same year.

According to a confirmation letter from Fujian Province Paper Association dated 24 October 2012 and 17 February 2014 respectively, there are currently only 5 manufacturers in Fujian Province capable of manufacturing coated white board with aggregate production capacity of approximately 480,000 tonnes per annum. None of such manufacturers has the capacity to produce double-sided coated white board products. Hence, the Directors believe that the Group's ability to produce double-sided coated white board with its new production line will create product differentiation in Fujian Province.

Expansion plan

The Group intends to allocate approximately 50% of the coated white board output for direct sales to its customers and to use the balance for development of new downstream paper products including higher quality poker cards, packaging boxes and shopping bags as detailed below.

The budget of the new production facilities is approximately RMB499.6 million, of which approximately RMB99.2 million will be used for construction of production workshop and warehouses and the remaining for purchase and installation of machinery and equipment. It is expected that such capital expenditure will be incurred between the fourth quarter of 2014 to the fourth quarter of 2016. The Group intends to finance the construction plan with approximately RMB195.5 million from the net proceeds of the Share Offer and the balance from a combination of internal resources and bank borrowings. The time for the construction work is expected to be about 1 year.

The Directors have completed the feasibility study, finalised the budget and obtained approval from Changtai County Development and Reform Bureau of Fujian Province for such plan. The Group has also reserved a parcel of land adjacent to its existing Guanshan Production Plant. As at the Latest Practicable Date, there was no capital commitment in relation to the said expansion plan. For further details of the land acquisition, please refer to the sub-section headed "Properties" in the section headed "Business" of this prospectus. The Directors plan to conduct environmental assessment exercise for getting approvals from the relevant environmental authorities for construction and expect the construction work to commence in the fourth quarter of 2014.

Expansion of poker card market share

In view of the market potential and profitability of poker card products, the Group intends to develop higher quality poker card products to expand its market share. According to a market study commissioned by the Group, the size of the PRC poker card market in terms of sales value increased from RMB1,332 million in 2007 to RMB2,360 million in 2011, at a CAGR of approximately 15.4%.

The industry structure is relatively fragmented. In 2012, there were over 90 poker cards manufacturers in the PRC as well as a large number of small-scale printing enterprises that also produced poker cards. With the lack of above-scale enterprises in the market, the top five poker cards manufacturers together contributed a total of 47.5% of the total industry production in 2011. Moreover, a market study commissioned by the Group also reveals that poker card products generally available in the PRC market, including the Group's existing products, are produced with three-ply raw papers.

As there is no dominant market player and a lack of higher quality poker card products in term of paper strength, the Directors believe that there is room for the Group to explore the market for high quality poker cards with its advanced technology equipment.

The Group is expected to spend approximately RMB43.9 million on expansion of its poker card production facilities. The capital expenditure plan is expected to commence in the second quarter of 2015, which will be funded by the net proceeds of the Share Offer, for purchase and installation of printing and assembly machine. As at the Latest Practicable Date, there was no capital commitment in relation to the said expansion of poker card production facilities.

The new product development plan primarily includes the addition of a poker production line with annual capacity of approximately 200 million sets at the existing poker workshop at Yanxi Production Plant. The time for the setting up of this additional production line will be approximately 5 months.

To support further market expansion and building brand awareness, the management also plans to allocate approximately 2% of the Group's poker card revenue in each year for marketing and promotional activities, including placing advertisements, organising poker game campaign and free trial product distribution in popular venues and such promotional activities will commence in the second half of 2014.

Development of paper consumer product packaging materials

Currently, the Group only produces corrugated medium boxes as outer packaging materials. As part of the Group's product portfolio development strategy, the Group intends to expand into production of high end consumer product packaging materials including small paper boxes and shopping bags as inner packaging materials with white board from the planned production lines mentioned above. The Directors believe that with such expansion of product variety, the Group can benefit from the synergistic effect that it can expand its customer base and/or absorb new orders from existing customers with its ability to provide a boarder range of products from outer packaging materials to high end consumer product packaging materials.

The development plan primarily includes installation of a new packaging product production line at the corrugated medium box workshop of Yanxi Production Plant. The budget for the new production line is estimated to be RMB16.5 million and the capital expenditure plan is also expected to commence in the second quarter of 2015, which will be funded from the net proceeds of the Share Offer, for purchase and installation of printing machine and integrated production facilities. The time for the production line installation will be approximately 5 months. As at the Latest Practicable Date, there was no capital commitment in relation to the proposed new packaging product production line.

Project management

In formulating the expansion plans, the Directors have taken into accounts the following factors, among others, (i) the growth prospects of the Group's industry segments; (ii) on-going discussions with its major customers regarding to their future sales and production plans in the PRC; (iii) willingness of its current customers to use the new products; and (iv) potential demand from new customers. In light of available information, the Directors consider the expansion plans fit in the Group's strategic directions and are reasonable and feasible.

To strengthen the internal control on the Group's expansion plans upon the Listing, the Group has adopted the following internal control measures:

(1) the Group has updated its operational management manual to provide guidance on the expansion plans. The Group's finance department is responsible for handling and monitoring the Group's expansion plans. Staff in the finance department are required to strictly comply with the guidance set out in the said manual and any non-compliance with it will be taken into account in the performance assessment of the relevant staff;

(2) the Group's company secretary, Mr. Lam Ho Keung, is responsible for review and monitoring of the expansion plans on a quarterly basis in future. Please refer to the section headed "Directors, Senior Management and Employees" of this prospectus for details of his experience and qualification;

(3) for any non-compliance issues identified, the Group's company secretary is required to report to the Board of Directors and the Chief Financial Officer, Mr. Chen Ruomao and the Audit Committee respectively; and

(4) to monitor and manage the progress of the expansion projects, the Group will establish a project management committee comprising of the Chief Executive Officer and relevant members of the senior management.

Approvals obtained and to be obtained

On 27 March 2011, the NDRC issued the Guiding Catalogue (as revised in 2013) which set out the production machine, facilities and equipment that fall under the "encouraged", "restricted" and "eliminated" category.

Pursuant to the Interim Provisions for Promoting Industrial Restructuring (促進產業結構調整暫行規定) issued by the State Council on 2 December 2005, new investment project which does not fall under "encouraged", "restricted" or "eliminated" category in the Guiding Catalogue and has complied with relevant PRC laws, regulations and policy should be classified as "permitted" category.

As the Group's new investment project in coated white board production line does not fall under the "encouraged", "restricted" or "eliminated category, it should be classified as "permitted" category. In view of above, the Group's existing and new production lines have complied with the Guiding Catalogue.

The Company's PRC legal advisers have opined that the Group's existing production lines, including the paperboard production lines at Guanshan Production Plant and the self-owned corrugated medium board and box and poker card production line at Yanxi Production Plant, do not fall under the "restricted" or "eliminated" category in the Guiding Catalogue, and should be classified as "permitted" category.

As advised by the Group's PRC legal advisers, the aforementioned expansion plans require the following PRC government approvals:

(1) approval from Changtai County Development and Reform Bureau of Fujian Province regarding the foreign investment on the said expansion plans and the approval procedures for each project are expected to require approximately up to 30 business days; and

(2) approval from Environmental Protection Administration regarding the environmental impact of the construction and operation of the said expansion plans. The expected time required for the approval procedures of each project is around up to 60 days.

Pursuant to the Twelfth Five-Year Plan for Development of Papermaking Industry, the minimum annual production capacity expansion for new and existing linerboard production line is 300,000 tonnes and 100,000 tonnes respectively.

As advised by the Company's PRC legal advisers, given the Group's expansion plan for introducing a coated white board products is an expansion project on existing production line, the planned capacity of 100,000 tonnes complies with the government policy set out above.

The Company's PRC legal advisers have advised that there is no legal impediment for the Group to obtain the requisite permits, licences and approvals for its expansion plans.

Changtai County Development and Reform Bureau of Fujian Province approved the aforesaid expansion plans on 1 April 2014 and on 2 April 2014 respectively.

USE OF PROCEEDS OF THE SHARE OFFER

The net proceeds of the Share Offer are estimated to be approximately HK$324.0 million after deducting underwriting fees and estimated expenses payable by the Company in connection with the Share Offer. The Group has been pursuing the aforesaid expansion plans and as of the Latest Practicable Date, the Group did not have any specific acquisition plans or targets and has not entered into any memorandum of understanding or agreement with any potential targets. To implement the Group's future plans as set out in the preceding sub-section, the Group intends to apply such net proceeds as follows:

- approximately 76.3% or HK$247.4 million (equivalent to RMB195.5 million) for expansion of production capacity of paperboard products. As of 31 December 2013, the Group has conducted some preparation work in this regard, such as design and feasibility studies on construction work, for which no capital expenditures have been incurred;

- approximately 17.2% or HK$55.7 million (equivalent to RMB43.9 million) for expansion of poker card production facilities; and

- approximately 6.5% or HK$20.9 million (equivalent to RMB16.5 million) for installation of paper consumer product packaging production line.

To the extent that the net proceeds of the Share Offer are not immediately used for the above purposes, the Group will deposit such net proceeds as short term deposits with authorised financial institutions and/or licensed banks in Hong Kong and/or China. According to the funding plans set forth above, the Group intends to fund the balance through internal cash resources and bank borrowings. The Group currently believes that the net proceeds of the Share Offer, when combined with internal cash resources and bank borrowings, are sufficient for the uses set forth above.

JOINT BOOKRUNNERS AND JOINT LEAD MANAGERS

Kingsway Financial Services Group Limited

SBI China Capital Financial Services Limited

UNDERWRITERS

Placing Underwriters

Kingsway Financial Services Group Limited

SBI China Capital Financial Services Limited

Sanfull Securities Limited

Infast Brokerage Limited

Astrum Capital Management Limited

Public Offer Underwriters

Kingsway Financial Services Group Limited

SBI China Capital Financial Services Limited

Sanfull Securities Limited

Astrum Capital Management Limited

China Investment Securities International Brokerage Limited

Quam Securities Company Limited

Great Roc Capital Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Public Offer Underwriting Agreement

Pursuant to the Public Offer Underwriting Agreement, the Company has agreed to offer the Public Offer Shares for subscription by members of the public in Hong Kong under the Public Offer (on and subject to the terms and conditions set out in this prospectus and the Application Forms). Subject to the Listing Committee granting listing of and permission to deal in the Shares (subject only to allotment) and to certain other conditions set out in the Public Offer Underwriting Agreement being satisfied on or before 16 July 2014 (or such later date as the Sole Sponsor on behalf of the Public Offer Underwriters may agree), the Public Offer Underwriters have severally agreed to apply, or procure applications, on the terms and conditions of this prospectus and the Application Forms, for the Public Offer Shares now being offered and which are not taken up under the Public Offer.

The Public Offer Underwriting Agreement is also conditional on the Placing Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for termination

The obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement are subject to termination if any of the following events occurs at any time prior to 8:00 a.m. on the Listing Date:

(a) there develops, occurs or comes into force:

(i) any new law or government regulation or other occurrence of any nature whatsoever which in the absolute opinion of the Sole Sponsor on behalf of the Public Offer Underwriters adversely affects or will adversely affect the business of the Group or any part thereof or is adverse in the context of the Share Offer; or

(ii) any change in local, national, international, financial, political or economic conditions which in the absolute opinion of the Sole Sponsor on behalf of the Public Offer Underwriters is adverse in the context of the Share Offer; or

(iii) any adverse change in market conditions which in the absolute opinion of the Sole Sponsor on behalf of the Public Offer Underwriters prejudicially affects the Share Offer and makes it inadvisable or inexpedient to proceed with the Share Offer;

or

(b) there comes to the notice of any of the Public Offer Underwriters any matter or event showing any of the undertakings, representations and warranties of the Company, the Executive Directors or the Controlling Shareholders contained in the Public Offer Underwriting Agreement to be untrue or inaccurate in any respects which in the absolute opinion of the Sole Sponsor on behalf of the Underwriters consider to be material.

Undertakings

Each of the Covenantors has undertaken to the Company, the Sole Sponsor, the Joint Bookrunners and Joint Lead Managers and the Public Offer Underwriters that it/she/he will not transfer or otherwise dispose of or create any rights (including the creations of any option) in respect of any of the Shares beneficially owned by it/her/him or its/her/his associates (as defined in the Listing Rules) or any interest therein, directly or indirectly held (including any of the shares of the companies controlled by it/her/him, such companies being the beneficial owners of any of the Shares) immediately following the Share Offer (or any other shares or other securities of the Company arising therefrom as a result of any capitalisation issue or scrip dividend or otherwise) from the date of this prospectus and up to the date which is six months from the Listing Date (the "First Six Month Period"), and that on any disposal of such Shares during the following six months (the "Second Six Month Period"), all reasonable steps will be taken to ensure that any such disposal will not create a disorderly or false market in the Shares.

The Controlling Shareholders have also undertaken to the Company, the Sole Sponsor, the Joint Bookrunners and Joint Lead Managers and the Public Offer Underwriters that they will not transfer or otherwise dispose of or create any rights (including the creations of any option) in respect of any of the Shares beneficially owned by them or their associates (as defined in the Listing Rules) or any interest therein, directly or indirectly held (including any of the shares of the companies controlled by them, such companies being the beneficial owners of any of the Shares), within the Second Six Month Period so as to result in the Controlling Shareholders either individually or taken together ceasing to be a controlling shareholder (as defined in the Listing Rules) of the Company.

Each of the Company, the Executive Directors and the Controlling Shareholders have undertaken to the Sole Sponsor, the Joint Bookrunners and Joint Lead Managers and the Public Offer Underwriters that other than the Shares to be issued pursuant to the Share Offer and the Capitalisation Issue, neither the Company nor any of its subsidiaries will issue any shares or other securities or grant or agree to grant any options, warrants or other rights carrying the rights to subscribe for or otherwise acquire shares or other securities or repurchase any securities of the Company during the First Six Month Period without the prior written consent of the Sole Sponsor on behalf of the Public Offer Underwriters, and that neither the Company nor any of its subsidiaries will issue any shares or other securities or grant or agree to grant any options, warrants or other rights to subscribe for or otherwise acquire shares or other securities or repurchase any securities of the Company during the Second Six Month Period so as to result in the Controlling Shareholders either individually or taken together ceasing to be a controlling shareholder (as defined in the Listing Rules) of the Company.

Each of the Controlling Shareholders has further undertaken to with the Company, the Sole Sponsor, the Joint Bookrunners and Joint Lead Managers and the Public Offer Underwriters that during the First Six-Month Period and the Second Six-Month Period:

(a) if it/he pledges or charges any securities or interests in the securities of the Company beneficially owned or controlled by it/her/him, it/he shall forthwith thereafter give written notice to the Company of such pledge or charge together with the number and class of securities so pledged or charged and the purpose for which the pledge or charge is made; and

(b) when it/he is aware of or receives indications, either verbal or written, from the pledgee or chargee that any of such pledged or charged securities or interests in the securities of the Company will be disposed of, it/he shall immediately thereafter give written notice to the Company, the Sole Sponsor, the Joint Bookrunners and Joint Lead Managers and the Public Offer Underwriters of such indications and details of such disposal,

and the Company has undertaken to the Sole Sponsor, the Joint Bookrunners and Joint Lead Managers and the Public Offer Underwriters to inform the Stock Exchange the pledges, the charges or the said indications and publish an announcement thereof in accordance with the Listing Rules as soon as it has received the notification from any of the Covenantors.

Placing Underwriting Agreement

In connection with the Placing, it is expected that the Placing Underwriting Agreement will be entered into on or about 20 June 2014. Under the Placing Underwriting Agreement, the Placing Underwriters will, subject to the terms and conditions set out therein, severally agree to subscribe for or procure subscribers for the Placing Shares.

The Placing Underwriting Agreement will contain terms similar to the Public Offer Underwriting Agreement set out in the paragraph headed "Ground for termination" above that may allow the Placing Underwriters to terminate their respective obligations thereunder.

Commission and expenses

The Underwriters will receive a commission of 5% of the aggregate Offer Price of all the Offer Shares, out of which they will pay any sub-underwriting commission. In addition, the Sole Sponsor will receive a financial advisory and documentation fee. The underwriting commission, financial advisory and documentation fee, Stock Exchange listing fees, legal and other professional fees together with applicable printing and other expenses relating to the Share Offer are estimated to amount to approximately HK$41.6 million in total, and are payable by the Company.

Underwriters' interest in the Company

Save for their respective interests and obligations under the Public Offer Underwriting Agreement and the Placing Underwriting Agreement, none of the Underwriters is interested in any shares in any member of the Group or has any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any securities in any member of the Group.

MINIMUM PUBLIC FLOAT

The Company and the Directors will ensure that a minimum of 25% of the total issued Shares will be held by the public after completion of the Share Offer and the Capitalisation Issue.

PRICE PAYABLE ON APPLICATION

The Offer Price is HK$1.4 per Offer Share. You must pay the Offer Price of HK$1.4 per Share plus brokerage of 1%, a SFC transaction levy of 0.003% and a Stock Exchange trading fee of 0.005%. This means that for one board lot of 2,000 Offer Shares you will pay HK$2,828.22. Each Application Form includes a table showing the exact amount payable for numbers of the Public Offer Shares. Further details in this regard are set out in the section headed "How to apply for the Public Offer Shares" in this prospectus.

CONDITIONS OF THE SHARE OFFER

Acceptance of your application for the Offer Shares is conditional upon:

1. Listing

The Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued under the Share Offer and the Capitalisation Issue, and such listing and permission not subsequently being revoked prior to the Listing Date.

2. Underwriting Agreements

The obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise. Details of the Underwriting Agreements and the conditions and grounds for termination thereunder are set out in the section headed "Underwriting" of this prospectus.

OFFER MECHANISM

This prospectus is published in connection with the Share Offer, which comprises the Placing and the Public Offer. Initially, 223,380,000 New Shares, representing 90% of the Offer Shares available under the Share Offer, are to be offered pursuant to the Placing to professional, institutional and other investors and 24,820,000 New Shares, representing 10% of the Offer Shares available under the Share Offer, are to be offered to the public in Hong Kong under the Public Offer. The number of Offer Shares to be offered under the Public Offer and the Placing is subject to reallocation. References herein to applications, Application Forms, application monies or to the procedure for application relate solely to the Public Offer. The Offer Shares will represent 25% of the Company's enlarged issued share capital immediately after completion of the Share Offer and the Capitalisation Issue.

The Placing is fully underwritten by the Placing Underwriters on the signing of the Placing Underwriting Agreement and the Public Offer is fully underwritten by the Public Offer Underwriters, in each case, on a several basis. Information relating to the underwriting arrangements in respect of the Share Offer is set out in the sub-section headed "Underwriting arrangements and expenses" in the section headed "Underwriting" of this prospectus. The Listing is sponsored by the Sole Sponsor and the Share Offer is managed by the Joint Bookrunners and Joint Lead Managers.

Investors may apply for Public Offer Shares under the Public Offer or indicate an interest for Placing Shares under the Placing, but may not do both. Investors who have not received Shares in the Public Offer tranche may receive Shares in the Placing tranche.

PLACING

The Company is initially offering 223,380,000 New Shares, subject to possible reallocation on the basis discussed below, representing 90% of the total number of Shares being offered under the Share Offer, for subscription or purchase by way of the Placing. Under the Placing, the Placing Underwriters, on behalf of the Company, will conditionally place the Placing Shares with professional, institutional and other investors. Professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Allocation of the Placing Shares pursuant to the Placing is based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to acquire further Shares and/or hold or sell its Placing Shares after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of the Company and its Shareholders as a whole. Investors allocated with the Placing Shares cannot apply for the Public Offer Shares under the Public Offer.

The Placing is conditional on the fulfilment of all the conditions stated in the sub-section headed "Conditions of the Share Offer" above.

PUBLIC OFFER

The Company is initially offering 24,820,000 New Shares at the Offer Price under the Public Offer, representing 10% of the total number of Shares being offered under the Public Offer for subscription in Hong Kong, subject to reallocation as mentioned in this section. The Public Offer is managed by the Joint Bookrunners and Joint Lead Managers and is fully underwritten by the Public Offer Underwriters.

The Public Offer is open to all members of the public as well as to institutional and professional investors in Hong Kong. The Public Offer will be subject to the conditions stated in the sub-section headed "Conditions of the Share Offer" above.

Allocation of the Public Offer Shares to investors under the Share Offer will be based solely on the level of valid applications received under the Public Offer. Where there is over-subscription under the Public Offer, allocation of the Public Offer Shares may involve balloting, which would mean that some applicants may be allotted more Public Offer Shares than others who have applied for the same number of the Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

Basis of allocation of the Public Offer Shares

For allocation purpose only, the total number of the Public Offer Shares available for subscription by the public under the Public Offer (after taking into account any reallocation referred to below) will be divided equally into two pools: pool A and pool B. The Public Offer Shares in pool A will be allocated on a fair basis to successful applicants who have validly applied for the Public Offer Shares with a total subscription amount of HK$5 million or below (excluding transaction levy imposed by the SFC, the Stock Exchange trading fee and the brokerage payable thereon). The Public Offer Shares available in pool B will be allocated on a fair basis to successful applicants who have validly applied for the Public Offer Shares with a total subscription amount of more than HK$5 million (excluding transaction levy imposed by the SFC, the Stock Exchange trading fee and the brokerage payable thereon) and up to the total initial value of pool B.

Investors should be aware that allocation ratios for applications in the two pools, as well as the allocation ratios for applications in the same pool, are likely to be different. Where one of the pools is undersubscribed, the unsubscribed Public Offer Shares will be transferred to satisfy the demand in the other pool and be allocated accordingly. Applicants can only receive an allocation of Public Offer Shares from any one pool but not from both pools and can only make applications to either pool A or pool B. Any application made for more than 100% of the Public Offer Shares initially available under pool A or pool B is bound to be rejected.

Over-subscription and reallocation

If the number of Public Offer Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the number of Public Offer Shares initially available for subscription under the Public Offer, then the number of Offer Shares to be allocated for application under the Public Offer shall be increased to 74,460,000 Shares, representing 30% of the total number of Shares available under the Share Offer.

If the number of Public Offer Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the number of Public Offer Shares initially available for subscription under the Public Offer, then the number of Offer Shares to be allocated for subscription under the Public Offer shall be increased to 99,280,000 Shares, representing 40% of the total number of Shares available under the Share Offer.

If the number of Public Offer Shares validly applied for under the Public Offer represents 100 times or more the number of Public Offer Shares initially available for subscription under the Public Offer, then the number of Offer Shares to be allocated for subscription under the Public Offer shall be increased to 124,100,000 Shares, representing 50% of the total number of Shares available under the Share Offer.

Allocation of Public Offer Shares to applicants under the Public Offer will be based solely on the level of valid applications received. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by each applicant. However, this may involve balloting, which would mean that some applicants may be allotted more Shares than others who have applied for the same number of Public Offer Shares and that applicants who are not successful in the ballot may not receive any Public Offer Shares.

If there are unsubscribed Public Offer Shares, the Sole Sponsor (on behalf of the Public Offer Underwriters) at its sole and absolute discretion, may reallocate all or any of such unsubscribed Public Offer Shares to the Placing.

1. HOW TO APPLY

If you apply for Public Offer Shares, then you may not apply for or indicate an interest for the Placing Shares.

To apply for Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service at *www.hkeipo.hk*; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Sole Sponsor, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the US Securities Act ("Regulation S")); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his/her representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Sponsor may accept it at its discretion and on any conditions it think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Public Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Public Offer Shares if you are:

- an existing beneficial owner of shares in the Company and/or any of its subsidiaries;
- a Director or chief executive officer of the Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Share Offer; and
- have been allocated or have applied for any Placing Shares or otherwise participate in the Placing.

3. APPLYING FOR PUBLIC OFFER SHARES

Which Application Channel to Use

For Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through the **HK eIPO White Form** service of the **HK eIPO White Form** Service Provider at www.hkeipo.hk.

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a copy of this prospectus during normal business hours from 9:00 a.m. on Monday, 16 June 2014 until 12:00 noon on Thursday, 19 June 2014 from:

(i) any of the following offices of the Underwriters:

Kingsway Financial Services Group Limited
7th Floor,
Tower One, Lippo Centre,
89 Queensway,
Hong Kong

SBI China Capital Financial Services Limited
Unit A2, 32/F, United Centre,
95 Queensway,
Hong Kong

Sanfull Securities Limited
Room 2001–6, 20th Floor,
Cosco Tower,
183 Queen's Road Central,
Hong Kong

Astrum Capital Management Limited
11/F, 122 QRC,
122–126 Queen's Road Central,
Central,
Hong Kong

China Investment Securities International Brokerage Limited
63/F, Bank of China Tower,
1 Garden Road, Central,
Hong Kong

Quam Securities Company Limited
18/F–19/F, China Building,
29 Queen's Road Central,
Hong Kong

Great Roc Capital Securities Limited
Suite 3712, 37/F, West Tower
Shun Tak Centre,
168–200 Connaught Road Central, Central,
Hong Kong

(ii) any of the branches of Standard Chartered Bank (Hong Kong) Limited:

Branch name	**Branch address**
88 Des Voeux Road Branch	88 Des Voeux Road Central, Central
Wanchai Southorn Branch	Shop C2 on G/F and 1/F to 2/F, Lee Wing Building, No. 156–162 Hennessy Road, Wanchai
Quarry Bay Branch	G/F, Westlands Gardens, 1027 King's Road, Quarry Bay
Aberdeen Branch	Shop 4A, G/F and Shop 1, 1/F, Aberdeen Centre Site 5, No. 6–12 Nam Ning Street, Aberdeen
Telford Gardens Branch	Shop P9–12, Telford Centre, Telford Gardens, Tai Yip Street, Kwun Tong
Mongkok Branch	Shop B, G/F, 1/F & 2/F, 617–623 Nathan Road, Mongkok
Tsimshatsui Branch	G/F, 8A–10 Granville Road, Tsimshatsui
Metroplaza Branch	Shop No. 175–176, Level 1, Metroplaza, 223 Hing Fong Road, Kwai Chung
Tseung Kwan O Branch	Shop G37–40, G/F, Hau Tak Shopping Centre East Wing, Hau Tak Estate, Tseung Kwan O
New Town Plaza Branch	Shop 215, 222 & 223, Phase 1, New Town Plaza, Shatin

You can collect a **YELLOW** Application Form and a copy of this prospectus during normal business hours from 9:00 a.m. on Monday, 16 June 2014 until 12:00 noon on Thursday, 19 June 2014 from the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Horsford Nominees Limited — Changgang Dunxin Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

- Monday, 16 June 2014 — 9:00 a.m. to 5:00 p.m.
- Tuesday, 17 June 2014 — 9:00 a.m. to 5:00 p.m.
- Wednesday, 18 June 2014 — 9:00 a.m. to 5:00 p.m.
- Thursday, 19 June 2014 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, 19 June 2014, the last application day or such later time as described in the sub-section headed "Effect of Bad Weather on the Opening of the Applications Lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you:

(i) undertake to execute all relevant documents and instruct and authorise the Company and/or the Joint Bookrunners and Joint Lead Managers and/or the Sole Sponsor (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles;

(ii) agree to comply with the Companies (WUMP) Ordinance and the Articles;

(iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;

(iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

(v) confirm that you are aware of the restrictions on the Share Offer in this prospectus;

(vi) agree that none of the Company, the Sole Sponsor, the Joint Bookrunners and Joint Lead Managers, the Public Offer Underwriters, and any of their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);

(vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing nor participated in the Placing;

(viii) agree to disclose to the Company, the Hong Kong Share Registrar, receiving banks, the Sole Sponsor, the Joint Bookrunners and Joint Lead Managers, the Public Offer Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Sole Sponsor, the Joint Bookrunners and Joint Lead Managers and the Public Offer Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to subscribe, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

(x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xi) agree that your application will be governed by the laws of Hong Kong;

(xii) represent, warrant and undertake that (i) you understand that the Public Offer Shares have not been and will not be registered under the US Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(xiii) warrant that the information you have provided is true and accurate;

(xiv) agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;

(xv) authorise the Company to place your name(s) or the name of the HKSCC Nominees on the Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and the Company and/or its agents to send any Share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the Share certificate(s) and/or refund cheque(s) in person;

(xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(xvii) understand that the Company and the Sole Sponsor will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;

(xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **Electronic Application Instructions** to HKSCC or to the **HK eIPO White Form** Provider by you or by any one as your agent or by any other person; and

(xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **Electronic Application Instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **Electronic Application Instructions** on behalf of that other person as his/her/its agent.

Additional Instructions for Yellow Application Form

You may refer to the Yellow Application Form for details.

5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in the sub-section headed "Who can apply" above may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the designated website at www.hkeipo.hk.

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

Time for Submitting Applications under the HK eIPO White Form

You may submit your application to the **HK eIPO White Form** Service Provider at www.hkeipo.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Monday, 16 June 2014 until 11:30 a.m. on Thursday, 19 June 2014 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, 19 June 2014 or such later time under the sub-section headed "Effects of Bad Weather on the Opening of the Applications Lists" in this section.

No Multiple Applications

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any **Electronic Application Instructions** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **Electronic Application Instruction** under **HK eIPO White Form** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (WUMP) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **Electronic Application Instructions** is a person who may be entitled to compensation under section 40 of the Companies (WUMP) Ordinance (as applied by section 342E of the Companies (WUMP) Ordinance).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **Electronic Application Instructions** to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **Electronic Application Instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (https://ip.ccass.com) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **Electronic Application Instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
2/F., Infinitus Plaza
199 Des Voeux Road Central, Hong Kong

and complete an input request form.

You can also collect a copy of this prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **Electronic Application Instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company the Sole Sponsor, the Joint Bookrunners and Joint Lead Managers and the Hong Kong Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **Electronic Application Instructions** to apply for the Pubic Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Pubic Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

- agree to accept the Pubic Offer Shares applied for or any lesser number allocated;

- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing;

- (if the electronic application instructions are given for your benefit) declare that only one set of **Electronic Application Instructions** has been given for your benefit;

- (if you are an agent for another person) declare that you have only given one set of **Electronic Application Instructions** for the other person's benefit and are duly authorised to give those instructions as his/her/its agent;

- confirm that you understand that the Company, the Directors, the Sole Sponsor and the Joint Bookrunners and Joint Lead Managers will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Pubic Offer Shares to you and that you may be prosecuted if you make a false declaration;

- authorise the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Pubic Offer Shares allocated to you and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

- agree that none of the Company, the Sole Sponsor, the Joint Bookrunners and Joint Lead Managers, the Public Offer Underwriters and any of their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

- agree to disclose your personal data to the Company, the Hong Kong Share Registrar, receiving banks, the Sole Sponsor, the Joint Bookrunners and Joint Lead Managers, the Public Offer Underwriters and/or their respective advisers and agents;

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Companies (WUMP) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **Electronic Application Instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Public Offer results;

- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving of **Electronic Application Instructions** to apply for Public Offer Shares;

- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **Electronic Application Instructions**) to observe and comply with the Companies (WUMP) Ordinance and the Articles; and

- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **Electronic Application Instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the Offer Price, brokerage, the SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the price per Share initially paid by the applicant on application in which case the Company will refund the application monies (including the related brokerage, the SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **Electronic Application Instructions** for a minimum number of 2,000 Public Offer Shares. Instructions for more than 2,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **Electronic Application Instructions** at the following times on the following dates:

- Monday, 16 June 2014 — 9:00 a.m. to 8:30 p.m. *(Note)*
- Tuesday, 17 June 2014 — 8:00 a.m. to 8:30 p.m. *(Note)*
- Wednesday, 18 June 2014 — 8:00 a.m. to 8:30 p.m. *(Note)*
- Thursday, 19 June 2014 — 8:00 a.m. *(Note)* to 12:00 noon

Note: These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **Electronic Application Instructions** from 9:00 a.m. on Monday, 16 June 2014 until 12:00 noon on Thursday, 19 June 2014 (24 hours daily, except on the last application day).

The latest time for inputting your **Electronic Application Instructions** will be 12:00 noon on Thursday, 19 June 2014, the last application day or such later time as described in the sub-section headed "Effect of Bad Weather on the Opening of the Application Lists" in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **Electronic Application Instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (WUMP) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **Electronic Application Instructions** is a person who may be entitled to compensation under section 40 of the Companies (WUMP) Ordinance (as applied by section 342E of the Companies (WUMP) Ordinance).

Personal Data

The section of the Application Form headed "Personal Data" applies to any personal data held by the Company, the Hong Kong Share Registrar, the receiving bankers, the Sole Sponsor, the Joint Bookrunners and Joint Lead Managers, the Public Offer Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving **Electronic Application Instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Public Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Sole Sponsor, the Joint Bookrunners and Joint Lead Managers and the Public Offer Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **Electronic Application Instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **Electronic Application Instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **Electronic Application Instructions** before 12:00 noon on Thursday, 19 June 2014.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **Electronic Application Instructions** to HKSCC or through **HK eIPO White Form** service is made for your benefit (including the part of the application made by HKSCC Nominees acting on **Electronic Application Instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 2,000 Public Offer Shares. Each application or Electronic Application Instruction in respect of more than 2,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at www.hkeipo.hk.

If your application is successful, brokerage will be paid to the participants of the Stock Exchange, and the SFC transaction levy and the Stock Exchange trading fee will be paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed "Structure and Conditions of the Share Offer — Price Payable on Application" of this prospectus.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 19 June 2014. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Thursday, 19 June 2014 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed "Expected Timetable" of this prospectus, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

The Company expects to announce the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Wednesday, 25 June 2014 in the South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the Company's website at www.dxwj.com and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company's website at www.dxwj.com and the Stock Exchange's website at www.hkexnews.hk by no later than 8:00 a.m. on Wednesday, 25 June 2014;

- from the designated results of allocations website at www.tricor.com.hk/ipo/result with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Wednesday, 25 June 2014 to 12:00 midnight on Tuesday, 1 July 2014;
- by telephone enquiry line by calling 36918488 between 9:00 a.m. and 6:00 p.m. from Wednesday, 25 June 2014 to Monday, 30 June 2014 on a business day; and
- in the special allocation results booklets which will be available for inspection during opening hours from Wednesday, 25 June 2014 to Friday, 27 June 2014 at all the receiving bank branches.

If the Company accepts your offer to subscribe (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to subscribe the Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are contained in the section headed "Structure and Conditions of the Share Offer" of this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES

You should note the following situations in which the Public Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **Electronic Application Instructions** to HKSCC or to the **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under section 40 of the Companies (WUMP) Ordinance (as applied by section 342E of the Companies (WUMP) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If the Company or its agents exercise their discretion to reject your application:

The Company, the Sole Sponsor, the receiving banks, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Public Offer Shares is void:

The allotment of Public Offer Shares will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **Electronic Application Instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company, the Sole Sponsor or the Joint Bookrunners and Joint Lead Managers believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations of any jurisdiction; or
- your application is for more than 50% of the Public Offer Shares initially offered under the Public Offer.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the conditions of the Share Offer are not fulfilled in accordance with the sub-section headed "Conditions of the Share Offer" of the section headed "Structure and Conditions of the Share Offer" of this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, the SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Wednesday, 25 June 2014.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **Electronic Application Instructions** to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- Share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, Share certificates will be deposited into CCASS as described below); and

- refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for. Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/ passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or around Wednesday, 25 June 2014. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid with effect from 8:00 a.m. on the Listing Date provided that the Share Offer has become unconditional and the right of termination described in the section headed "Underwriting" of this prospectus has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) ***If you apply using a WHITE Application Form***

If you apply for 1,000,000 or more Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or Share certificate(s) from the Hong Kong Share Registrar from 9:00 a.m. to 1:00 p.m. on Wednesday, 25 June 2014 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or Share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on Wednesday, 25 June 2014, by ordinary post and at your own risk.

(ii) ***If you apply using a YELLOW Application Form***

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above for refund cheque(s). If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Wednesday, 25 June 2014, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Wednesday, 25 June 2014, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- **If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)**

  For Public Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS participant.

- **If you are applying as a CCASS Investor Participant**

  The Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in the sub-section headed "Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 25 June 2014 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) ***If you apply through the HK eIPO White Form service***

If you apply for 1,000,000 Public Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Share Registrar from 9:00 a.m. to 1:00 p.m. on Wednesday, 25 June 2014, or such other date as notified by the Company in the newspapers as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/ refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Wednesday, 25 June 2014 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) ***If you apply via Electronic Application Instructions to HKSCC***

Allocation of Public Offer Shares

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **Electronic Application Instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Wednesday, 25 June 2014, or, on any other date determined by HKSCC or HKSCC Nominees.

- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Public Offer in the manner specified in the sub-section headed "Publication of Results" above on Wednesday, 25

June 2014. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 25 June 2014 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **Electronic Application Instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, 25 June 2014. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 25 June 2014.

ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the sole purpose of inclusion in this prospectus, from the independent joint reporting accountants, Martin C. K. Pong & Company, Certified Public Accountants, Hong Kong and PKF, Certified Public Accountants, Hong Kong.

龐志鈞會計師行
Martin C. K. Pong &Company

PKF

16 June 2014

The Directors
Changgang Dunxin Enterprise Company Limited
Kingsway Capital Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information (the "Financial Information") relating to Changgang Dunxin Enterprise Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the three years ended 31 December 2013 (the "Relevant Periods"), for inclusion in the prospectus of the Company dated 16 June 2014 (the "Prospectus") in connection with the initial public offering of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Financial Information comprises the combined statements of financial position of the Group as at 31 December 2011, 2012 and 2013, the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Group for the Relevant Periods, and a summary of significant accounting policies and other explanatory information.

The Company was incorporated in the Cayman Islands on 27 August 2012 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to the group reorganisation completed in 29 May 2014 as detailed in the sub-section headed "Reorganisation" in the section headed "History and Corporate Structure" of the Prospectus (the "Reorganisation"), the Company became the holding company of the companies now comprising the Group, details of which are set out in note 35 of Section II below. The Company has not carried on any business since the date of its incorporation save for the Reorganisation.

As at the date of this report, no audited financial statements have been prepared for the Company as it neither has carried on any business since the date of incorporation nor was it subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of incorporation.

All companies comprising the Group have adopted 31 December as their financial year end date. Details of the audited statutory financial statements of the subsidiaries of the Company during the Relevant Periods and the names of the respective auditors are set out in note 35 of Section II below. The statutory financial statements of these companies were prepared in accordance with the relevant accounting rules and regulations applicable to entities in the jurisdictions in which they were incorporated or established.

The directors of the Company have prepared the combined financial statements of the Group (the "Underlying Financial Statements") for the Relevant Periods in accordance with the basis of preparation set out in note 3 of Section II below and the accounting policies set out in note 5 of Section II below. The Underlying Financial Statements for the Relevant Periods were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Financial Information has been prepared by the directors of the Company based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view on the basis of preparation as set out in note 3 of Section II below and in accordance with the accounting policies as set out in note 5 of Section II below, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you. We have examined the Underlying Financial Statements and have carried out such appropriate procedures as necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

OPINION

In our opinion, the Financial Information, for the purpose of this report, and prepared on the basis set out in note 3 of Section II below and in accordance with the accounting policies set out in note 5 of Section II below, gives a true and fair view of the combined state of affairs of the Group as at 31 December 2011, 2012 and 2013 and of the combined results and combined cash flows of the Group for the Relevant Periods.

I. FINANCIAL INFORMATION

(A) Combined Statements of Profit or Loss and Other Comprehensive Income

		Year ended 31 December		
		2011	**2012**	**2013**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	*8*	973,879	1,046,504	1,024,623
Cost of sales		(765,634)	(818,444)	(807,326)
Gross profit		208,245	228,060	217,297
Other income	*8*	7,825	6,953	14,544
Distribution costs		(10,387)	(6,107)	(5,897)
Administrative expenses		(13,530)	(30,705)	(22,589)
Finance costs	*9*	(10,672)	(10,860)	(12,315)
Profit before income tax	*10*	181,481	187,341	191,040
Income tax expense	*12*	(45,292)	(48,350)	(48,339)
Profit for the year		136,189	138,991	142,701
Other comprehensive income for the year, net of tax	*29*			
Items that may be subsequently reclassified to profit or loss:				
Translation difference of foreign operation		1	—	18
Total comprehensive income for the year		136,190	138,991	142,719
		RMB Cents	*RMB Cents*	*RMB Cents*
Earnings per share attributable to owners of the Company	*14*	18	19	19

(B) Combined Statements of Financial Position

	Notes	As at 31 December 2011 RMB'000	2012 RMB'000	2013 RMB'000
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	*15*	171,997	172,056	308,997
Investment properties	*16*	1,061	842	4,789
Prepaid land lease payments	*17*	13,444	16,914	22,179
Deposits for land use rights and property, plant and equipment		7,320	4,440	1,815
		193,822	194,252	337,780
Current assets				
Inventories	*18*	84,341	71,992	44,109
Trade and bills receivables	*19*	190,026	265,513	228,533
Prepayments and other receivables	*20*	111	2,508	2,756
Amount due from a director	*21*	2,265	—	—
Pledged bank deposits	*22*	14,170	10,600	9,380
Cash and cash equivalents	*22*	15,497	259,057	173,944
		306,410	609,670	458,722
Current liabilities				
Trade and bills payables	*23*	96,823	216,281	115,612
Accruals and other payables	*24*	8,697	7,305	9,908
Bank borrowings	*25*	110,372	149,103	103,000
Amount due to a director	*27*	27	698	293
Amounts due to shareholders	*27*	19	5,685	2,355
Current tax liabilities		11,555	15,120	12,885
		227,493	394,192	244,053
Net current assets		78,917	215,478	214,669
Total assets less current liabilities		272,739	409,730	552,449
Non-current liability				
Bank borrowings	*25*	2,000	—	—
Net assets		270,739	409,730	552,449
EQUITY				
Equity attributable to owners of the Company				
Share capital	*28*	—	—	—
Reserves		270,739	409,730	552,449
Total equity		270,739	409,730	552,449

(C) Combined Statements of Changes in Equity

		Reserves					
	Share capital	**Capital reserve**	**Statutory surplus reserve**	**Translation reserve**	**Retained profits**	**Total reserves**	**Total equity**
	RMB'000	*RMB'000* (note 29)	*RMB'000* (note 29)	*RMB'000* (note 29)	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2011	—	90,000	34,755	—	9,793	134,548	134,548
Profit for the year	—	—	—	—	136,189	136,189	136,189
Other comprehensive income for the year, net of tax							
Translation difference of foreign operation	—	—	—	1	—	1	1
Total comprehensive income for the year	—	—	—	1	136,189	136,190	136,190
Appropriation to statutory surplus reserve	—	—	13,588	—	(13,588)	—	—
Net assets acquired under Reorganisation	—	1	—	—	—	1	1
At 31 December 2011 and 1 January 2012	—	90,001	48,343	1	132,394	270,739	270,739
Profit for the year	—	—	—	—	138,991	138,991	138,991
Other comprehensive income for the year, net of tax							
Translation difference of foreign operation	—	—	—	—	—	—	—
Total comprehensive income for the year	—	—	—	—	138,991	138,991	138,991
At 31 December 2012 and 1 January 2013	—	90,001	48,343	1	271,385	409,730	409,730
Profit for the year	—	—	—	—	142,701	142,701	142,701
Other comprehensive income for the year, net of tax							
Translation difference of foreign operation	—	—	—	18	—	18	18
Total comprehensive income for the year	—	—	—	18	142,701	142,719	142,719
At 31 December 2013	—	90,001	48,343	19	414,086	552,449	552,449

(D) Combined Statements of Cash Flows

	Notes	Year ended 31 December 2011 RMB'000	2012 RMB'000	2013 RMB'000
Cash flows from operating activities				
Profit before income tax		181,481	187,341	191,040
Adjustments for:				
Interest income	*8*	(585)	(656)	(1,097)
Interest expenses	*9*	8,657	9,386	11,452
Depreciation and amortisation	*10*	15,869	20,368	26,117
Loss on disposals of property, plant and equipment	*10*	—	1,564	—
Operating profit before working capital changes		205,422	218,003	227,512
(Increase)/decrease in inventories		(2,449)	12,349	27,883
(Increase)/decrease in trade and bills receivables		(63,864)	(75,487)	36,980
Increase in prepayments and other receivables		(67)	(2,397)	(248)
Decrease in amount due from a director		—	2,265	—
(Decrease)/increase in trade and bills payables		(54,718)	119,458	(100,669)
Increase/(decrease) in accruals and other payables		2,238	(1,392)	2,603
Increase/(decrease) in amount due to a director		27	671	(405)
Increase/(decrease) in amounts due to shareholders		11	5,666	(3,330)
Cash generated from operations		86,600	279,136	190,326
Income taxes paid		(41,739)	(44,785)	(50,574)
Net cash generated from operating activities		44,861	234,351	139,752
Cash flows from investing activities				
Payment to acquire property, plant and equipment		(86,991)	(22,091)	(162,130)
Payment to acquire land lease		—	(900)	(5,700)
Deposits paid for land use right and property, plant and equipment		(7,320)	—	(1,815)
(Increase)/decrease in pledged bank deposits		(11,434)	3,570	1,220
Interest received		585	656	1,097
Proceeds from disposals of property, plant and equipment		—	629	—
Net cash used in investing activities		(105,160)	(18,136)	(167,328)
Cash flows from financing activities				
Interest paid		(8,657)	(9,386)	(11,452)
Net cash acquired under Reorganisation		9	—	—
Dividends paid		(90,000)	—	—
Proceeds from new bank borrowings		267,888	317,509	139,956
Repayment of bank borrowings		(318,118)	(280,778)	(186,059)
Net cash (used in)/generated from financing activities		(148,878)	27,345	(57,555)
Net (decrease)/increase in cash and cash equivalents		(209,177)	243,560	(85,131)
Effect on foreign exchange rate changes		1	—	18
Cash and cash equivalents at beginning of the year		224,673	15,497	259,057
Cash and cash equivalents at end of the year	*22*	15,497	259,057	173,944

II. NOTES TO FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company was incorporated under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) as an exempted company with limited liability in the Cayman Islands on 27 August 2012. The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Group is principally engaged in the production and sale of paperboards, corrugated medium boards and boxes and poker cards in the People's Republic of China (the "PRC").

In the opinion of the directors of the Company, the ultimate holding company of the Company is Pure Sheen Limited, a limited liability company incorporated in the British Virgin Islands ("BVI").

Details of the subsidiaries are set out in note 35 to the Financial Information.

2. GROUP REORGANISATION AND BASIS OF PRESENTATION

The companies in the Group underwent the Reorganisation in preparation for the listing on the Stock Exchange as detailed in the sub-section headed "Reorganisation" in the section headed "History and Corporate Structure" of the Prospectus.

Pursuant to the Reorganisation, the Company became the holding company of the subsidiaries (note 35) now comprising the Group.

The operations of the Group for the Relevant Periods consisted of solely those of Dunxin Paper Co., Ltd. All other companies comprising the Group, including the Company itself, are newly formed companies and did not have any business other than investment holding. There were no business combinations during the Relevant Periods. The newly formed companies are accounted for in accordance with principles similar to that of reverse acquisition from the respective dates when they became part of the Group using book values of their assets and liabilities. Any difference between the net book values and the nominal consideration, if any, is transferred to capital reserve.

3. BASIS OF PREPARATION

The Financial Information has been prepared in accordance with the basis of presentation set out in note 2 and in accordance with the accounting policies in note 5 which comply with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective terms include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by HKICPA and the disclosure requirements of the Companies Ordinance. The Financial Information also includes the applicable disclosure requirements of the Listing Rules. All HKFRSs effective for the accounting periods commencing from 1 January 2013 have been consistently adopted by the Group in the preparation of the Financial Information throughout the Relevant Periods. The Financial Information has been prepared under the historical cost convention.

It should be noted that accounting estimates and assumptions are used in the preparation of the Financial Information. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in note 6.

The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

4. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs

The following new or revised HKFRSs in issue at 31 December 2013 have not been applied in the preparation of the Financial Information for the Relevant Periods since they were not yet effective:

HKFRS 9	Financial Instruments[2]
HK(IFRIC)-Int 21	Levies[1]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
Amendments to HKFRS 10	Investment Entities[1]

1 Effective for annual periods beginning on or after 1 January 2014
2 No mandatory effective date

The Group is in the process of making an assessment of what impact of these new or revised HKFRSs is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Financial Information.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the Financial Information are summarised below. These policies have been consistently applied to all the years presented.

Basis of consolidation

The Financial Information incorporates the financial statements of the Company and its subsidiaries comprising the Group for the Relevant Periods.

The Financial Information includes the results and financial positions of each of the combined entities from the earliest date presented or since the date when the combined entities first came under control, where this is a shorter period.

All intra-group transactions, balances and unrealised gains on transactions have been eliminated in full on combination. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Subsidiaries

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment, other than construction in progress, to its residual value over its estimated useful life, at the following rates per annum:

Buildings	5%–14%
Plant and machinery	10%–20%
Motor vehicles	20%–50%
Office equipment	20%
Power supply equipment	10%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at the end of each reporting period.

An item of property, plant and equipment is transferred to investment properties when there is change in use, as evidenced by end of owner occupation or commencement of an operating lease to another party. As the Group uses the cost model for investment property, transfers between investment property and property, plant and equipment do not change the carrying amount of the property transferred nor the cost of that property for measurement or disclosure purpose.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Construction in progress which mainly represents property, plant and equipment under construction is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct and indirect costs incurred during the periods of construction, installation and testing. When the assets concerned are completed and ready for use, the costs are reclassified to the appropriate category of property, plant and equipment.

Investment properties

Investment properties are buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation.

Investment properties are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost less accumulated impairment losses of investment properties over the shorter of unexpired term of lease and the expected economic useful life of 20 years, using straight-line method, after taking into account their estimated residual values.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year in which the item is derecognised.

Prepaid land leases payments

Upfront payments made to acquire land use rights under an operating lease are stated at costs less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight line basis over the term of the lease except where an alternative basis is more representative of the time pattern of benefits to be derived by the Group from use of the land.

Impairment of non-financial assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— investment properties; and

— prepaid land lease payments.

If any such indication exists, the asset's recoverable amount is estimated.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset. Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Operating lease charges as the lessee

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss on a straight-line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

Impairment of receivables

At the end of each reporting period, receivables are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual receivable includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any of such evidence exist, an impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the receivables' original effective interest rate (i.e. the effective interest rate computed at initial recognition), where the effect of discounting is material. The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the receivable exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

Borrowings

Borrowings are recognised initially at fair value, net of directly attributable transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings together with any interest and fees payable, using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. This is usually taken as the time when the goods are delivered and the customers have accepted the goods.

(b) Interest income is recognised on an accrual basis using the effective interest method.

(c) Rental income is recognised on a straight line basis over the term of the relevant lease.

Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

Foreign currencies

The Financial Information is presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to functional currency at rates of exchange ruling at the end of each reporting period. All exchange differences are recognised in profit or loss.

The functional currencies of any group entities, not operating in the PRC, are currencies other than RMB. At the end of each reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of each reporting period, and their income statements are translated into RMB at the weighted average exchange rates for the period. The resulting exchange differences are included in the translation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the combined statements of cash flow, the cash flows of non-PRC entities are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of non-PRC entities which arise throughout the year are translated into RMB at the weighted average exchange rates for the period.

Related parties

For the purposes of the Financial Information, a party is considered to be related to the Group if:

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's holding company.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each holding company, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

6. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Revenue recognition

The Group recognised revenue from the sales of goods when the significant risks and rewards of ownership have been transferred to the buyer. As the delivery term of sales contracts is general, management's judgement is required in assessing the time of transfer of risks and rewards of ownership. The management has concluded that the risk and reward is transferred when the goods are delivered to the buyers' designated places or transporters.

Impairment of receivables

The provision policy for doubtful debts of the Group is based on the ongoing evaluation of the collectability and ageing analysis of the outstanding receivables and on the management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including creditworthiness and the past collection history of each customer and the related parties. If the financial conditions of the customers and other debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

Provision for obsolete inventories

Management reviews the ageing analysis of inventories of the Group at the end of each reporting period, and makes provision for obsolete and slow moving inventory items identified that are no longer suitable for sale. Management estimates the net realisable value for such inventories based primarily on the latest selling prices and current market conditions.

Estimated useful lives of property, plant and equipment

In determining the useful lives of property, plant and equipment, the Group has to consider various factors, such as expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is made based on the experience of the Group with similar assets that are used in a similar way. Depreciation charge is revised if the estimated useful lives of items of property, plant and equipment are different from the previous estimation. Useful lives are reviewed at the end of each reporting period based on changes in circumstances.

7. SEGMENT INFORMATION

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the chief operating decision maker for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major operations.

The Group's operating business are organised and managed separately according to the nature of products, which each segment representing a strategic business segment that offers different products in the PRC market. The Group's chief operating decision maker considered that all of the Group's revenue, operating result and asset for the Relevant Periods were mainly derived from its production and sale of paperboards, corrugated medium boards and boxes and poker cards.

The Company is an investment holding company and the principal place of the Group's operation is in the PRC. For the purpose of segment information disclosures under HKFRS 8, the Group regarded the PRC as its country of domicile. All the Group's revenue and non-current assets are principally attributable to the PRC, being the single geographical region.

The following tables present revenue, profit and certain assets, liabilities and expenditure information for the Group's operating segments for the Relevant Periods:

Year ended 31 December 2011

	Paperboards	**Corrugated medium boards and boxes**	**Poker cards**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue:				
Sales	745,690	107,174	121,015	973,879
Intersegment	—	—	—	—
Sales to customers	745,690	107,174	121,015	973,879
Segment results	123,117	35,060	50,068	208,245
Unallocated income				7,825
Unallocated expenses				(23,917)
Finance costs				(10,672)
Profit before income tax				181,481
Income tax expense				(45,292)
Profit for the year				136,189
Assets and liabilities:				
Segment assets	319,932	25,732	37,145	382,809
Unallocated assets				117,423
Total assets				500,232
Segment liabilities	84,307	5,705	6,811	96,823
Unallocated liabilities				132,670
Total liabilities				229,493

	Paperboards	Corrugated medium boards and boxes	Poker cards	Unallocated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other segment information:					
Depreciation of property, plant and equipment	8,354	1,115	1,692	4,168	15,329
Depreciation of investment properties	—	—	—	230	230
Amortisation of prepaid land lease payments	254	—	—	56	310
Capital expenditure	7,575	672	11,923	66,821	86,991
Deposits for land use rights and property, plant and equipment paid	4,440	—	—	2,880	7,320

Year ended 31 December 2012

	Paperboards	Corrugated medium boards and boxes	Poker cards	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue:				
Sales	790,099	112,814	147,167	1,050,080
Intersegment	(3,576)	—	—	(3,576)
Sales to customers	786,523	112,814	147,167	1,046,504
Segment results	133,557	36,851	57,652	228,060
Unallocated income				6,953
Unallocated expenses				(36,812)
Finance costs				(10,860)
Profit before income tax				187,341
Income tax expense				(48,350)
Profit for the year				138,991
Assets and liabilities:				
Segment assets	368,108	37,699	45,506	451,313
Unallocated assets				352,609
Total assets				803,922
Segment liabilities	172,994	17,562	25,723	216,279
Unallocated liabilities				177,913
Total liabilities				394,192

	Paperboards	Corrugated medium boards and boxes	Poker cards	Unallocated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other segment information:					
Depreciation of property, plant and equipment	9,913	1,196	1,775	6,955	19,839
Depreciation of investment properties	—	—	—	219	219
Amortisation of prepaid land lease payments	254	—	—	56	310
Capital expenditure	16,288	179	1,106	5,418	22,991

Year ended 31 December 2013

	Paperboards	Corrugated medium boards and boxes	Poker cards	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue:				
Sales	757,918	127,260	144,526	1,029,704
Intersegment	(5,081)	—	—	(5,081)
Sales to customers	752,837	127,260	144,526	1,024,623
Segment results	125,764	41,224	50,309	217,297
Unallocated income				14,544
Unallocated expenses				(28,486)
Finance costs				(12,315)
Profit before income tax				191,040
Income tax expense				(48,339)
Profit for the year				142,701
Assets and liabilities:				
Segment assets	424,356	43,907	41,307	509,570
Unallocated assets				286,932
Total assets				796,502
Segment liabilities	101,125	6,691	7,796	115,612
Unallocated liabilities				128,441
Total liabilities				244,053

	Paperboards	Corrugated medium boards and boxes	Poker cards	Unallocated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other segment information:					
Depreciation of property, plant and equipment	14,430	1,121	1,669	8,170	25,390
Depreciation of investment properties	—	—	—	292	292
Amortisation of prepaid land lease payments	375	—	—	60	435
Capital expenditure	142,669	98	—	25,063	167,830
Deposits for land use rights and property, plant and equipment paid	1,815	—	—	—	1,815

8. TURNOVER AND OTHER INCOME

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts (net of value-added tax) during the Relevant Periods.

An analysis of the Group's turnover and other income is as follows:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Turnover:			
Sale of goods	973,879	1,046,504	1,024,623
Other income:			
Bank interest income	585	656	1,097
Exchange gain, net	1,685	94	276
Scrap sales	4,891	5,526	9,094
Rental income	293	281	369
Sundry income	371	396	3,708
	7,825	6,953	14,544
	981,704	1,053,457	1,039,167

9. FINANCE COSTS

	Year ended 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Interest on bank loans wholly repayable within five years	8,657	9,386	11,452
Handling charges	2,015	1,474	863
	10,672	10,860	12,315

10. PROFIT BEFORE INCOME TAX

The Group's profit before income tax is arrived at after charging/(crediting):

	Year ended 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Cost of raw materials consumed	589,219	624,366	598,335
Depreciation of property, plant and equipment	15,329	19,839	25,390
Depreciation of investment properties	230	219	292
Amortisation of prepaid land lease payments	310	310	435
Loss on disposals of property, plant and equipment	—	1,564	—
Auditors' remuneration	39	68	68
Employee benefit expenses (including directors' remuneration *(note 11(a))*:			
Wages and salaries	23,781	25,727	27,679
Pension scheme contributions	779	2,210	2,846
Staff welfare and other expenses	—	—	—
	24,560	27,937	30,525
Rental expense	450	21,149	13,914
Reversal of impairment of trade receivables	(5)	—	—

11. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(a) Directors' remuneration

Directors' remuneration for the Relevant Periods, disclosed pursuant to Section 161 of the Companies Ordinance is set out below:

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2011				
Executive directors:				
Mr. Zheng Dunmu	—	143	2	145
Mr. Zheng Dunqian	—	—	—	—
Mr. Chen Ruomao	—	111	2	113
	—	254	4	258
Independent non-executive directors:				
Mr. Hu Zhenghui	—	—	—	—
Mr. Kwong Kwan Tong	—	—	—	—
Mr. Ye Deshan	—	—	—	—
Mr. Pang Cheung Wai Thomas	—	—	—	—
	—	—	—	—
	—	254	4	258

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2012				
Executive directors:				
Mr. Zheng Dunmu	—	148	3	151
Mr. Zheng Dunqian	—	96	3	99
Mr. Chen Ruomao	—	119	3	122
	—	363	9	372
Independent non-executive directors:				
Mr. Hu Zhenghui	—	—	—	—
Mr. Kwong Kwan Tong	—	—	—	—
Mr. Ye Deshan	—	—	—	—
Mr. Pang Cheung Wai Thomas	—	—	—	—
	—	—	—	—
	—	363	9	372

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2013				
Executive directors:				
Mr. Zheng Dunmu	—	157	3	160
Mr. Zheng Dunqian	—	107	3	110
Mr. Chen Ruomao	—	121	3	124
	—	385	9	394
Independent non-executive directors:				
Mr. Hu Zhenghui	15	—	—	15
Mr. Kwong Kwan Tong	35	—	—	35
Mr. Ye Deshan	20	—	—	20
Mr. Pang Cheung Wai Thomas	6	—	—	6
	76	—	—	76
	76	385	9	470

During the Relevant Periods, no director waived or agreed to waive any emoluments and no emoluments were paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the Relevant Periods are as follows:

	Year ended 31 December		
	2011	2012	2013
Directors	2	2	1
Employees	3	3	4
	5	5	5

The emoluments paid to the directors who were also the five highest paid individuals were included in the analysis set out in note 11(a) above.

The aggregate amounts of emoluments paid and payable to the remaining individuals whose emoluments were the highest in the Group for the Relevant Periods are as follows:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Salaries, allowances and benefits in kind	369	449	563
Pension scheme contributions	6	9	12
	375	458	575

The emoluments of these remaining highest paid individuals for the Relevant Periods fell within the following band:

	Year ended 31 December		
	2011	2012	2013
Nil to RMB788,000*	3	3	4

* *Approximately HK$1,000,000 translated at 0.7880.*

12. INCOME TAX EXPENSE

	Year ended 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Current tax			
— PRC enterprise income tax	45,292	48,350	48,339

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate. No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in or derived from Hong Kong during the Relevant Periods.

Enterprise income tax ("EIT") arising from the PRC for the Relevant Periods is calculated at 25% of the estimated assessable profits.

On 16 March 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law"). On 6 December 2007, the State Council issued Implementation Regulations of the EIT Law. The EIT Law introduces a wide range of changes which include, but are not limited to, the unification of the EIT rate for domestic and foreign investment enterprises at a rate of 25% with effect from 1 January 2008. Under the EIT Law, a corporate withholding income tax will be levied on the foreign investor for dividend distributed out of the profits of foreign investment enterprises generated from 1 January 2008 and thereafter. The withholding income tax rate applicable to the Group is 5%. Deferred tax has not been provided in the Financial Information in respect of temporary differences attributable to the profits earned by the PRC subsidiary amounted to RMB132,464,000, RMB277,514,000 and RMB422,684,000 as at 31 December 2011, 2012 and 2013 as the Group is able to control the timing of reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

A reconciliation of the income tax expense applicable to profit before income tax at the statutory tax rate to the income tax expense at the effective tax rate is as follows:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax	181,481	187,341	191,040
Tax at EIT rate	45,370	46,836	47,760
Effect of expenses not deductible	37	1,514	579
Effect of income not taxable	(115)	—	—
Income tax expense	45,292	48,350	48,339

The Group had no material recognised temporary differences as at 31 December 2011, 2012 and 2013.

13. DIVIDENDS

No dividends were declared during the Relevant Periods.

14. EARNINGS PER SHARE

The calculations of basic earnings per share for the Relevant Periods are based on the profit attributable to owners of the Company and the 744,600,000 ordinary shares of the Company in issue prior to the listing of the Company's shares on the Stock Exchange, as if these shares had been issued throughout the Relevant Periods. No diluted earnings per share is presented as the Group has no dilutive potential shares during the Relevant Periods.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Motor vehicles	Office equipment	Power supply equipment	Construction in-progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:							
At 1 January 2011	51,375	92,960	3,921	482	891	—	149,629
Additions	4,002	13,888	540	88	46,667	21,806	86,991
Transfer	2,668	—	—	—	—	(2,668)	—
At 31 December 2011	58,045	106,848	4,461	570	47,558	19,138	236,620
Additions	—	2,130	119	159	—	19,683	22,091
Disposals	—	(9,043)	(378)	(89)	—	—	(9,510)
Transfer	17,878	19,293	—	—	1,650	(38,821)	—
At 31 December 2012	75,923	119,228	4,202	640	49,208	—	249,201
Additions	36,286	129,828	456	—	—	—	166,570
Transfer	(4,730)	—	—	—	—	—	(4,730)
At 31 December 2013	107,479	249,056	4,658	640	49,208	—	411,041
Accumulated depreciation:							
At 1 January 2011	10,973	35,634	1,994	415	278	—	49,294
Provided for the year	2,625	9,318	620	23	2,743	—	15,329
At 31 December 2011	13,598	44,952	2,614	438	3,021	—	64,623
Provided for the year	3,482	11,124	535	51	4,647	—	19,839
Written back on disposals	—	(6,996)	(236)	(85)	—	—	(7,317)
At 31 December 2012	17,080	49,080	2,913	404	7,668	—	77,145
Provided for the year	4,531	15,655	479	54	4,671	—	25,390
Transfer	(491)	—	—	—	—	—	(491)
At 31 December 2013	21,120	64,735	3,392	458	12,339	—	102,044
Net book value							
At 31 December 2011	44,447	61,896	1,847	132	44,537	19,138	171,997
At 31 December 2012	58,843	70,148	1,289	236	41,540	—	172,056
At 31 December 2013	86,359	184,321	1,266	182	36,869	—	308,997

Certain buildings and plant and machinery were pledged for the banking facilities granted to the Group (note 31), and their carrying amounts are set out below:

	As at 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Buildings	37,943	39,651	51,706
Plant and machinery	11,893	3,572	18,485
Power supply equipment	—	172	1,872
	49,836	43,395	72,063

The above buildings are held under medium-term leases and situated in the PRC.

16. INVESTMENT PROPERTIES

	RMB'000
Cost:	
At 1 January 2011, 31 December 2011 and 2012	4,840
Transfer	4,730
At 31 December 2013	9,570
Accumulated Depreciation:	
At 1 January 2011	3,549
Provided for the year	230
At 31 December 2011	3,779
Provided for the year	219
At 31 December 2012	3,998
Transfer	491
Provided for the year	292
At 31 December 2013	4,781
Net carrying amount:	
At 31 December 2011	1,061
At 31 December 2012	842
At 31 December 2013	4,789

The above investment properties are held under medium-term leases and situated in the PRC.

The fair values of investment properties together with the prepaid land lease payments set out in note 17 are set out below:

	As at 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Fair value	5,700	5,900	11,500

The Group's investment properties carried at cost were based on level 3 of the fair value hierarchy as defined in HKFRS 13.

The Group's investment properties were revalued by Grant Sherman Appraisal Limited, independent professionally qualified valuers, using the investment method by capitalizing the current rent derived from the existing tenancies with due provisions for reversionary income potential, or where appropriate, by direct comparison method by making reference to comparable sales evidence as available in the relevant market. The investment properties are leased to third parties under operating leases, further details of the leases are included in note 32 to the Financial Information.

The Group's investment properties with total carrying values of approximately RMB1,061,000, RMB842,000 and RMB4,789,000 as at 31 December 2011, 2012 and 2013 respectively were pledged to secure the Group's banking facilities (note 31).

17. PREPAID LAND LEASE PAYMENTS

	Year ended 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the year	13,754	13,444	16,914
Additions	—	3,780	5,700
Amortisation	(310)	(310)	(435)
At the end of the year	13,444	16,914	22,179

An analysis of the use of prepaid land lease payments were set out below:

	As at 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
For owner occupied	13,283	16,758	22,028
For investment properties	161	156	151
	13,444	16,914	22,179

The Group's prepaid land lease payments represent payments for land use rights in the PRC under medium-term leases.

Certain of the Group's prepaid land lease payments with total carrying values of approximately RMB9,425,000, RMB13,133,000 and RMB12,999,000 as at 31 December 2011, 2012 and 2013 respectively were pledged to secure the Group's banking facilities (note 31).

18. INVENTORIES

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	33,788	27,132	18,747
Finished goods	50,553	44,860	25,362
	84,341	71,992	44,109

Certain of the Group's inventories with total carrying values of approximately RMB44,881,000, RMB65,468,000 and RMB35,661,000 as at 31 December 2011, 2012 and 2013 respectively were pledged to secure the Group's banking facilities (note 31).

19. TRADE AND BILLS RECEIVABLES

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables, net	134,195	265,513	228,533
Bills receivable	55,831	—	—
	190,026	265,513	228,533

The Group's trading terms with customers are mainly on credit. The credit term for the year ended 31 December 2011 ranged from 30 days to 90 days. Starting from 1 January 2012, the credit term ranged from 30 days to 120 days. The Group's trade receivables are interest-free and relate to a large number of diversified customers and there is no significant concentration of credit risk.

The directors of the Company consider that the fair values of trade receivables which are expected to be recovered within one year are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

An ageing analysis of the trade receivables of the Group based on the invoice date is as follows:

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	134,195	254,883	216,509
4 to 6 months	—	10,630	12,024
	134,195	265,513	228,533

The ageing analysis of trade receivables of the Group that are neither individually nor collectively considered to be impaired are as follows:

	As at 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Neither past due nor impaired	134,195	264,813	226,176
Past due but not impaired	—	700	2,357
	134,195	265,513	228,533

Receivables that were past due but not impaired relate to customers that have good track record with the Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances past due but not impaired are fully settled on or before 13 January 2014. The Group does not hold any collateral or other credit enhancements over these balances.

Movements of provision for impairment loss on trade receivables during the Relevant Period were as follows:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the year	458	453	453
Reversal of impairment loss	(5)	—	—
At the end of the year	453	453	453

Certain of the Group's trade receivables with total carrying values of approximately RMB5,336,000, RMB7,337,000 and RMBNil as at 31 December 2011, 2012 and 2013 respectively were pledged to secure the Group's banking facilities (note 31).

20. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Other receivables	111	528	174
Prepayments	—	1,980	2,582
	111	2,508	2,756

21. AMOUNT DUE FROM A DIRECTOR

	As at 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Mr. Zheng Dunmu	2,265	—	—

	Year ended 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Maximum amount outstanding	2,265	2,265	—

The amount due from a director was interest-free, unsecured and had no fixed repayment term.

22. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	As at 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Cash and bank balances	29,667	269,657	183,324
Less: Pledged bank deposits for secured bills payables and bank borrowings *(note 31)*	(14,170)	(10,600)	(9,380)
Cash and cash equivalents	15,497	259,057	173,944

As at 31 December 2011, 2012 and 2013, the cash and bank balances of the Group denominated in RMB were RMB28,639,000, RMB269,634,000 and RMB182,310,000 respectively. RMB is not freely convertible into other currencies and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged bank deposits are deposited with creditworthy banks.

23. TRADE AND BILLS PAYABLES

	As at 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	96,823	210,281	115,612
Bills payables	—	6,000	—
	96,823	216,281	115,612

The trade payables and bills payables are interest-free. The credit period ranges from 30 days to 180 days. The bills payables are secured by the Group's pledged deposits (note 31).

Amounts due to related companies included in trade payables as at 31 December 2011, 2012 and 2013 were approximately RMB62,568,000, RMB97,779,000 and RMBNil respectively. The terms of amounts due to related companies are the same as those of other trade creditors.

An ageing analysis of the trade payables of the Group based on the invoice date is as follows:

	As at 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	91,482	160,934	89,578
4 to 6 months	5,341	55,347	26,034
	96,823	216,281	115,612

24. ACCRUALS AND OTHER PAYABLES

	As at 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Accruals and other payables	2,549	2,438	2,079
Wages payables	2,016	2,169	2,477
Other tax payables	4,132	2,698	5,352
	8,697	7,305	9,908

25. BANK BORROWINGS

	As at 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Bank loans wholly repayable within five years, secured	112,372	149,103	103,000
Less: Repayable within one year	(110,372)	(149,103)	(103,000)
Non-current portion	2,000	—	—

The ranges of effective interest rates of the Group's borrowings are as follows:

	As at 31 December		
	2011	2012	2013
Current			
Variable-rate borrowings	3.28%–7.54%	3.40%–8.10%	3.40%–8.10%
Fixed-rate borrowings	6.06%–8.98%	5.20%–7.80%	4.30%–7.80%

All the Group's bank loans were denominated in RMB, United States dollars and Hong Kong dollars.

The directors of the Company estimate the fair values of the bank loans by discounting their future cash flows at the market rate and the directors consider that the carrying amounts of the Group's current borrowings approximate their fair values.

Details of the assets pledged to secure the bank borrowings of the Group were disclosed in note 31.

26. RETIREMENT BENEFIT SCHEMES

The employees in the subsidiary in the PRC are members of state-managed retirement benefit schemes operated by the PRC government. The subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit scheme to fund the benefit. The only obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

At the end of each reporting period, there was no significant forfeited contributions, which arose upon employees leaving the retirement benefit scheme, available to reduce the contribution payable in the future years.

The total cost charged to profit or loss of approximately RMB779,000, RMB2,210,000 and RMB2,846,000 represents contributions payable to the schemes by the Group during the years ended 31 December 2011, 2012 and 2013 respectively.

27. AMOUNTS DUE TO A DIRECTOR AND SHAREHOLDERS

The amounts due to a director and shareholders are interest free, unsecured and have no fixed repayment term.

28. SHARE CAPITAL

As of the date of incorporation of the Company, its authorised share capital was HK$380,000 divided into 38,000,000 ordinary shares of HK$0.01 each. On 27 August 2012, 750 shares of HK$0.01 par value were allotted and issued nil paid to the initial subscribers.

On 29 May 2014, the Company issued a total of 9,250 ordinary shares of HK$0.01 each to Pure Sheen Limited (5,850 shares), Radiant Prestige Limited (450 shares), Radiant Path Limited (450 shares), Gang Bo Limited (1,580 shares), Sebert Developments Limited (500 shares) and Man Hong International Investment Limited (420 shares) as consideration for the acquisition of the entire issued share capital of Tun's Paper Group Holdings Limited.

On 11 June 2014, the authorised share capital of the Company was increased by HK$29,620,000 by creating an additional 2,962,000,000 ordinary shares of HK$0.01 each.

29. RESERVES

Capital reserve

Capital reserve represents the issued and fully paid up share capital and share premium of Tun's Paper Group Holdings Limited under the Reorganisation.

Statutory surplus reserve

In accordance with the Company Law of the PRC, the Company's subsidiary registered in the PRC is required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses) determined in accordance with generally accepted accounting principles in the PRC ("PRC GAAP") to the statutory surplus reserve until the balance of the reserve fund reaches 50% of the entity's registered capital. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital, provided the remaining balance of this reserve is not less than 25% of registered capital.

Translation reserve

Translation reserve comprises all relevant translation differences arising from the translation of the financial statements of foreign operations with functional currency other than Renminbi. The reserve is dealt with in accordance with the accounting policy set out above.

Distributable reserve

The Company was incorporated on 27 August 2012 and there was no reserve available for distribution to shareholders as at 31 December 2013.

The distributable reserve of the Group is as follows:

	As at 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Distributable reserve	132,394	271,385	414,086

Other comprehensive income

Tax effects relating to each component of other comprehensive income

	Year ended 31 December								
	2011			2012			2013		
	Before-tax amount	Tax (expense)/ credit	Net-of-tax amount	Before-tax amount	Tax (expense)/ credit	Net-of-tax amount	Before-tax amount	Tax (expense)/ credit	Net-of-tax amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Translation difference of: foreign operation	1	—	1	—	—	—	18	—	18
Other comprehensive income	1	—	1	—	—	—	18	—	18

30. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The Group had the following capital commitments at the end of each reporting period:

	As at 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Contracted but not provided for:			
Property, plant and equipment and prepaid land lease payments	30,806	11,010	1,765

At the end of each reporting period, the Group did not have any significant contingent liabilities.

31. BANKING FACILITIES

A summary of assets pledged for the banking facilities granted to the Group is set out below:

	As at 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Buildings *(note 15)*	37,943	39,651	51,706
Plant and machinery *(note 15)*	11,893	3,572	18,485
Power supply equipment *(note 15)*	—	172	1,872
Investment properties *(note 16)*	1,061	842	4,789
Prepaid land lease payments *(note 17)*	9,425	13,133	12,999
Inventories *(note 18)*	44,881	65,468	35,661
Trade receivables *(note 19)*	5,336	7,337	—
Pledged bank deposits *(note 22)*	14,170	10,600	9,380
	124,709	140,775	134,892

As at 31 December 2011, the Group's banking facilities were guaranteed by a director and his spouse, a connected party^ and certain independent third parties, and were also secured by the land and buildings of 2 directors and their spouses, a related party* and certain independent third parties. These guarantees and securities were released in the last quarter of 2012.

^ — A director's father has beneficial interests in the connected party.

* — A director has beneficial interest in the related company.

A summary of facilities granted by banks and the amounts utilised by the Group at the end of each reporting period is set out below:

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Amounts granted	262,603	280,788	142,600
Amounts utilised	112,372	155,103	103,000

32. OPERATING LEASE ARRANGEMENT

The Group as lessee

At the end of each reporting period, the Group had future minimum lease payments payable in respect of land and buildings under non-cancellable operating lease which fell due as follows:

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	900	21,329	90
In the second to fifth year inclusive	3,150	42,570	55
	4,050	63,899	145

Operating lease payments represent rentals payable by the Group for its office, factory and warehouse. The leases are negotiated for terms of 1–5 years. The leases did not include contingent rentals.

The Group as lessor

During the Relevant Periods, the Group leases out investment properties under operating leases.

At the end of each reporting period, the Group's future minimal lease payments under non-cancellable operating leases are receivable as follows:

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	323	73	523
In the second to fifth year inclusive	698	2	836
	1,021	75	1,359

The leases were negotiated with terms of 1–3 years with fixed monthly rental. None of the leases included contingent rentals.

33. RELATED PARTIES TRANSACTIONS

Other than those disclosed in notes 11, 21, 23, 27 and 31 to the Financial Information, the following transactions were carried out with related and connected parties:

		Year ended 31 December		
		2011	**2012**	**2013**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Related companies:				
Purchases	*(i)*	383,375	273,844	50,185
Rental expense	*(ii)*	450	900	675
Advance payments to Hong Kong suppliers	*(i)*	2,910	—	—

(i) Directors' father and/or brother have beneficial interests in the related companies.

(ii) A director has beneficial interest in the related company.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise trade and bills receivables, other receivables, amount due from a director, pledged bank deposits, cash and cash equivalents, trade and bills payables, accruals and other payables, dividends payable, amounts due to a director and shareholders and bank borrowings. These financial instruments mainly arise from its operations.

The carrying amounts of the Group's financial instruments approximated to their fair values as at the end of each reporting period. Fair value estimates are made at a specific point in time and are based on relevant market information about the financial instruments.

These estimates are subjective in nature and involve uncertainties and matters of significant judgement, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of the directors of the Company reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk means the risk on the fluctuation of fair value on future cash flows of financial instruments which arise from changes in interest rates. Floating interest rate instruments will result in the Group facing the risk of changes in market interest rate, and fixed interest rate instruments will result in the Group facing fair value interest rate risk.

The Group's exposure to interest rate risk relates primarily to the Group's bank balance and bank borrowings. The interest rate risk for bank balance is low as the maturity is short. The following table demonstrates the sensitivity on bank borrowings to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before income tax (through the impact on the Group's bank borrowings which is subject to floating interest rate) and the Group's equity.

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Increase/(decrease) in profit before income tax and equity if:			
100 basis points increase	(602)	(827)	(700)
100 basis points decrease	602	827	700

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group has not hedged its foreign exchange rate risk.

Carrying amounts of financial assets and financial liabilities at the end of each reporting period exposed to foreign currency risk were as follows:

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets denominated in foreign currencies:			
Other receivables	—	89	25
Cash and bank balances	1,028	958	1,014
	1,028	1,047	1,039
Financial liabilities denominated in foreign currencies:			
Trade and bills payables	(19,039)	(2,226)	(2,673)
Accrual and other payables	(24)	(1,988)	(248)
Amount due to a director	(27)	(698)	(293)
Amounts due to shareholders	(19)	(4,857)	(2,155)
Bank borrowings	(19,703)	(6,233)	—
	(38,812)	(16,002)	(5,369)
Net financial liabilities exposed to foreign currency risk	(37,784)	(14,955)	(4,330)

The Group's financial assets and financial liabilities exposed to currency risk were primarily denominated in United States dollars and Hong Kong dollars as follows:

	As at 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Denominated in:			
Hong Kong dollars	(33,946)	(15,119)	(4,628)
United States dollars	(3,838)	164	298
	(37,784)	(14,955)	(4,330)

Should RMB at the end of each reporting period fluctuate by 10% against all the foreign currencies, the carrying amount of the Group's net financial liabilities exposed to currency risk at the end of each reporting period determined in accordance with HKAS 21 "The Effects of Changes in Foreign Exchange Rates" would increase/ decrease as summarised below:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Increase/(decrease) in profit before income tax and equity if:			
Increase 10% exchange rates	3,778	1,496	433
Decrease 10% exchange rates	(3,778)	(1,496)	(433)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to management review. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

The credit risk of the Group's other financial assets, which mainly comprise of pledged bank deposits and cash and cash equivalents, arises from potential default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. Credit risk in pledged bank deposits and cash and cash equivalents is mitigated as cash is deposited in banks of high credit rating.

Liquidity risk

Management of the Group aims to maintain sufficient cash and cash equivalents and have available funding through an adequate amount of committed credit facilities to meet its commitments.

The maturity profile of the Group's financial liabilities as at the end of each reporting period, based on the contractual undiscounted payments, are as follows:

	As at 31 December 2011				
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	In 1 to 2 years	In 2 to 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	96,823	96,823	96,823	—	—
Financial liabilities included in accruals and other payables and amounts due to a director and shareholders	4,611	4,611	4,611	—	—
Bank borrowings	112,372	116,274	113,594	197	2,483
	213,806	217,708	215,028	197	2,483

	As at 31 December 2012				
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	In 1 to 2 years	In 2 to 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills payables	216,281	216,281	216,281	—	—
Financial liabilities included in accruals and other payables and amounts due to a director and shareholders	10,990	10,990	10,990	—	—
Bank borrowings	149,103	158,942	158,942	—	—
	376,374	386,213	386,213	—	—

	As at 31 December 2013				
	Carrying amount	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**	**In 1 to 2 years**	**In 2 to 5 years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills payables	115,612	115,612	115,612	—	—
Financial liabilities included in accruals and other payables, and amounts due to a director and shareholders	7,204	7,204	7,204	—	—
Bank borrowings	103,000	109,574	109,574	—	—
	225,816	232,390	232,390	—	—

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as going concern and to maintain reasonable capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Group monitors capital using a gearing ratio, which is net debts divided by total capital. Net debts include interest-bearing bank borrowings, trade and bills payables, accruals and other payables, dividends payable, current tax liabilities and amounts due to a director and shareholders less pledged bank deposits and cash and cash equivalents.

At the end of each reporting period, the Group's strategy was to maintain the gearing ratio at a healthy capital level in order to support its businesses. The principal strategies adopted by the Group include, without limitation, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable level of capital to support its business.

The gearing ratios at the end of each reporting period were as follows:

	As at 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Bank borrowings	112,372	149,103	103,000
Trade and bills payables	96,823	216,281	115,612
Accruals and other payables	8,697	7,305	9,908
Current tax liabilities	11,555	15,120	12,885
Amount due to a director	27	698	293
Amounts due to shareholders	19	5,685	2,355
Less: Cash and cash equivalents	(15,497)	(259,057)	(173,944)
Pledged bank deposits	(14,170)	(10,600)	(9,380)
Net debts	199,826	124,535	60,729
Total equity	270,739	409,730	552,449
Gearing ratio	73.81%	30.39%	10.99%

35. Information of subsidiaries

Company name	Auditor			Place and date of incorporation/establishment and kind of legal entity	Particulars of issued and fully paid up share capital/ registered capital as at 31.12.2013	Attributable equity interest		Principal activities
	2011	2012	2013			direct	indirect	
Tun's Paper Group Holdings Limited	*Note (ii)*	*Martin C.K. Pong & Company Certified Public Accountants*	*Martin C.K. Pong & Company Certified Public Accountants*	Incorporated in the British Virgin Islands on 26.9.2011, limited liability company	US$1,000 of 1,000 ordinary shares of US$1 each	100%	—	Investment holding
Tun's Paper (Holdings) Limited	*Martin C.K. Pong & Company Certified Public Accountants*	*Martin C.K. Pong & Company Certified Public Accountants*	*Martin C.K. Pong & Company Certified Public Accountants*	Incorporated in Hong Kong on 23.6.2011, limited liability company	HK$10,000 of 10,000 ordinary shares of HK$1 each	—	100%	Investment holding
Charmfield Investments Limited	*Note (i)*	*Martin C.K. Pong & Company Certified Public Accountants*	*Martin C.K. Pong & Company Certified Public Accountants*	Incorporated in Hong Kong on 13.4.2012, limited liability company	HK$1 of 1 ordinary share of HK$1	—	100%	Investment holding
Lung Kei (International) Investment Limited	*Martin C.K. Pong & Company Certified Public Accountants*	*Martin C.K. Pong & Company Certified Public Accountants*	*Martin C.K. Pong & Company Certified Public Accountants*	Incorporated in Hong Kong on 7.6.2011, limited liability company	HK$1,000 of 1,000 ordinary shares of HK$1 each	—	100%	Investment holding
Dunxin Paper Co., Ltd	Xiamen Chengxingde Certified Public Accounting Firm 廈門誠興德會計師事務所	Zhangzhou Xinxinglong Certified Public Accountants Limited 漳州新興龍會計師事務所有限責任公司	Zhangzhou Xinxinglong Certified Public Accountants Limited 漳州新興龍會計師事務所有限責任公司	Established in the PRC on 15.11.2000, wholly foreign-owned enterprise	RMB90,000,000	—	100%	Production and sale of paperboards, corrugated medium boards and boxes and poker cards

Notes:

(i) Companies had not been incorporated as at the relevant year end.

(ii) No statutory audit requirements.

III. EVENTS AFTER THE RELEVANT PERIODS

Except as disclosed elsewhere in this report and the Reorganisation, there have been no material subsequent events undertaken by the Company or by the Group after 31 December 2013.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or its subsidiaries in respect of any period subsequent to 31 December 2013.

Yours faithfully,

Martin C. K. Pong & Company
Certified Public Accountants
Hong Kong

16/F, Dah Sing Life Building,
99 Des Voeux Road Central,
Central,
Hong Kong

Dated 16 June 2014

PKF
Certified Public Accountants
Hong Kong

26/F., Citicorp Centre,
18 Whitfield Road,
Causeway Bay,
Hong Kong

Dated 16 June 2014

For illustrative purpose only, the unaudited pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules is set forth below to provide the prospective investors with further information on how the proposed listing might have affected the net tangible assets of the Group after the completion of the Share Offer.

The unaudited pro forma financial information is derived according to a number of adjustments. Although reasonable care has been exercised in preparing such information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a complete picture of the actual financial performance and condition of the Group during the Track Record Period or any further date.

The information set forth in this appendix does not form part of the Accountants' Report issued by Martin C. K. Pong & Company, Certified Public Accountants, Hong Kong, and PKF, Certified Public Accountants, Hong Kong, the joint reporting accountants of the Company, as set forth in Appendix I to this prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set forth in Appendix I to this prospectus.

UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted combined net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustration purpose only, and is set out here to illustrate the effect of the Share Offer on the combined net tangible assets of the Group as at 31 December 2013 as if the Share Offer were completed on 31 December 2013.

The unaudited pro forma adjusted combined net tangible assets has been prepared for illustration purpose only and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of the Group attributable to equity holders of the Company as of 31 December 2013 or any future dates following completion of the Share Offer. It is prepared based on the audited combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2013 as set out in the Accountants' Report in Appendix I to this prospectus, and adjusted as described below.

	Audited combined net tangible assets attributable to owners of the Company as at 31 December 2013	**Estimated net proceeds of the Share Offer**	**Unaudited pro forma adjusted combined net tangible assets**	**Unaudited pro forma adjusted combined net tangible assets per Share**	
	RMB'000 *(Note 1)*	*RMB'000* *(Note 2)*	*RMB'000* *(Note 4)*	*RMB* *(Note 5)*	*(HK$ equivalent)* *(Note 5)*
Based on the Offer Price of HK$1.4 per Offer Share	552,449	255,508	807,957	0.81	1.03

Notes:

(1) The audited combined net tangible assets attributable to owners of the Company as at 31 December 2013 is extracted from the Accountants' Report set out in Appendix I to this prospectus.

(2) The estimated net proceeds of the Share Offer are based on the Offer Price of HK$1.4 per Offer Share, after deduction of the underwriting fees and other related expenses payable by the Company. The estimated net proceeds of the Share Offer are translated from Hong Kong dollars into Renminbi at an exchange rate of HK$1.00 to RMB0.7885.

(3) The prepaid land lease payments and buildings and investment properties (the "Property Interests") as at 31 March 2014 have been valued by Grant Sherman Appraisal Limited, an independent property valuer. By comparing the valuation of the Property Interests of approximately RMB191,200,000 as set out in Appendix III to this prospectus and the unaudited carrying amounts of the Property Interests of approximately RMB111,275,000 as at 31 March 2014, the valuation surplus is approximately RMB79,925,000, which has not been included in the tangible assets set forth above. The revaluation surplus will not be incorporated in the combined financial statements of the Group. If the revaluation surplus is recorded in the combined financial statements of the Group, the annual depreciation and amortization will be increased by approximately RMB2,641,600.

(4) No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2013.

(5) The unaudited pro forma adjusted combined net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 992,800,000 Shares were in issue assuming that the Share Offer were completed on 31 December 2013. The unaudited pro forma adjusted combined net tangible assets per Share is translated at an exchange rate of HK$1.00 to RMB0.7885.

COMFORT LETTER ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a letter received from the joint reporting accountants, Martin C.K. Pong & Company, Certified Public Accountants, Hong Kong and PKF, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this prospectus, in respect of the unaudited pro forma financial information of the Group.

龐志鈞會計師行
Martin C. K. Pong &Company

PKF

The Directors
Changgang Dunxin Enterprise Company Limited
Kingsway Capital Limited

Dear Sirs,

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF CHANGGANG DUNXIN ENTERPRISE COMPANY LIMITED

We report on the unaudited pro forma financial information of Changgang Dunxin Enterprise Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") (the "Unaudited Pro Forma Financial Information"), which has been prepared by the directors of the Company for illustrative purpose only, to provide information about how the new issue of 248,200,000 shares of HK$0.01 each by the Company at HK$1.4 each might have affected the financial information presented, for inclusion in Appendix II to the prospectus of the Company dated 16 June 2014 (the "Prospectus"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Appendix II to the Prospectus.

Respective responsibilities of directors of the Company and Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by Rule 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We have conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We have planned and performed our work so as to obtain the information and explanations we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Our work has not been carried out in accordance with the Hong Kong Standards on Auditing issued by the HKICPA and accordingly should not be relied upon as if it has been carried out in accordance with those standards.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2013 or any future date.

Opinion

In our opinion:

- the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- such basis is consistent with the accounting policies of the Group; and
- the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Martin C.K. Pong & Company
Certified Public Accountants
Hong Kong

16/F., Dah Sing Life Building,
99 Des Voeux Road Central,
Central,
Hong Kong

16 June 2014

PKF
Certified Public Accountants
Hong Kong

26/F., Citicorp Centre,
18 Whitfield Road,
Causeway Bay,
Hong Kong

16 June 2014

The following are the texts of a letter, summary of valuation and valuation certificates, prepared for the purpose of incorporation in this prospectus, received from Grant Sherman Appraisal Limited, an independent property valuer, in connection with their valuation as at 31 March 2014 of the property interests held by the Group in the PRC.

GRANT SHERMAN

Unit 1005, 10/F., AXA Centre,
151 Gloucester Road,
Wanchai,
Hong Kong

16 June 2014

The Directors
Changgang Dunxin Enterprise Company Limited
Office No. 3 on 13th Floor,
Boss Commercial Centre,
No. 28 Ferry Street,
Kowloon,
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the property interests held by Changgang Dunxin Enterprise Company Limited (the "Company") and its subsidiaries (together referred to as the "Group") in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interests as at the 31 March 2014 ("date of valuation") for the purpose of incorporation into the prospectus issued by the Company on the date hereof.

Our valuation is our opinion of the market value of the property interests where we would define market value as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

Market value is understood as the value of a property estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

In valuing the property interests in Group I, we have adopted a combination of the market and depreciated replacement cost approach in assessing the land portion of the properties and the buildings and structures standing on the land respectively. Hence, the sum of the two results represents the market values of the properties as a whole. In the valuation of the land portion, reference has been made to the standard land price in Zhangzhou City and the sales evidence as available to us in the locality. As the nature of the buildings and structures cannot be valued on the basis of market value, they have therefore been valued on the basis of their depreciated replacement costs. The depreciated replacement cost approach considers the current cost of replacement (reproduction) of the buildings and improvements less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. The depreciated replacement cost approach generally furnishes the most reliable indication of value for properties in the absence of a known market based on comparables sales. The approach is subject to adequate potential profitability of the business.

In valuing the property interest in Group II which is held by the Group in the PRC for future development, direct comparison approach is adopted with reference to the standard land price in Zhangzhou City and the sales evidence as available to us in the locality.

In valuing properties in Group III, we have adopted the investment approach by taking into account the current rents passing of the property interests and the reversionary potential of the tenancy(ies) and direct comparison approach was further adopted by considering the transactions of similar properties in the localities.

Our valuation has been made on the assumption that the owner sells the property interests on the open market in its existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the values of the property interests. In addition, no forced sale situation in any manner is assumed in our valuation.

We have been provided with copies of extracts of title documents relating to the properties in the PRC. However, we have not caused title searches to be made for the property interests at the relevant government bureaus in the PRC and we have not inspected the original documents to verify the ownership, encumbrances or the existence of any subsequent amendments which may not appear on the copies handed to us. In undertaking our valuation for the property interests in the PRC, we have relied on the legal opinion ("the PRC legal opinion") provided by the Group's PRC legal adviser, Dacheng Law Offices.

We have relied to a considerable extent on information provided by the Group and have accepted advice given to us by the Group on such matters as planning approvals or statutory notices, easements, tenure, occupancy, lettings, site and floor areas and in the identification of the properties and other relevant matter. We have no reason to doubt the truth and accuracy of the information provided to us by the Company which is material to the valuations. We have also been advised by the Group that no material facts had been concealed or omitted in the information provided to us and have no reason to suspect that any material information has been withheld. All documents have been used for reference only. We consider that we have been provided with sufficient information to reach an informed view.

All dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by the Group and are approximations only. No on-site measurement has been taken.

We have inspected the exteriors and, where possible, the interiors of the properties, in the course of our inspection, we did not note any serious defects. However, we have not carried out a structural survey nor have we inspected woodwork or other parts of the structures which are covered, unexposed or inaccessible and we are therefore unable to report that any such parts of the properties are free from defect though in the course of our inspections we did not note any serious defects. No tests were carried out on any of the services.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

In valuing the property interests, we have fully complied with the HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors (HKIS) and the requirements set out in Chapter 5 of and Practice Note 12 to the Rule Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Unless otherwise stated, all money amounts stated are in Renminbi (RMB). The exchange rate adopted in valuing the property interests in the PRC as at 31 March 2014 was HK$1: RMB0.7942. There has been no significant fluctuation in the exchange rate for this currency against Hong Kong Dollars between that date and the date of this letter.

We enclose herewith a summary of valuation and the valuation certificates.

Respectfully submitted,
For and on behalf of
GRANT SHERMAN APPRAISAL LIMITED
Lawrence Chan Ka Wah
MRICS MHKIS RPS(GP) MHIREA
Director
Real Estate Group

Note: Mr. Lawrence Chan Ka Wah is a member of the Royal Institution of Chartered Surveyors, a member of the Hong Kong institute of Surveyors and Registered Professional Surveyors in the General Practice Section, who has over 10 years experience in the valuation of properties in Hong Kong, Macau, the PRC and the Asian Rim.

SUMMARY OF VALUATION

Group I — Property interests held by the Group for self-occupation purpose in the PRC

	Property	Market Value in existing state as at 31 March 2014	Interest attributable to the Group	Market Value in existing state attributable to the Group as at 31 March 2014
1.	An industrial complex located at 207 Provincial Road (also known as Guotai Road) Guanshan Industrial Park Wuan Town Changtai County Zhangzhou City Fujian Province the PRC (Opposite to property no. 3)	RMB89,200,000 (equivalent to approximately HK$112,300,000)	100%	RMB89,200,000 (equivalent to approximately HK$112,300,000)
2.	An industrial complex located at No. 83 Jinlin Industrial Park Yanxi Town Changtai County Zhangzhou City Fujian Province the PRC (Opposite to property no. 5)	RMB23,700,000 (equivalent to approximately HK$29,800,000)	100%	RMB23,700,000 (equivalent to approximately HK$29,800,000)
3.	An industrial complex located at Guanshan Village Wuan Town Changtai County Zhangzhou City Fujian Province the PRC (Near Property No. 1)	RMB62,700,000 (equivalent to approximately HK$78,900,000)	100%	RMB62,700,000 (equivalent to approximately HK$78,900,000)
	Sub-total	**RMB175,600,000 (equivalent to approximately HK$221,000,000)**	**100%**	**RMB175,600,000 (equivalent to approximately HK$221,000,000)**

SUMMARY OF VALUATION

Group II — Property interest held by the Group for future development purpose in the PRC

	Property	Market Value in existing state as at 31 March 2014	Interest attributable to the Group	Market Value in existing state attributable to the Group as at 31 March 2014
4.	A parcel of land located at Guanshan Industrial Park Wuan Town Changtai County Zhangzhou City Fujian Province the PRC (Opposite to property no. 1)	RMB4,100,000 (equivalent to approximately HK$5,200,000)	100%	RMB4,100,000 (equivalent to approximately HK$5,200,000)

Group III — Property interests held by the Group for investment purpose in the PRC

	Property	Market Value in existing state as at 31 March 2014	Interest attributable to the Group	Market Value in existing state attributable to the Group as at 31 March 2014
5.	An industrial complex located at No. 28 Jinlin Industrial Park Yanxi Town Changtai County Zhangzhou City Fujian Province the PRC (Opposite to property no. 2)	RMB6,500,000 (equivalent to approximately HK$8,200,000)	100%	RMB6,500,000 (equivalent to approximately HK$8,200,000)
6.	The Dormitory No. 83 Jinlin Industrial Park Yanxi Town Changtai County Zhangzhou City Fujian Province the PRC (Near property No. 2)	RMB5,000,000 (equivalent to approximately HK$6,300,000)	100%	RMB5,000,000 (equivalent to approximately HK$6,300,000)
	Sub-total	**RMB11,500,000 (equivalent to approximately HK$14,500,000)**		**RMB11,500,000 (equivalent to approximately HK$14,500,000)**
	Grant-total	**RMB191,200,000 (equivalent to approximately HK$240,700,000)**		**RMB191,200,000 (equivalent to approximately HK$240,700,000)**

VALUATION CERTIFICATE

Group I — Property interests held by the Group for self-occupation purpose in the PRC

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 March 2014
1.	An industrial complex located at 207 Provincial Road (also known as Guotai Road) Guanshan Industrial Park Wuan Town Changtai County Zhangzhou City Fujian Province the PRC (Opposite to property no. 3)	The property comprises 3 parcels of adjoining land together with 19 single to 6-storey buildings completed in between 2004 and 2013 erected thereon. The total site area and total gross floor area of the property are approximately 90,877.3 sq.m. and 41,167.17 sq.m. respectively. The land use rights of the property were granted for various terms with the latest expiry date on 26 June 2057 for industrial use.	The property was occupied by the Group for industrial and ancillary uses as at the date of valuation.	RMB89,200,000 (equivalent to approximately HK$112,300,000) **Interest attributable to the Group** 100% **Market Value in existing state attributable to the Group as at 31 March 2014** RMB89,200,000 (equivalent to approximately HK$112,300,000)

Notes:

1. Pursuant to 3 State-owned Land Use Certificates (Document Nos.: Tai Guo Yong (2008) Nos. 00931 to 00933), the land use rights of the property with a total site area of approximately 90,877.3 sq.m. were granted Dunxin Paper Co., Ltd for industrial use. The particulars of the State-owned Land Use Certificates are as below:

Lot Nos.	Approximate Site Area *(sq.m.)*	Tenure expiry date	Permitted Use	State-owned Land Use Certificates *(Document Nos.)*
030601492	50,649.3	24 February 2054	Industrial	Tai Guo Yong (2008) No. 00931
030601492-1B	10,052	24 February 2054	Industrial	Tai Guo Yong (2008) No. 00932
030608010	30,176	26 June 2057	Industrial	Tai Guo Yong (2008) No. 00933
Total	**90,877.3**			

2. Pursuant to 9 Building Ownership Certificates, the ownership of the building portion of the property with a total gross floor area of approximately 41,167.17 sq.m. are vested in Dunxin Paper Co., Ltd. The details are summarized as follows:

Building Name	**Approximate Gross Floor Area** *(sq.m.)*	**No. of storey**	**Year of completion**	**Building Ownership Certificates** *(Document No.)*
Finished Products Warehouse	4,049.78	1	2006	Chang Tai Xian Fang Quan Zheng
Waste Paper Warehouse	8,071.85	1	2006	Wu An Zhen Zi
Washroom	21.17	1	2006	No. 05000065
Metal Warehouse	1,632.13	2	2004	Chang Tai Xian Fang Quan Zheng
Composite Building	1,087.54	3	2004	Wu An Zhen Zi
Guard Room	23.16	1	2004	No. 05000066
Dormitory	1,029.46	5	2005	Chang Tai Xian Fang Quan Zheng Wu An Zhen Zi No. 05000067
Garage	101.81	1	2005	Chang Tai Xian Fang Quan Zheng
Paper Workshop	11,720.26	2	2005	Wu An Zhen Zi
Boiler Room	534.53	1	2005	No. 05000068
Dry Coal Storeroom	1,207.96	1	2005	Chang Tai Xian Fang Quan Zheng
Waste Paper Warehouse No. 2	4,703.98	1	2005	Wu An Zhen Zi No. 05000113
Composite Building	1,593.47	1	2005	Chang Tai Xian Fang Quan Zheng
Guard Room	19.61	1	2005	Wu An Zhen Zi No. 05000114
Cooling Tower	623.43	1	2005	Chang Tai Xian Fang Quan Zheng
Water Treatment Workshop	288.06	1	2005	Wu An Zhen Zi
Heat Power Station	2,707.48	6	2005	No. 05000115
Workshop	1,008.8	1	2005	Chang Tai Xian Fang Quan Zheng Wu An Zhen Zi No. 05000116
Ancillary Building	742.69	1	2013	Chang Tai Xian Fang Quan Zheng Wu An Zhen Zi No. 06000225
Total	**41,167.17**			

3. As advised by the Group, Dunxin Paper Co., Ltd is a wholly-owned subsidiary of the Company.

4. The property was inspected by our Mr. Lawrence Chan Ka Wah (MRICS MHKIS RPS(GP) MHIREA) on 11 December 2013. The external condition of the property is good.

5. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, Dacheng Law Offices, which contains, *inter alia*, the following information:

(a) Dunxin Paper Co., Ltd is the current registered owner of the property, which is entitled to occupy, lease, transfer and mortgage the property; and

(b) Except the buildings registered under the Building Ownership Certificate (Document No.: Chang Tai Xian Fang Quan Zheng Wu An Zheng Zi No. 05000113), the property is subject to various mortgages in favour of China Merchants Bank Company Limited (Zhangzhou Branch), China Construction Bank Corporation (Changtai Branch) and Industrial and Commercial Bank of China Limited (Zhangzhou Longjiang Branch) respectively with the latest expiry date on 6 March 2016.

6. In the course of our valuation, we have with reference to the following land transaction records as they were permitted for industrial use in Changtai County. Adjustments were further made subject to the differences on the location, size, shape, time of transaction, etc.

No.	Location	Site Area *(sq.m.)*	Consideration *(RMB)*	Transaction Date	Permitted Plot Ratio
1	Changtai Economic Development Zone	132,616	12,940,000	13 November 2013	1.2
2	Changtai Economic Development Zone	16,204	1,580,000	11 September 2013	1.2
3	Changtai Economic Development Zone	73,345	7,160,000	11 September 2013	1.1
4	Guanshan Industrial Park, Wuan Town, Changtai County	13,836	1,350,000	20 August 2013	1.0
5	Guanshan Industrial Park, Wuan Town, Changtai County	25,653	2,510,000	20 August 2013	1.5

7. The property is situated along 207 Provincial Road (also known as Guotai Road), Guangshan Industrial Park. Guangshan Industrial Park is a newly developed industrial zone, various low-rise industrial complexes situated nearby occupied by light-industrial enterprises. It is about 5-minute driving distance to the downtown of Changtai County, 35-minute driving distance to Zhangzhou City Centre. Bus and taxi are accessible to the property.

VALUATION CERTIFICATE

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 March 2014
2.	An industrial complex located at No. 83 Jinlin Industrial Park Yanxi Town Changtai County Zhangzhou City Fujian Province the PRC (Opposite to property no. 5)	The property comprises two parcels of adjoining land together with 7 single to 5 storey buildings completed in between 2002 and 2004. The total gross floor area of the property is approximately 13,131.42 sq.m. and the total site area of the property together with property no. 6 is approximately 21,738.65 sq.m. The land use rights of the property together with property no. 6 were granted for a term of 50 years expiring on 11 March 2053 for industrial use.	The property was occupied by the Group for industrial and ancillary uses as at the date of valuation.	RMB23,700,000 (equivalent to approximately HK$29,800,000) **Interest attributable to the Group** 100% **Market Value in existing state attributable to the Group as at 31 March 2014** RMB23,700,000 (equivalent to approximately HK$29,800,000)

Notes:

1. Pursuant to two State-owned Land Use Certificates (Document Nos.: Tai Guo Yong (2008) No. 00930 and Tai Guo Yong (2012) No. 01835), the land use rights of the property together with property no. 6 with a total site area of approximately 21,738.65 sq.m. were granted to Dunxin Paper Co., Ltd for a term expiring on 11 March 2053 for industrial use. The particulars of the state-owned Land Use Certificates are as below:

Lot Nos.	Approximate Site Area	Tenure expiry date	Permitted Use	State-owned Land Use Certificates (Document Nos.)
	(sq.m.)			
040402231	20,672.65	11 March 2053	Industrial	Tai Guo Yong (2008) No. 00930
040402231–1	1,066	11 March 2053	Industrial	Tai Guo Yong (2012) No. 01835
Total	**21,738.65**			

2. Pursuant to 4 Building Ownership Certificates (Document Nos.: Chang Tai Xian Fang Quan Zheng Yan Xi Zhen Zi Nos.: 200483, 20000567 to 20000569), the ownership of the building portion of the property with a total gross floor area of approximately 13,131.42 sq.m. is vested in Dunxin Paper Co., Ltd. The particulars are as below:

Building Name	**Approximate Gross Floor Area**	**No. of storey**	**Year of completion**	**Building Ownership Certificates (Document No.)**
	(sq.m.)			
Composite Building	2,739.98	5	2004	Chang Tai Xian Fang Quan Zheng Yan Xi Zhen Zi No. 200483
Boiler Room	262.23	1	2004	
Workshop No. 2	2,093.71	1	2004	
Production Workshop	4,316.93	1	2002	Chang Tai Xian Fang Quan Zheng Yan Xi Zhen Zi No. 20000567
Warehouse No. 2	2,177.19	1	2002	Chang Tai Xian Fang Quan Zheng Yan Xi Zhen Zi No. 20000568
Warehouse No. 3	1,514.4	1	2004	Chang Tai Xian Fang Quan Zheng Yan Xi Zhen Zi No. 20000569
Guard Room	26.98	1	2004	
Total	**13,131.42**			

3. Pursuant to a State-owned Land Use Rights Grant Contract entered into between the Land Resources Bureau of Changtai County, Fujian Province, the PRC (Party A) and Dunxin Paper Co., Ltd (Party B) and dated 21 December 2012, the land use rights of a land parcel of the property with a site area of approximately 1,066 sq.m., where a boiler room has been erected thereon, were granted by Party A to Party B for industrial use for a term of 50 years expiring on 11 March 2053 at a consideration of RMB180,000.

4. As advised by the Group, Dunxin Paper Co., Ltd is a wholly-owned subsidiary of the Company.

5. The property was inspected by our Mr. Lawrence Chan Ka Wah (MRICS MHKIS RPS(GP) MHIREA) on 11 December 2013. The external condition of the property is good.

6. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, Dacheng Law Offices, which contains, *inter alia*, the following information:

   (a) Dunxin Paper Co., Ltd is the current registered owner of the property, which is entitled to occupy, lease, transfer and mortgage the property; and

   (b) the property together with property no. 6 are subject to a mortgage in favour of China Merchants Bank Company Limited (Zhangzhou Branch) with the expiry date on 24 September 2014.

7. In the course of our valuation, we have with reference to the following land transaction records as they were permitted for industrial use in Changtai County. Adjustments were further made subject to the differences on the location, size, shape, time of transaction, etc.

No.	**Location**	**Site Area**	**Consideration**	**Transaction Date**	**Permitted Plot Ratio**
		(sq.m.)	*(RMB)*		
1	Changtai Economic Development Zone	132,616	12,940,000	13 November 2013	1.2
2	Changtai Economic Development Zone	16,204	1,580,000	11 September 2013	1.2
3	Changtai Economic Development Zone	73,345	7,160,000	11 September 2013	1.1
4	Guanshan Industrial Park, Wuan Town, Changtai County	13,836	1,350,000	20 August 2013	1.0
5	Guanshan Industrial Park, Wuan Town, Changtai County	25,653	2,510,000	20 August 2013	1.5

8. The property is situated in Jinlin Industrial Park, which is an industrial zone with various low-rise industrial complexes and ancillary low to medium-rise residential and commercial buildings. It is about 20-minute driving distance to the downtown of Changtai County and about 50-minute driving distance to Zhangzhou City Centre. Bus and taxi are accessible to the property.

VALUATION CERTIFICATE

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 March 2014
3.	An industrial complex located at Guanshan Village Wuan Town Changtai County Zhangzhou City Fujian Province the PRC (Near Property No. 1)	The property comprises 2 parcels of adjoining land together with 21 single to 3-storey buildings and structures completed in between 2001 to 2010 erected thereon. The total site area and total gross floor area of the property are approximately 35,326.6 sq.m. and 18,892.96 sq.m. respectively. The land use rights of the property were granted for terms of 50 years with the latest expiry date on 24 February 2054 for industrial use.	The property was occupied by the Group for industrial and ancillary use as at the date of valuation.	RMB62,700,000 (equivalent to approximately HK$78,900,000) **Interest attributable to the Group** 100% **Market Value in existing state attributable to the Group as at 31 March 2014** RMB62,700,000 (equivalent to approximately HK$78,900,000)

Notes:

1. Pursuant to 2 State-owned Land Use Certificates (Document Nos.: Tai Guo Yong (2013) Nos. 01050 and 01052), the land use rights of the property with a total site area of approximately 35,326.6 sq.m. were granted to Dunxin Paper Co., Ltd. for terms of 50 years with the latest expiry date on 24 February 2054 for industrial use. The particulars are as below:

Lot Nos.	Approximate Site Area *(sq.m.)*	Permitted use	Tenure expiry date	State-owned Land Use Certificates (Document Nos.)
030601492-2A	10,248	Industrial	24 February 2054	Tai Guo Yong (2013) No. 01050
030601469-1	25,078.6	Industrial	31 March 2050	Tai Guo Yong (2013) No. 01052
Total	**35,326.6**			

2. Pursuant to 6 Building Ownership Certificates (Document Nos.: Chang Tai Xian Fang Quan Zheng Wu An Zhen Zi Nos. 050004 to 050007, 050050 and 05000077), the ownership of the building portion of the property with a total gross floor area of approximately 18,892.96 sq.m. is vested in Dunxin Paper Co., Ltd.

3. As advised by the Group, Dunxin Paper Co., Ltd is a wholly-owned subsidiary of the Company.

4. The property was inspected by our Mr. Lawrence Chan Ka Wah (MRICS MHKIS RPS(GP) MHIREA) on 11 December 2013. The external condition of the property is fair.

5. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, Dacheng Law Offices, which contains, *inter alia*, the following information:

   (a) Dunxin Paper Co., Ltd is the current registered owner of the property, which is entitled to occupy, lease, transfer and mortgage the property;

   (b) The property is free from mortgages, charges, legal orders and other legal encumbrances which may cause adverse effects on the ownership of the property.

6. In the course of our valuation, we have with reference to the following land transaction records as they were permitted for industrial use in Changtai County. Adjustments were further made subject to the differences on the location, size, shape, time of transaction, etc.

No.	Location	Site Area	Consideration	Transaction Date	Permitted Plot Ratio
		(sq.m.)	*(RMB)*		
1	Changtai Economic Development Zone	132,616	12,940,000	13 November 2013	1.2
2	Changtai Economic Development Zone	16,204	1,580,000	11 September 2013	1.2
3	Changtai Economic Development Zone	73,345	7,160,000	11 September 2013	1.1
4	Guanshan Industrial Park, Wuan Town, Changtai County	13,836	1,350,000	20 August 2013	1.0
5	Guanshan Industrial Park, Wuan Town, Changtai County	25,653	2,510,000	20 August 2013	1.5

7. The property is situated along 207 Provincial Road (also known as Guotai Road), Guangshan Industrial Park. Guangshan Industrial Park is a newly developed industrial zone, various low-rise industrial complexes situated nearby occupied by light-industrial enterprises. It is about 5-minute driving distance to the downtown of Changtai County, 35-minute driving distance to Zhangzhou City Centre. Bus and taxi are accessible to the property.

VALUATION CERTIFICATE

Group II — Property interest held by the Group for future development purpose in the PRC

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 March 2014
4.	A parcel of land located at Guanshan Industrial Park Wuan Town Changtai County Zhangzhou City Fujian Province the PRC (Opposite to property no. 1)	The property comprises a parcel of land with a site area of approximately 30,000 sq.m. The land use rights of the property were granted for a term of 50 years for industrial use expiring on 20 December 2062.	The property was a clear site.	RMB4,100,000 (equivalent to approximately HK$5,200,000) **Interest attributable to the Group** 100% **Market Value in existing state attributable to the Group as at 31 March 2014** RMB4,100,000 (equivalent to approximately HK$5,200,000)

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract entered into between the Land Resources Bureau of Changtai County (Party A) and Dunxin Paper Co., Ltd (Party B) dated 21 December 2012, the land use rights of the property with a site area of approximately 30,000 sq.m. were granted from Party A to Party B for a term of 50 years commencing on 21 December 2012 for industrial use at a consideration of RMB3,600,000.

2. Pursuant to a State-owned Land Use Certificate (Document No.: Tai Guo Yong (2012) No. 01836), the land use rights of the property with a site area of approximately 30,000 sq.m. were granted to Dunxin Paper Co., Ltd. for industrial use for a term of 50 years expiring on 20 December 2062.

3. The property was inspected by our Mr. Lawrence Chan Ka Wah (MRICS MHKIS RPS(GP) MHIREA) on 11 December 2013.

4. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, Dacheng Law Offices, which contains, *inter alia*, the following information:

   (a) Dunxin Paper Co., Ltd is the current registered owner of the property, which is entitled to occupy, lease, transfer and mortgage the property; and

   (b) The property is free from any mortgages, charges, legal orders and other legal encumbrances which may cause adverse effects on the ownership of the property.

5. In the course of our valuation, we have with reference to the following land transaction records as they were permitted for industrial use in Changtai County. Adjustments were further made subject to the differences on the location, size, shape, time of transaction, etc.

No.	**Location**	**Site Area**	**Consideration**	**Transaction Date**	**Permitted Plot Ratio**
		(sq.m.)	*(RMB)*		
1	Changtai Economic Development Zone	132,616	12,940,000	13 November 2013	1.2
2	Changtai Economic Development Zone	16,204	1,580,000	11 September 2013	1.2
3	Changtai Economic Development Zone	73,345	7,160,000	11 September 2013	1.1
4	Guanshan Industrial Park, Wuan Town, Changtai County	13,836	1,350,000	20 August 2013	1.0
5	Guanshan Industrial Park, Wuan Town, Changtai County	25,653	2,510,000	20 August 2013	1.5

6. The property is situated along 207 Provincial Road (also known as Guotai Road), Guangshan Industrial Park. Guangshan Industrial Park is a newly developed industrial zone, various low-rise industrial complexes situated nearby occupied by light-industrial enterprises. It is about 5-minute driving distance to the downtown of Changtai County, 35-minute driving distance to Zhangzhou City Centre. Bus and taxi are accessible to the property.

VALUATION CERTIFICATE

Group III — Property interests held by the Group for investment purpose in the PRC

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 March 2014
5.	An industrial complex located at No. 28 Jinlin Industrial Park Yanxi Town Changtai County Zhangzhou City Fujian Province the PRC (Opposite to property no.2)	The property comprises two parcels of adjoining land together with 15 single to 4-storey buildings completed in between 1994 and 2005 erected thereon. The total site area and total gross floor area of the property are approximately 5,888 sq.m. and 6,507.96 sq.m. respectively. The land use rights of the property were granted for various terms with the latest expiry date on 12 June 2053 for industrial use.	Portion of the property together with property no. 6 with a total gross floor area of approximately 4,120 sq.m. are subject to various tenancies with the latest expiry date on 31 December 2016 at a total monthly rent of RMB46,625 (including RMB36,725 as shown in property no. 6) exclusive of other operating outgoings as at the date of valuation. Portion of the property was occupied by the tenants for industrial, storage, commercial and ancillary uses and portion of the property were vacant or occupied by the Group for industrial and ancillary uses as at the date of valuation.	RMB6,500,000 (equivalent to approximately HK$8,200,000) **Interest attributable to the Group** 100% **Market Value in existing state attributable to the Group as at 31 March 2014** RMB6,500,000 (equivalent to approximately HK$8,200,000)

Notes:

1. Pursuant to two State-owned Land Use Certificates (Document Nos.: Tai Guo Yong (2008) No. 00928 and 00929), the land use rights of the property with a total site area of approximately 5,888 sq.m. were granted to Dunxin Paper Co., Ltd for various terms with the latest expiry date on 12 June 2053 for industrial use. The particulars are summarized as below:

Lot Nos.	Approximate Site Area *(sq.m.)*	Permitted use	Tenure expiry date	State-owned Land Use Certificates (Document Nos.)
020106070	3,085	Industrial	1 February 2044	Tai Guo Yong (2008) No. 00928
020106071	2,803	Industrial	12 June 2053	Tai Guo Yong (2008) No. 00929
Total	**5,888**			

2. Pursuant to 4 Building Ownership Certificates (Document Nos.: Chang Tai Xian Fang Quan Zheng Yan Xi Zhen Zi No. 20000564 to 20000566 and 20000725), the ownership of the building portion of the property with a total gross floor area of approximately 6,507.96 sq.m. is vested in Dunxin Paper Co., Ltd, the particulars are summarized as below:

Building Name	Approximate Gross Floor Area	No. of storey	Year of completion	Building Ownership Certificates (Document No.)
	(sq.m.)			
Composite Building		2	1994	
Washroom	315.67	2	1994	Chang Tai Xian Fang Quan Zheng
Colour-printing Workshop		1	1994	Yan Xi Zhen Zi
Maintenance Workshop	577.55	1	1994	No. 20000564
Shed	50.96	1	1994	
Paper Workshop		1	1994	
Workshop	898.26	1	1994	
Washroom	21.65	1	1994	Chang Tai Xian Fang Quan Zheng
Materials Storeroom		1	1994	Yan Xi Zhen Zi
Warehouse	295.4	1	1994	No. 20000565
Composite Building	1,541.01	4	1994	Chang Tai Xian Fang Quan Zheng
Workshop No. 12		1	1994	Yan Xi Zhen Zi
Workshop No. 13	2,389.21	3	1994	No. 20000566
Guard Room	18.73	1	1994	
Assembly Workshop	399.52	1	2005	Chang Tai Xian Fang Quan Zheng
				Yan Xi Zhen Zi
				No. 20000725
Total	**6,507.96**			

3. As advised by the Group, the tenants are independent third parties, which are not connected with and are independent of, any of the directors, or any of their respective associates of the Group.

4. As advised by the Group, Dunxin Paper Co., Ltd is a wholly-owned subsidiary of the Company.

5. The property was inspected by our Mr. Lawrence Chan Ka Wah (MRICS MHKIS RPS(GP) MHIREA on 11 December 2013. The external condition of the property is fair.

6. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, Dacheng Law Offices, which contains, *inter alia*, the following information:

   (a) Dunxin Paper Co., Ltd is the current registered owner of the property, which is entitled to occupy, lease, transfer and mortgage the property;

   (b) The property is subject to a mortgage in favour of China Merchants Bank Company Limited (Zhangzhou Branch) with the expiry date on 24 September 2014; and

   (c) The tenancies of portion of the property leased by Dunxin Paper Co., Ltd to tenants are valid and legal effective, the tenancy agreements have been registered in the relevant government organization.

7. The property is situated in Jinlin Industrial Park, which is an industrial zone with various low-rise industrial complexes and ancillary low to medium-rise residential and commercial buildings. It is about 20-minute driving distance to the downtown of Changtai County and about 50-minute driving distance to Zhangzhou City Centre. Bus and taxi are accessible to the property.

8. Pursuant to a tenancy agreement entered into between Dunxin Paper Co., Ltd (Party A) and Zhangzhou City Guomei Packing Company Limited* (漳州市國美包袋有限公司) (Party B) dated 23 May 2014, portion of the property with a total gross floor area of approximately 1,080 sq.m. is leased to Party B at a monthly rent of RMB5,400 exclusive of other operating outgoings for a term of 4 years from 23 May 2014 to 23 May 2018.

* *For identification only*

VALUATION CERTIFICATE

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 March 2014
6.	The Dormitory No. 83 Jinlin Industrial Park Yanxi Town Changtai County Zhangzhou City Fujian Province the PRC (Near property no. 2)	The property comprises the whole of a 6-storey dormitory building completed in about 2010. The total gross floor area of the property is approximately 4,818.8 sq.m.. The land use rights of the property together with property no. 2 were granted for a term of 50 years expiring on 11 March 2053 for industrial use.	The property together with portion of property no. 5 with a total gross floor area of approximately 2,190 sq.m. were subject to a tenancy commencing on 1 September 2013 and expiring on 30 August 2016 at a monthly rent of RMB 36,725 exclusive of other operating outgoings. Portion of the property was occupied by the tenant for retail use and portion of the property was occupied by the Group for dormitory use as at the date of valuation.	RMB 5,000,000 (equivalent to approximately HK$6,300,000) **Interest attributable to the Group** 100% **Market Value in existing state attributable to the Group as at 31 March 2014** RMB5,000,000 (equivalent to approximately HK$6,300,000)

Notes:

1. Pursuant to a State-owned Land Use Certificate (Document No.: Tai Guo Yong (2008) No. 00930), the land use rights of the property together with property no. 2 were granted to Dunxin Paper Co., Ltd for a term expiring on 11 March 2053 for industrial use.

2. Pursuant to a Building Ownership Certificate (Document No.: Chang Tai Xian Fang Quan Zheng Yan Xi Zhen Zi No. 20000720), the ownership of the property with a gross floor area of approximately 4,818.8 sq.m. is vested in Dunxin Paper Co., Ltd.

3. As confirmed by the Company, the tenant is an independent third party, which is not connected with and is independent of, any of the directors, or any of their respective associates of the Group.

4. As advised by the Group, Dunxin Paper Co., Ltd is a wholly-owned subsidiary of the Company.

5. The property was inspected by our Mr. Lawrence Chan Ka Wah (MRICS MHKIS RPS(GP) MHIREA) on 11 December 2013. The external condition of the property is good.

6. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, Dacheng Law Offices, which contains, *inter alia*, the following information:

   (a) Dunxin Paper Co., Ltd is the current registered owner of the property, which is entitled to occupy, lease, transfer and mortgage the property; and

   (b) The property together with property no. 2 are subject to a mortgage in favour of China Merchants Bank Company Limited (Zhangzhou Branch) with expiry date on 24 September 2014.

7. The property is situated in Jinlin Industrial Park, which is an industrial zone with various low-rise industrial complexes and ancillary low to medium-rise residential and commercial buildings. It is about 20-minute driving distance to the downtown of Changtai County and about 50-minute driving distance to Zhangzhou City Centre. Bus and taxi are accessible to the property.

Set out below is a summary of certain provisions of the Memorandum and the Articles and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 27 August 2012 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"). The Memorandum and the Articles comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, *inter alia*, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 11 June 2014 which shall become effective upon commencement of trading of Shares on the Stock Exchange. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) *Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates (as defined in the Articles) is materially interested, but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or

(ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) *Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;

(bb) becomes of unsound mind or dies;

(cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) if he is prohibited from being a director by law;

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) *Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) *Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) *Register of Directors and Officers*

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;

(iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or

(v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company shall make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers;

(ee) the fixing of the remuneration of the directors and of the auditors;

(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the

Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the

Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 18 September 2012.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Articles.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies

Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

(n) Winding up

A company may be wound up compulsorily by order of the Court voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman (Cayman) Limited, the Company's special legal counsel on Cayman Islands law, has sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VII to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

ESTABLISHMENT, OPERATION AND MANAGEMENT OF A WHOLLY FOREIGN-OWNED ENTERPRISE

The establishment, operation and management of corporate entities in China are governed by the Company Law of the PRC (中華人民共和國公司法) (the "Company Law"), which was adopted by the Standing Committee of the National People's Congress, the NPC Standing Committee (全國人民代表大會常務委員會) on 29 December 1993 and became effective on 1 July 1994. It was last amended on 28 December 2013 and became effective from 1 March 2014. Under the Company Law, the companies are generally classified into two categories: limited liability companies and limited companies by shares. The Company Law also applies to foreign-invested limited liability companies. According to the Company Law, where laws on foreign investment have different stipulations, such stipulations shall prevail.

According to the Implementing Opinion on Several Issues Concerning the Application of Law in the Administration of the Examination, Approval and Registration of Foreign-invested Companies (關於外商投資的公司審批登記管理法律適用若干問題的執行意見) issued jointly by the State Administration for Industry and Commerce (國家工商行政管理總局), the MOFCOM, the General Administration of Customs (海關總署) and the State Administration of Foreign Exchange (國家外匯管理局) on 24 April 2006 and became effective on the same day, the organization structure of limited liability companies in the form of a foreign equity joint venture, wholly foreign-owned limited liability company or foreign-invested stock-holding limited company shall comply with the provisions of the Company Law and the articles of associations.

The establishment procedures, approval procedures, registered capital requirements, foreign currency exchange, accounting practices, taxation and labour matters of a wholly foreign-owned enterprise are regulated by the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法), which was promulgated on 12 April 1986 and amended on 31 October 2000, and the Implementation Rules to the Wholly Foreign-owned Enterprise Law (中華人民共和國外資企業法實施細則) which was promulgated on 12 December 1990 and amended on 19 February 2014.

FOREIGN INVESTMENT IN PAPER AND PRINTING INDUSTRY

General Provisions

In order to regulate foreign investment in certain industries in the PRC, the PRC government promulgates Catalogue of Industry for Guiding Foreign Investment (外商投資產業指導目錄) (the "Catalogue") from time to time. Over the past years, there have been several changes in the policies and regulations on foreign investment in the paper making and printing industry in the PRC.

Pursuant to the Catalogue (revised in 2011), single production line for chemical wood pulp with an annual production capacity of 300,000 tonnes or more or single production line for chemi-mechanical wood pulp with an annual production capacity of 100,000 tonnes or more, mainly using overseas timber resources, and production lines for high-grade paper or paperboard built simultaneously (limited to Chinese-foreign equity or contractual joint ventures) are encouraged, printing of publications (Chinese parties as controlling shareholders) is restricted and production of Xuan paper is prohibited. Foreign investment in other paper manufacturing projects is permitted.

Special Provisions

Regulations for Paper Making Industry

The NDRC promulgated the Development Policy for Paper Making Industry (造紙產業發展政策) on 15 October 2007, pursuant to which the following policies were advocated: (i) using wood fibers and waste paper as the major raw materials for paper manufacturing; (ii) raising the utilization rate and recycling rate of waste paper; (iii) reducing the number of small-scaled paper manufacturing enterprises; (iv) introducing environmentally friendly technologies and skills to paper manufacturing enterprises to achieve the purpose of reducing pollutants; and (v) using waste paper to manufacture newsprint paper and wrapping paper. In the China's Twelfth Five-Year Plan for the national economic and social development, it was proposed to strengthen the environmental protection of papermaking, printing, dyeing, the chemical industry, the leather making, the Large-Scaled Livestock and Poultry Breeding and other industries''. In the light of the above proposals, ''Scale and environment'' will be a major concern for the development of the paper making industry and will subsequently pose a considerable impact on the management and development of paper manufacturers.

In order to promote the industrial restructuring and upgrading, the NDRC promulgated the Guiding Catalogue of Industrial Structure Adjustment (產業結構調整指導目錄) (''Guiding Catalogue''). Pursuant to the Guiding Catalogue, new construction of single production line for chemical wood pulp with its annual production capacity no more than 300,000 tonnes or single production line for chemi-mechanical wood pulp or chemical bamboo pulp with an annual production capacity no more than 100,000 tonnes, and the newsprint and art paper production lines belonged to the restriction catalogue. Single pulp production line with its annual production capacity no more than 10,000 tonnes, mainly using waste paper resources, and the culture paper production lines within the width of 1.76 m. and the speed of 120 m. per minute, and production lines for white board, cardboard paper and corrugated paper within the width of 2 m. and the speed of 80 m. per minute belonged to the washout catalogue.

Regulations for Printing Industry

On 2 August 2001, the State Council promulgated Regulations on the Administration of the Printing Industry (印刷業管理條例) which came into effect on the same day. The Regulations on the Administration of the Printing Industry apply to the operations of publications printings, decoration and packaging printing, and other printing operational matters.

The Regulations on the Administration of the Printing Industry provide that the State adopts license system for printing operations. No enterprise or individual may undertake printing operations without obtaining the license for printing operations according to these Regulations. Printing operator shall establish systems of printing undertaking verification, printing undertaking registration, printed goods custody, printed goods delivery and disposal of printed defective goods. A company that violates this regulation may subject to administrative penalties including but not limited to fines, ordering to rectify, revocation of the licence, etc.

On 29 January 2002, the General Administration of Press and Publication (新聞出版總署) and the former Ministry of Foreign Trade and Economic Cooperation (前對外貿易經濟合作部) promulgated the Interim Provisions on the Establishment of Foreign Investment Printing Enterprise (設立外商投資印刷企業暫行規定), which apply to the printing enterprises with foreign investment established in the PRC. The establishment of a foreign invested enterprise shall apply for the approvals from the General

Administration of Press and Publication and the former Ministry of Foreign Trade and Economic Cooperation or its local counterpart. The registered capital shall be no less than RMB10 million for foreign invested enterprise engaging in decoration and packaging printing and the term of operation of the enterprise shall be no more than 30 years. It is permitted by the State to establish sino-foreign joint printing enterprises that are engaged in the printing of publications, printed matters for packaging decorations and other printed matters, and to establish solely foreign-funded enterprises that are engaged in the printing and management of printed matters for packaging decorations.

On 12 November 2008, the General Administration of Press and Publication and the Ministry of Foreign Trade and Economic Cooperation promulgated Supplement to the Interim Provisions on the Establishment of Foreign Investment Printing Enterprise (關於設立外商投資印刷企業暫行規定的補充規定), which took effect on 1 January 2009. Pursuant to this supplement, the registered capital threshold for foreign invested enterprise engaging in decoration and packaging printing as stipulated in the Interim Provisions on the Establishment of Foreign Investment Printing Enterprise is no longer applicable to Hong Kong or Macao investors. Hong Kong or Macao investors shall have the same registered capital requirement as domestic investors.

The Interim Measures on the Qualifications of Printing Operators (印刷業經營者資格條件暫行規定) was implemented on 9 November 2001. Enterprises undertaking decoration and packaging printing shall have fixed production and operation place(s) suitable for operation of printing business, which shall not be less than 600 square meters; shall have a minimum registered capital of no less than RMB1,500,000; shall have necessary equipment for decoration and packaging printing; shall have corresponding organizations and personnel necessary for the operation; shall have completed systems of printing undertaking verification, printing undertaking registration, printed goods custody, printed goods delivery, printed defective goods destroying, financial and quality control and its legal representative and major personnel in charge of production or operation shall be trained and shall obtain the certificate of completion of training of printing regulations.

Regulations for Cogeneration of Heat and Power (熱電聯產) ("CHP")

On 1 November 1997, Energy Conservation Law of the PRC (中華人民共和國節約能源法) was adopted at the 28th Session of Standing Committee of the Eighth NPC, which set out clearly the State encouraged promoting the technologies of CHP and centralized heat supply, to improve the utilization rate of cogeneration units. On 28 October 2007, The Energy Conservation Law of the PRC was revised and adopted at the 30th Session of the Standing Committee of the Tenth NPC, which was promulgated and came into force as of 1 April 2008. According to the revised Energy Conservation Law, the State encourages industrial enterprises to adopt the technologies of CHP, waste heat and pressure generating, clean coal and advanced energy consumption monitoring and control, etc.

On 17 February 1998, the State Planning Commission (國家計劃委員會), the State Economic and Trade Commission (國家經濟貿易委員會), the Ministry of Power Industry (電力工業部) and the Ministry of Construction (建設部) issued a notice of regulations on developing cogeneration of heat and power. According to that regulations, each level of economic management department is the planning and administration department of CHP. On 22 August 2000, the State Development Planning Commission, the State Economic and Trade Commission, the Ministry of Construction and the State Environmental Protection Administration (國家環境保護總局) ("SEPA") which is now known as the Ministry of Environmental Protection (環境保護部) ("MEP") made amendment and supplement to the foresaid regulations, and jointly issued Regulations on developing cogeneration of heat and power (關於發展熱電聯產的規定), which was revised by the NDRC on 30 June 2011. According to the regulations, basic construction project with its single co-production capacity less than 25MW and combined gas-steam cycle cogeneration units with total power generation capacity below 25MW shall submit to the planning commission of provinces, autonomous regions or municipalities directly under the Central Government for approval and submit to the State Planning Commission for record.

Regulations for Special Equipment (特種設備)

On 29 June 2013, Special Equipment Safety Law of the People's Republic of China (中華人民共和國特種設備安全法) was adopted at the 3rd session of standing committee of the twelfth NPC and came into effect on 1 January 2014. Before that, the State Council promulgated the Regulations on Safety Supervision over Special Equipment (特種設備安全監察條例) on 11 March 2003 and revised the regulations on 24 January 2009, and the AQSIQ promulgated the Management Measures for the Registration of Boiler Pressure Vessel (鍋爐壓力容器使用登記管理辦法) on 14 July 2003, which took effect on 1 September 2003. The law and regulations shall be observed in the production (including design, manufacturing, installment, reform and maintenance, hereinafter the same), use, inspection and testing of special equipment, which refer to the boilers, pressure vessels (including gas cylinders, hereinafter the same), pressure pipelines, elevators, cranes, passenger cableways, and large entertainment facilities that involve the safety of life and that have relatively high risks.

Pursuant to the aforesaid law and regulations, before the special equipment is put into use or within 30 days after it is put into use, the entity using the special equipment shall make registration with the department of safety supervision of the municipality directly under the Central Government or the city (if it is divided into districts). The registration mark shall be placed or attached at a notable position on that special equipment. An entity using special equipment shall establish the safety technical archives of special equipment and provide daily maintenance to the special equipment in use, and shall conduct regular inspection by itself or the inspection and testing institution. An entity using special equipment shall, in accordance with the requirements of the safety technical code on regular inspection, file a request for regular inspection with the inspection and testing institution in 1 month prior to the expiry of the period of validity of the safety inspection. An entity using boilers shall, in accordance with the requirements of the safety technical code on regular inspection, make boiler water (dielectric) processing and subject to the regular inspection of the inspection and testing institutions.

TAXES AND DUTIES APPLICABLE TO PAPER MAKING AND PRINTING INDUSTRY

Income Tax

According to the EIT Law promulgated on 16 March 2007 and effective from 1 January 2008, and the Implementation Rules to the EIT Law (中華人民共和國企業所得稅法實施條例), which was promulgated on 6 December 2007 and effective from 1 January 2008, the income tax for both domestic and foreign-invested enterprises will be at the same rate of 25%.

Value-added Tax

Pursuant to the Provisional Regulations on VAT (中華人民共和國增值稅暫行條例), which was latest amended on 5 November 2008 and effective from 1 January 2009, and its implementation rules, all entities or individuals in the PRC engaging in the sale of goods, the provision of processing services, repairs and replacement services, and the importation of goods are required to pay VAT. VAT payable is calculated as "output VAT" minus "input VAT". The rate of VAT is 17% for those engaging in the sale or import of goods except otherwise provided by paragraph (2) and paragraph (3) of Article 2 in the Provisional Regulations on VAT of the PRC and is 17% for those providing processing services, repairs and replacement services.

In accordance with the Notice on Adjustment of the Tax Refund Rate for Exported Goods (關於調整出口貨物退稅率的通知) jointly issued by the Ministry of Finance and the State Administration of Taxation on 13 October 2003, effective from 1 January 2004, tax refund on the export of pulp and paperboard was eliminated. The elimination of the tax refund was intended to discourage the export of paper and paperboard due to increased domestic demand for such products. The elimination of tax refund also encouraged manufacturers of such products to make domestic sales. The increase in domestic supply may result in a reduction of imports of such products. According to the Notice on Lowering Certain Product Export Tax Rebates (關於調低部分商品出口退稅率的通知) issued jointly by the Ministry of Finance and the State Administration of Taxation on 19 June, 2007, effective as of 1 July 2007, the tax refund rate on paper products was reduced from 13% to 5%. However, as part of the PRC's response to financial crisis, the tax refund rate of some of the paper products such as hand-made paper and paperboard, paper or paperboard made boxes, pouches, wallets and writing compendiums, etc were increased to 13% under the Notice of on Increasing Certain Light Textile and Electronic Information Products Export Tax Rebates (關於提高輕紡、電子信息等商品出口退稅率的通知) issued jointly by the Ministry of Finance and the State Administration of Taxation on 27 March 2009.

Urban Maintenance and Construction Tax and Education Surcharge

Pursuant to Tentative Regulations on Urban Maintenance and Construction Tax of the PRC (中華人民共和國城市維護建設稅暫行條例), which was promulgated by the State Council in 1985 and revised in 2011, and Circular of the State Administration of Taxation on Issues Concerning the Collection of the Urban Maintenance and Construction Tax (國家稅務總局關於城市維護建設稅徵收問題的通知), which was promulgated on 12 March 1994 and with effect from 1 January 1994, any organization or individual liable to consumption tax, VAT and business tax shall also be required to pay urban maintenance and construction tax. Payment of urban maintenance and construction tax shall be based on the consumption tax, VAT and business tax which a taxpayer actually pays and shall be made simultaneously when the latter are paid. The rates of urban maintenance and construction tax shall be 7%, 5% and 1% for a taxpayer in a city, in a county town or town and in a place other than a city, county town or town, respectively.

In accordance with Tentative Provisions on the Collection of Education Surtax (徵收教育費附加的暫行規定), all institutions and individuals who pay consumption tax, VAT and business tax shall also be required to pay education surtax in accordance with these Provisions. The education surtax rate is 3% of the amount of VAT, business tax and consumption tax actually paid by each institution or individual, and the surtax shall be paid simultaneously with VAT, business tax and consumption tax.

Dividend Distribution

Before the promulgation of the EIT Law, the principal regulations governing distribution of dividends paid by wholly foreign-owned enterprises include the Wholly Foreign-owned Enterprise Law, the Foreign-invested Enterprise and Foreign Enterprise Income Tax Law of the PRC (中華人民共和國外商投資企業和外國企業所得稅法) and their respective Implementation Regulations.

Under these regulations, wholly foreign-owned enterprises in China may only pay dividends from accumulated after-tax profit, if any, determined in accordance with PRC accounting standards and regulations and dividends paid to its foreign investors are exempt from withholding tax. However, the exemption provision in relation to withholding tax has been revoked by the EIT Law which prescribes a standard withholding tax rate of 20% on dividends and other China-sourced passive income of non-resident enterprises which do not have an establishment or place of business in China, or if established, the relevant income is in fact not associated with such establishment or place of business in China. This tax rate has been further reduced to 10% by the Implementation Rules to the EIT Law.

The PRC and the government of Hong Kong signed Arrangement between the Mainland of the PRC and Hong Kong SAR for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排) on 21 August 2006 (the "Arrangement"). According to the Arrangement, a no more than 5% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident, provided that such Hong Kong resident directly holds at least 25% of the equity interests of the PRC company. A no more than 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident if such Hong Kong resident holds less than 25% of the equity interests of the PRC company.

Furthermore, pursuant to the Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Treaty Agreements (國家稅務總局關於執行稅收協定股息條款有關問題的通知), which was promulgated and became effective on 20 February 2009, all of the following requirements should be satisfied where a fiscal resident of the other party to the tax agreement can be entitled to a tax rate specified in the tax agreement for the dividends paid to it by a PRC resident company: (a) such a fiscal resident who receives dividends should be a company as provided in the tax agreement; (b) equity interests and voting shares of the PRC resident company directly owned by such resident reaches a specified percentage; and (c) the equity interests of the PRC resident company directly owned by such fiscal resident, at any time during the twelve consecutive months prior to the receipt of the dividends, reaches a certain percentage specified in the tax agreement.

In addition, according to the Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (Trial) (非居民享受稅收協定待遇管理辦法(試行)) ("Administrative Measures") which came into force on 1 October 2009, where a non-resident enterprise (as defined under the PRC tax laws) that receives dividends from PRC resident enterprises intends to enjoy the favorable tax benefits under the tax arrangements, it shall submit an application for approval to the competent tax authority. Without being approved, the non-resident enterprise shall not enjoy the favorable tax treatments provided in the tax treaties.

ENVIRONMENTAL PROTECTION

General Provisions

The PRC has implemented strict environmental protection regulations on the papermaking and printing industry. Papermakers and printing operator should comply with the relevant environmental protection regulations for various papermaking and printing phases, including the construction of production project, completion of the construction, daily operation, manufacture and printing.

According to Environmental Protection Law of the PRC (中華人民共和國環境保護法) promulgated on 26 December 1989 by the Standing Committee of the Seventh NPC, whose amendments were made on 24 April 2014 and will become effective on 1 January 2015, and the other relevant regulations, the SEPA implements unified supervision and management of national environmental protection. The environmental protection bureaus at or above the county level are responsible for the environmental administration within their respective jurisdictions. According to the national environmental laws, the MEP sets national standards for pollutants emission and local environmental protection bureaus may set stricter local standards. Enterprises are required to comply with the stricter of the two standards. Enterprises that cause pollution and other public hazards shall adopt environmental protection measures in their plans and establish a system for taking responsibility for environmental protection. Such enterprises shall also take effective measures to prevent and control the pollution and harms caused to the environment by waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and radiation generated in the course of production, construction or other activities. Enterprises discharging pollutants shall apply for registration in accordance with the requirements stipulated by the administration department of environmental protection of the State Council. Enterprises discharging pollutants in excess of the national or local prescribed standards shall pay a fee for excessive discharge according to state provisions. The PRC government may, according to the circumstances and the extent of the pollution, impose administrative penalties of different types and degrees on the violators (enterprises or individuals) of the relevant national environmental laws. Such penalties include warnings, fines, orders to make rectification within a specific period, orders to suspend production, orders to reinstall and use pollution treatment facilities that have been dismantled or left idle without prior approval, administrative sanctions on relevant responsible personnel and orders to close the business. The PRC government may also impose fines together with any of the abovementioned administrative penalties. The enterprises or individuals that have caused environmental hazards may be responsible to compensate the victim, and depending on the seriousness of the case, the personnel directly responsible may be investigated for criminal liability.

On 26 December 2009, the Standing Committee of the National People's Congress of the PRC promulgated Tort Liability Law of the PRC (中華人民共和國侵權責任法) ("Tort Liability Law"), which came into effect on 1 July 2010. The Tort Liability Law highlighted the principle that polluters are to assume liability in respect of harm caused by environmental pollution, irrespective of whether they have breached national environmental protection regulations. The party that discharged the polluting substance bears the burden of proof that it is not liable for the harm in accordance with relevant provisions of the law, or that there is no causative link between its conduct and the harm caused to the victim. The law also provides that where the relevant environmental pollution is the fault of a third party, the person suffering harm as a consequence can claim compensation from either the third party itself or the party which actually discharged the polluting substance due to the act of the third party with the polluter able to recover any damages paid to the victim from the third party if it can prove that the environmental pollution was the third party's fault.

Special Provisions

Environmental Impact Appraisal and Acceptance Checks for Construction of Environmental Protection Facilities

On 29 November 1998, the State Council promulgated Regulations on Environmental Protection Management for the Construction Project (建設項目環境保護管理條例). On 28 October 2002, the NPC Standing Committee approved Law of the PRC on Appraising of Environmental Impacts (中華人民共和國環境影響評價法) which became effective on 1 September 2003. According to such laws and regulations, the PRC Government has set up a system to appraise the environmental impact from project construction, and classify and administer the environmental impact appraisals in accordance with the degree of the environmental impact. For any project the construction of which may have a material impact on the environment, an environmental impact report which thoroughly appraises the environmental impact is required; for any project which may have a slight impact on the environment, an environmental impact statement analyzing or appraising the specific environmental impact is required; and for any project which may have minimal impact on the environment, an environmental impact appraisal is not required but filing of an environmental impact registration form is required. The construction unit must submit the aforesaid environmental impact appraisal documents to the relevant administrative departments of environmental protection for examination and approval. For any enterprise which fails to submit the aforesaid environmental impact appraisal documents according to the PRC laws and regulations or if the documents are not approved after examination by the relevant administrative departments, the departments responsible for approving the relevant project will not approve such project and the enterprise shall not commence the construction of the project. In addition to the environmental appraisal before the commencement of the construction project, pursuant to the Regulations on Environmental Protection Management for the Construction Project, the construction unit shall, upon completion of a construction project, file an application with the competent department of environmental protection administration that examine and approve the said construction project environmental impact report, environmental impact statement or environmental impact registration form for acceptance checks on completion of construction of environmental protection facilities that are required for the said construction project. Besides, acceptance checks for completion of construction of environmental protection facilities shall be conducted simultaneously with the acceptance checks for completion of construction of the main body project. For construction projects that are built in phases, start production or are delivered for use in phases, acceptance checks for their corresponding environmental protection facilities shall be conducted in phases.

On 2 September 2008, the MEP promulgated the Classification Managerial Catalogue for Environmental Impact Appraisal of Construction Project (建設項目環境影響評價分類管理名錄). According to the regulations, for all the pulp producing and paper making (including paper making with waste paper) projects, an environmental impact appraisal report is required; for the paper products making project using chemical process, an environmental impact appraisal statement should be submitted; and for other paper products making projects, filing of an environmental impact registration form is necessary.

Discharge of Sewage

As required in Environmental Protection Law of the PRC, enterprises discharging any pollutants in their daily operation and manufacturing shall observe the national discharge standards which are regulated by the SEPA. In accordance with the aforesaid law, the MEP has established various discharge standards, as amended and revised from time to time, with regards to each of the discharge of water pollutants, solid pollutants, gas exhaust and noises. Since paper manufacturing and printing enterprises discharge pollutants in their daily operations, they are required to observe the pollutants discharge standards as promulgated and amended by MEP from time to time.

Under Measures on Pollution Sources Monitoring (污染源監測管理辦法), which was promulgated on and effective from 1 November 1999, enterprises discharging pollutants are subject to supervision of the pollution sources in their daily operation. According to the business nature of such enterprises, the requirements of the environmental management, the class of the discharged pollutants and the national pollutants discharge standards, the local environmental protection authorities will supervise the enterprises on their discharge outlets of pollutants and pollutants treatment facilities regularly. Since paper manufacturing and printing enterprises discharge sewage in the course of production, they are subject to the aforesaid supervision of pollution sources.

According to Law on the Prevention and Control of Water Pollution of the PRC (中華人民共和國水污染防治法) which was approved by the NPC Standing Committee on 11 May 1984, amended on 28 February 2008 and implemented on 1 June 2008, and Regulations on the Implementation of the Law on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法實施細則) as promulgated by the State Council on 20 March 2000, enterprises which directly or indirectly discharge industrial waste water or medical sewage into water are required to obtain a Pollutants Discharge Permit. The Pollutants Discharge Permit is issued to enterprises which discharge pollutants within the regulated discharge amount, and the Provisional Pollutants Discharge Permit is issued to enterprises which discharge pollutants in excess of the regulated discharge amount but will decrease the discharge amount within a certain time limit. Since paper manufacturing and printing enterprises discharge pollutants to water bodies in the course of production, they are required to apply for the Pollutants Discharge Permit or the Provisional Pollutants Discharge Permit as required by the aforesaid regulations.

On 25 June 2008, the former State Environmental Protection Administration and the AQSIQ, issued Standards for the Discharge of Water Pollutant for the Pulp and Paper Making Industry (制漿造紙工業水污染物排放標準) which came into force from 1 August 2008 and sets stricter standards for the discharge of water pollutant for the paper-making industry.

Air Pollution

Pursuant to the PRC Air Pollution Prevention Law (大氣污染防治法), effective since 1 September 2000, the environment protection department of State Council issued the national air environmental quality standards. Each of the local environmental protection bureaus is authorised to regulate air pollution within their respective jurisdictions by formulating more specific local standards, and may impose penalties for infringement.

Enterprises which emit pollutant into the air must comply with the national and relevant local air environmental quality standards. If the smoke emitted exceeds the national or local air environmental quality standards, the relevant enterprises must rectify their actions within a limited timeframe, and the environmental protection authority at the county level or above can impose a penalty upon such enterprises.

Collection of Sewage Charges

According to the Regulations on the Collection and Use of Sewage Charges (排污費徵收使用管理條例), which was promulgated on 2 January 2003 and effective from 1 July 2003, where pollutants are discharged into the atmosphere or the ocean, the polluter shall pay sewage charges according to the types and amount of pollutants discharged pursuant to the Law on the Prevention and Control of Atmospheric Pollution or the Marine Environmental Protection Law; where pollutants are discharged into water bodies, the polluter shall pay sewage charges in accordance with the types and number of pollutants discharged pursuant to the Law on the Prevention and Control of Water Pollution. If pollutants discharged into water bodies exceed the national or local discharge standards, the number of sewage charges to be paid shall be doubled in accordance with the types and amount of pollutants discharged. However, anyone who discharges sewage to the centralized urban sewage treatment facilities and pays fees for sewage treatment is not required to pay any sewage charges once again. Where there are no storage building or disposal facilities and sites for industrial solid waste, or where the storage or disposal facilities and sites for industrial solid waste fail to meet environmental protection standards, the sewage charges shall be paid in accordance with the type and number of pollutants discharged pursuant to the Law on the Prevention and Control of Solid Waste Pollution (固體廢物污染環境防治法); where the landfill disposal of hazardous waste fails to comply with state regulations, sewage charges shall be paid in accordance with the types and number of hazardous wastes. Anyone who produces environmental noise pollution exceeding the national noise standards shall pay sewage charges in accordance with the sound level of excessive noise emission pursuant to the Law on the Environmental Prevention and Control of Noise Pollution (環境噪聲污染防治法). Furthermore, in accordance with the Regulations on the Collection and Use of Sewage Charges, polluters who have paid sewage charges shall not be exempted from the liability of the pollution, making compensation relating to the pollution made and assuming liabilities under other laws and administrative regulations.

Water-Drawing

According to Water Law of the PRC (中華人民共和國水法) promulgated by the Standing Committee of the Ninth NPC on 29 August 2002 and took effect on 1 October 2002 and Regulation on the Administration of the Water Drawing Permit and the Levy of Water Resource Fees (取水許可和水資源費徵收管理條例) promulgated by the State Council on 21 February, 2006 and took effect on 15 April 2006, any enterprises and persons drawing water from rivers, lakes or underground shall apply to the water administrative departments or the drainage management departments for Water-drawing Permit and pay water resource fees in order to obtain the water-drawing right in accordance with the national water-drawing permit system and the water resource fee system. The water administrative departments, finance departments and pricing control departments at the county level or above are responsible for collection, supervision and management of the water resource fee. Since paper making and printing enterprises use large amount of water in the course of production, such enterprises are required to apply for the Water-drawing Permit and pay the water resource fees in accordance with the aforesaid laws.

On 9 April 2008, the Ministry of Water Resources (水利部) promulgated the Management Measures for Water-drawing Permit (取水許可管理辦法), pursuant to which construction project which needs to apply for Water-drawing permission the applicant shall entrust qualified units to file a construction project water resources argument report. For those construction projects with small water withdrawals and slight impact on surrounding environment, a water resources argument report is not required. Units or individuals shall draw water in accordance with the approved annual water drawing plan. If the water drawn shall exceed the plan or the quota, progressive fee should be paid for the excess part. The water resources fee collection standard is made by the price administrative departments of provinces, autonomous regions, and municipalities directly under the central government, jointly with the finance administrative departments and water administrative departments at the same level, which should be submitted to the government at the corresponding level for approval, and to the state council price administrative department, finance administrative departments and water administrative departments for record.

As paper making and printing enterprises need to draw a great amount of water in daily operation, they are required to obtain Water Drawing Permit in accordance with the relevant regulations, and pay the fees.

Cleaner Production

On 29 June 2002, Law of the People's Republic of China on Promoting Clean Production (中華人民共和國清潔生產促進法) was adopted at the 28th Session of the Standing Committee of the ninth NPC. Pursuant to the law, enterprises shall monitor the consumption of resources and the generation of waste in their production and provision of services and, when necessary, implement cleaner production examination of their production and provision of services. The enterprises whose emission of pollutants has surpassed the national or local standards or the indexes for controlling the total emission of pollutants as ratified by the relevant local people's governments shall carry out clean production checks. The enterprises that use noxious or harmful raw materials in their productions or emit noxious or harmful matters in the process of production shall carry out regular clean production checks, and report the result of checks to the administrative departments of environmental protection and the administrative departments of economy and trade of the local people's governments where they are situated.

On 29 February 2012, the Decision on Amending the Cleaner Production Promotion Law of the People's Republic of China (關於修改《中華人民共和國清潔生產促進法》的決定) was adopted at the 25th session of the Standing Committee of the Eleventh NPC. According to the amendment, under any of the following circumstances, enterprises shall be subject to compulsory cleaner production examination: (1) discharge pollutants beyond the national or local discharge limits or, though under the national or local discharge limits, beyond the total volume control indicators for discharge of major pollutants; (2) exceed the limit for energy consumption per unit of products, which constitutes high energy consumption; or (3) use toxic or harmful raw materials for production or discharge toxic or harmful substances during production. An enterprise subject to compulsory cleaner production examination shall report the examination results to the general coordination department for cleaner production and the environmental protection department of the local people's government at or above the county level and publish the examination results on local major media to receive oversight by the general public, except where trade secrets are involved.

On 16 August 2004, State Development and Reform Commission, State Administration of Environmental Protection promulgated the Interim Measures on Clean Production Checks (清潔生產審核暫行辦法), which was effective from 1 October 2004. Pursuant to the measures, clean production checks shall focus on enterprises, and the principles of combining the enterprise's voluntary check with the State's compulsory check and combining the enterprise's independent check with the externally assisted check shall be followed. The name list of the enterprises to conduct compulsory clean production checks shall be determined upon ratification of the environmental protection administrative department of the province, autonomous region, municipality directly under the Central Government, or municipality separately under State planning, or that of Sinkiang Production and Construction Army Corps after the local environmental protection administrative department proposes the name list of the preliminarily selected enterprises according to its scope of administrative powers and submits to the abovementioned ratifying environmental protection administrative department level by level. A group of enterprises shall be promulgated each year, of which the enterprises shall be notified in writing, and a copy of the name list shall be made to the development and reform (economic and trade) administrative department; meanwhile, the name list shall be published on a major local media. For the enterprises to carry out compulsory clean production checks, the time between every two checks shall not exceed five years.

On 13 December 2005, State Administration of Environmental Protection promulgated the notice of issuing the Regulations for Clean Production Check Procedure of Key Enterprises (關於印發重點企業清潔生產審核程序的規定的通知). Pursuant to that notice, the determined name list of key enterprises should be published as well as the information on the emission of their main pollutants for the public supervision. Key enterprises may conduct clean production checks independently or entrust a qualified agency to assist it in conducting the clean production checks. According to the Managerial Directory for key enterprises clean production industry (重點企業清潔生產行業管理名錄), pulp production, paper making(including waste paper manufacturing) belong to the key industry.

Security and Protection of the Radioisotope and Radioactive Ray Devices

On 14 September 2005, the Regulations on Security and Protection of the Radioisotope and Radioactive Ray Devices (放射性同位素與射線裝置安全和防護條例) was promulgated and effective from 1 December 2005. On 18 April 2011, the MEP promulgated the Administrative Measures for Security and Protection of the Radioisotope and Radioactive Ray Devices (《放射性同位素與射線裝置安全和防護管理辦法》). According to the aforesaid regulations, the State carries out the administration on radioactive source and radioactive ray devices by imposing a classification. The radioactive source is classified into classes I, II, III, IV and V, and the radioactive ray devices are classified into classes I, II and III in accordance to the potential hazards of these radioactive source and these radioactive ray devices to the human heath and environment. Furthermore, the issuance of licenses to entities that manufacture radioisotope, sell and use class I radioactive source, or sell and use class I radioactive ray devices, shall be examined and approved by the competent environment protection department under the State Council. The issuance of licenses to entities other than those abovementioned shall be examined and approved by the competent environment departments under the relevant provincial government, or by the Central Government in the case of autonomous regions or municipalities.

Pursuant to the Administrative Measures for the Safety License of the Radioisotope and Radioactive Ray Devices (放射性同位素與射線裝置安全許可管理辦法) promulgated by Ministry of Environment Protection on 18 January 2006 and revised on 6 December 2008, units that produces, sells or uses radioisotopes and radiation devices in the PRC (hereinafter referred to as radiation work units) should obtain the radiation safety license. Radiation work units, before applying for licences, shall prepare environmental impact assessment documents, and submit for examination and approval of the competent environmental authorities in accordance with the procedures prescribed by the State.

REGULATIONS ON IMPORT OF SOLID WASTES THAT COULD BE USED AS RAW MATERIALS

Customs Registration

Pursuant to the Provisions of the Customs of the PRC for the Administration of Registration of Declaration Entities (中華人民共和國海關對報關單位註冊登記管理規定) promulgated on 31 March 2005 and came into force on 1 June 2005, a consignor or consignee of imported or exported goods shall go through the procedures for registration of the declaration entity in the Customs at its locality in accordance with the provisions, and obtain the Declaration Registration Certificate of the Customs of the PRC for the Consignor or Consignee of Imported or Exported Goods (中華人民共和國海關進出口貨物收發貨人報關註冊登記證書). A consignor or consignee of imported or exported goods may, after registering with the Customs office, make its declarations at each Customs territory port of the PRC or at the centralized Customs surveillance place.

According to Interim Provisions on Environmental Protection Management for the Import of Wastes (廢物進口環境保護管理暫行規定), which was promulgated by six authorities including the State Administration of Environmental Protection, the Ministry of Foreign Trade and Economic Cooperation, the State Administration of Customs, the State Administration of Industry and Commerce and the State Administration for the Inspection of Commodities Imported and Exported on 1 March 1996 and became effective on 1 April 1996, approval from the State Administration of Environmental Protection shall be obtained for the import of wastes which are restricted from import but can be used as raw material under the catalogue attached to the Interim Provisions on Environmental Protection Management for the Import of Wastes, the "Catalogue of Wastes Restricted from Import (1996)" (國家限制進口的可用作原料的廢物目錄 (1996)). Besides, the Customs shall conduct inspection on wastes prescribed in the Catalogue of Wastes Restricted from Import (1996) and handle custom clearance formalities on the strength of the certificate of approval for the import of wastes issued by the SEPA and the certificate of up to standard issued by the agencies conducting import and export commodity inspection at the relevant ports. Furthermore, wastes to be imported shall be subject to pre-shipment inspection by the PRC commodity inspection agencies or commodity agencies that are designated or admitted by the State Administration for the Commodity Inspection and the shipment is not allowed unless the commodities are concluded as up to standard upon inspection.

In accordance with Announcement on The Application of Licenses For The Import of Solid Wastes That Can Be Used As Raw Materials (關於進口可用作原料的固體廢物申請事項的公告), promulgated by the State Administration of Environmental Protection on 23 August 2007 and became effective on 1 October 2007, application for the license for the import of solid wastes approved automatically from import that can be used as raw materials (自動許可進口類可用作原料的固體廢物進口許可證) shall be filed with the Registration and Management Centre for the import of wastes under the State Administration of Environmental Protection (the "Registration Centre"). Such license is issued by the

SEPA when it is satisfied with the application upon examination thereof and shall be sent to the unit making exploitation of wastes in accordance with its registered address on its business license by the Registration Centre by post.

According to Announcement on the Adjustment of the Managerial Catalogue of the Import Wastes (關於調整進口廢物管理目錄的公告), which was promulgated jointly by the MEP, MOFCOM, the NDRC, the State Administration of Customs and the AQSIQ on 3 July 2009 and became effective from 1 August 2009, recycled unbleached kraft papers, corrugated papers or paper boards (including the scrap ones) (the customs commodity code of which is 4707100000), recycled bleached papers and paperboards manufactured from chemical wood pulp and without body staining (including the scrap ones) (the customs commodity code of which is 4707200000) and recycled papers and paper boards made from mechanical wood pulp such as waste paper, magazines and other similar publications (including the scrap ones) (the customs commodity code of which is 4707300000) are prescribed in the catalogue of solid waste approved automatically from import which can be used as raw materials while other recycled papers or paperboards including unsorted scrap materials (the customs commodity code of which is 4707900090) are included in the catalogue of solid waste restricted from import which can be used as raw materials.

On 8 April 2011, the MEP, the MOFCOM, the NDRC, the General Administration of Customs and the AQSIQ jointly promulgated the Administrative Measures for the Import of Solid Waste (固體廢物進口管理辦法), which was effective on 1 August 2011. According to the measures, transfer of the relevant license for the import of solid waste shall be prohibited. The entrepot trade of solid waste shall be prohibited. Unless it is otherwise provided for, customs transit formalities shall not be handled for the import of solid waste (excluding waste paper). The relevant license for the import of solid waste must be obtained for the import of any solid waste included in the catalogue of solid waste restricted from import or eligible for automatic licensed import. The state shall apply a registration system to the overseas suppliers of imported solid waste that can be used as raw materials. An overseas supplier which exports to China solid waste that can be used as raw materials shall obtain a registration certificate issued by the quality supervision, inspection and quarantine department of the State Council. The state shall apply a registration system to the domestic consignees of imported solid waste that can be used as raw materials. A domestic consignee importing solid waste that can be used as raw materials shall, before signing a foreign trade contract, obtain a registration certificate issued by the quality supervision, inspection and quarantine department of the State Council.

Inspection and Quarantine and Environment Protection

According to the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes (中華人民共和國固體廢物污染環境防治法), the State forbids the import of solid wastes that cannot be used as raw material and those that cannot be utilized through harmless treatment, restricts the import of the solid wastes that can be used as raw materials, and implements the classification management of automatic licensing import thereto. The environmental protection administrative department of the State Council shall, in conjunction with the foreign trade administrative department and the economic comprehensive macro-control department of the State Council, the General Administration of Customs and the quality supervision, inspection and quarantine department of the State Council, formulate, adjust and publish solid waste catalogues of import-forbidden, import-restricted and automatic licensing import. For any import of solid wastes listed in the catalog of automatic licensing import, formalities on the automatic licensing import shall be gone through. The imported solid wastes shall comply with state environmental protection standards and be inspected to be qualified by the quality supervision, inspection and quarantine department.

Pursuant to the Law of the People's Republic of China on Import and Export Commodity Inspection (中華人民共和國進出口商品檢驗法) amended on 29 June 2013, the State Administration for Commodity Inspection shall make and adjust a catalogue of import and export commodities subject to compulsory inspection, and shall promulgate and implement the catalogue. No permission shall be granted for the sale or use of import commodities subject to compulsory inspection until they have undergone inspection.

Pursuant to the Regulations for the Implementation of the Law of the People's Republic of China on Import and Export Commodity Inspection (中華人民共和國進出口商品檢驗法實施條例), which were promulgated on 31 August 2005 and amended on 18 July 2013, the entry-exit inspection and quarantine organs shall conduct inspection (namely the statutory inspection) on the import and export commodities listed in the catalogue and other import and export commodities that shall be subject to the inspection of the entry-exit inspection organs as prescribed by laws and administrative regulations. The consignees of the import commodities subject to statutory inspection shall apply for inspection to the entry-exit inspection and quarantine organs at the place of customs declaration upon the strength of contracts, invoices, packing lists, bills of lading and other necessary credence and the relevant documents of approval; and within 20 days after the commodities are released by the customs houses, the consignees shall, in accordance with the provisions, apply for inspection to the entry-exit inspection and quarantine organs. No import commodity subject to statutory inspection that has not been inspected may be sold or used. With regard to the import commodities subject to verification administration, the consignees shall apply for verification to the entry-exit inspection and quarantine organs at the place of customs declaration. The entry-exit inspection and quarantine organs shall make verification in accordance with the provisions of the AQSIQ.

On 21 August 2009, the AQSIQ promulgated the Measures for the Inspection, Quarantine, Supervision and Administration of Imported Solid Waste That Can Be Used as Raw Materials (進口可用作原料的固體廢物檢驗檢疫監督管理辦法), which were effective on 1 November 2009. Then the AQSIQ promulgated the Detailed Rules for the Implementation of the Management of Registration of Domestic Consignee of Imported Waste Used as Raw Materials (For Trial Implementation) (進口可用作原料的固體廢物國內收貨人註冊登記管理實施細則(試行)) on 25 September 2009 and the Detailed Rules for the Implementation of the Management of Registration of an Offshore Supplier of Imported Waste Used As Raw Materials (進口可用作原料的固體廢物國外供貨商註冊登記管理實施細則) on 30 October 2009. Pursuant to the aforesaid regulations, the State shall adopt a system of pre-shipping inspection of the imported waste used as raw materials. When declaring imported waste to be used as raw materials for inspection, the consignee shall provide the pre-shipping inspection certificate issued by the inspection and quarantine inspection or by an inspection institution designated by the AQSIQ. The imported waste used as raw materials shall, after arrival, be subject to the inspection and quarantine of the inspection and quarantine institution according to law. The State shall adopt a registration system for offshore suppliers and domestic consignees of imported waste used as raw materials. Registration shall be completed before an offshore supplier and a domestic consignee conclude a foreign trade contract. The offshore supplier exporting solid waste to the PRC shall apply to the AQSIQ for registration and obtain a Certificate of Registration of Offshore Supplier of Imported Solid Waste That Can Be Used as Raw Materials (進口廢物原料境外供貨企業註冊證書). The domestic Consignee importing solid waste from overseas shall apply to the AQSIQ for registration and obtain the Certificate of Registration of Domestic Consignee of Imported Solid Waste That Can Be Used as Raw Materials (進口廢物原料國內收貨人登記證書).

On 11 March 2011, the Ministry of Environment Protection promulgated the Provisions on the Administration of the environmental protection of Imported Solid Waste That Can Be Used as Raw Materials (進口可用作原料的固體廢物環境保護管理規定) which specified that the enterprises processing and utilizing import solid waste shall obtain the license for the import of solid wastes (固體廢物進口許可證). Enterprises applying for the license shall have relevant system and measures to prevent the imported solid waste from polluting the environment, including establishing rules on records about the operation conditions of processing and using the imported solid waste, daily environment monitoring; and shall set up specialized department or staff to check, supervise and implement the relevant environment protection and pollution prevention work for imported solid wastes and the responsible staff or managers shall grasp the state policies, regulations and standards; and shall carry out clean production checks pursuant to the laws. Self-operating importing enterprises shall obtain the registration qualification of domestic consignee of imported solid waste that can be used as raw materials. Any enterprise to apply for the license for the import of solid wastes approved automatically from import that can be used as raw materials shall file an application with the MEP, and obtain the license for the import of solid wastes approved automatically from import that can be used as raw materials.

REGULATIONS ON THE TAKEOVER OF A DOMESTIC ENTERPRISE BY FOREIGN INVESTORS

Mergers and Acquisitions

According to the Provisions on the Takeover of Domestic Enterprises by Foreign Investors (No. 10 Circular) (關於外國投資者併購境內企業的規定「10號文」), which was jointly promulgated by the MOFCOM, State Assets Supervision and Administration Commission of the State Council, State Administration of Taxation, State Administration for Industry and Commerce, China Securities Regulatory Commission (CSRC) and State Administration of Foreign Exchange on 8 August 2006, took effect from 8 September 2006, and was amended on 22 June 2009, merger and acquisition of a domestic enterprise by foreign investors shall mean that:

(i) foreign investors, by agreement, purchase equity interest from shareholders of a PRC domestic enterprise with the result that such domestic company changes into a newly-established foreign-invested enterprise ("FIE");

(ii) subscribe for the increase in the registered capital of the PRC domestic enterprise with the result that such PRC domestic enterprise changes into a newly-established FIE;

(iii) the foreign investors establish a FIE and then, through such enterprise, purchase the assets of a PRC domestic enterprise by agreement and operate such assets; or

(iv) the foreign investors purchase the assets of a domestic enterprise by agreement and use such assets as investment to establish a FIE to operate such assets.

Pursuant to the regulations, where a domestic company, enterprise or natural person intends to take over its/his/her domestic affiliated company in the name of an offshore company which it lawfully established or controls, the transaction shall be subject to the examination and approval of the MOFCOM.

Pursuant to the Articles 39 and 40 of the Regulations, the listing of overseas special purpose companies (directly or indirectly controlled by a domestic company or an individual) shall be approved by the CSRC.

Foreign Currency Exchange

The principal regulation governing foreign currency exchange in China is the Foreign Exchange Administration Rules of the PRC (中華人民共和國外匯管理條例) (the "Foreign Exchange Administration Rules"). It was promulgated by the State Council on 29 January 1996, became effective on 1 April 1996 and was amended on 14 January 1997 and 5 August 2008. Under these rules, Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as capital transfer, direct investment, investment in securities, derivative products or loan unless prior approval of the SAFE is obtained.

Under the Foreign Exchange Administration Rules and Administration of the Settlement, Sale and Payment of Foreign Exchange Provisions, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE for paying dividends by providing certain evidential documents (board resolutions, tax certificates, etc.), or for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency (subject to a cap approval by SAFE) to satisfy foreign exchange liabilities. In comparison, foreign exchange transactions involving overseas direct investment or investment and exchange in securities, derivative products abroad are subject to registration with SAFE and prior approval or filing with the relevant governmental authorities (if necessary). Furthermore, the State shall administer foreign debts in a proportionate manner. Foreign debts borrowing shall be handled in accordance with relevant provisions of the State and registered as foreign debts at the relevant foreign exchange administrative authority.

On 21 October 2005, the State Administration of Foreign Exchange promulgated Notice of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investment via Overseas Special Purpose Companies (No. 75 Circular) (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知,「75號文」). According to the notice, a domestic resident shall, before establishing or controlling an overseas special purpose company, bring the required materials to the local branch or department of foreign exchange administration to apply for going through the procedures for foreign exchange registration of overseas investments. Where a special purpose company uses the funds raised from overseas financing for return investment or provides a domestic enterprise with shareholder's loans or other debt funds, the relevant domestic enterprise shall go through the relevant foreign exchange administration procedures in accordance with the presently applicable laws and regulations for administration of foreign debts and foreign exchange.

1. FURTHER INFORMATION ABOUT THE COMPANY AND ITS SUBSIDIARIES

(a) Incorporation of the Company

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 27 August 2012 with an authorised share capital of HK$380,000.00 divided into 38,000,000 Shares. On 27 August 2012, 750 Shares were allotted and issued nil paid, as to 1 share to Codan Trust Company (Cayman) Limited (which was transferred to Pure Sheen on the same date), 649 Shares to Pure Sheen, 50 Shares to Radiant Prestige, and 50 Shares to Radiant Path. As the Company was incorporated in the Cayman Islands, it is subject to the Companies Law and its constitution comprises the Memorandum and the Articles. A summary of certain relevant parts of the constitution of the Company and relevant aspects of the Companies Law is set forth in Appendix IV to this prospectus.

(b) Changes in share capital of the Company

The following alterations in the share capital of the Company have taken place since its incorporation:

(i) On 27 August 2012, an aggregate of 750 Shares were allotted and issued, nil paid, as to 1 share to Codan Trust Company (Cayman) Limited (which was transferred to Pure Sheen on the same date), 649 Shares to Pure Sheen, 50 Shares to Radiant Prestige, and 50 Shares to Radiant Path, which were all subsequently credited as fully paid as described in paragraph 1(d)(xv) of this Appendix.

(ii) On 29 May 2014, pursuant to the agreement for the sale and purchase of the entire issued share capital of Dunxin BVI referred to in paragraph 2(a) headed "Summary of material contracts" of this Appendix, Mr. Zheng, Gang Bo, Sebert and Man Hong transferred 750 shares, 158 shares, 50 shares and 42 shares of US$1.00 each in Dunxin BVI to the Company and in consideration of and in exchange for which, the Company allotted and issued an aggregate of 9,250 Shares, credited as fully paid, as to 5,850 Shares to Pure Sheen (as directed by Mr. Zheng), 450 Shares to Radiant Prestige (as directed by Mr. Zheng), 450 Shares to Radiant Path (as directed by Mr. Zheng), 1,580 Shares to Gang Bo, 500 Shares to Sebert and 420 Shares to Man Hong; and the Company credited as fully paid at par the 750 Shares issued nil-paid on 27 August 2012. Following the above transfers, allotment and issue, the Company was owned as to 65% by Pure Sheen, 5% by Radiant Prestige, 5% by Radiant Path, 15.8% by Gang Bo, 5% by Sebert and 4.2% by Man Hong.

(iii) Pursuant to the written resolutions of the Shareholders passed on 11 June 2014, the authorised share capital of the Company was increased from HK$380,000.00 to HK$30,000,000.00 by the creation of an additional 2,962,000,000 Shares to rank *pari passu* with the existing Shares in all respects as described in paragraph 1(c)(i) of this Appendix.

(iv) Immediately following completion of the Share Offer and the Capitalisation Issue, the authorised share capital of the Company will be HK$30,000,000.00 divided into 3,000,000,000 Shares, of which 992,800,000 Shares will be allotted and issued fully paid or credited as fully paid, and 2,007,200,000 Shares will remain unissued. There is no present intention to issue any of the authorised but unissued share capital of the Company and, without the prior approval of the members in general meeting, no issue of Shares will be made after completion of the Share Offer and the Capitalisation Issue which would effectively alter the control of the Company.

Save as disclosed herein and in paragraphs 1(a) and 1(c)(ii) of this Appendix, there has been no alteration in the share capital of the Company since its incorporation.

(c) Written resolutions of the Shareholders passed on 11 June 2014

Pursuant to the written resolutions of the Shareholders passed on 11 June 2014:

(i) the Company conditionally approved and adopted the Articles in substitution for and to the exclusion of the existing articles of association of the Company with effect from commencement of trading of Shares on the Stock Exchange;

(ii) the authorised share capital of the Company was increased from HK$380,000.00 to HK$30,000,000.00 by the creation of an additional 2,962,000,000 Shares;

(iii) conditional on the same conditions as stated in the sub-section headed "Conditions of the Share Offer" of the section headed "Structure and Conditions of the Share Offer" herein:

(A) the New Issue was approved and the Directors were authorised to allot and issue the New Shares;

(B) conditional on the share premium account of the Company being credited as a result of the New Issue, HK$7,445,900.00 of such amount was directed to be capitalised and applied in paying up in full at par 744,590,000 Shares for allotment and issue to holders of Shares on the register of members of the Company in the Cayman Islands as at 11 June 2014 (or as they may direct) in proportion as nearly as possible to their then respective shareholdings;

(C) a general unconditional mandate was given to the Directors to allot, issue and deal with additional Shares or securities convertible into Shares in the unissued share capital of the Company, including the entering into any agreements or granting any options to do any of the foregoing, provided that the aggregate nominal amount of the share capital allotted or agreed to be allotted by the Directors pursuant thereto, otherwise than pursuant to a rights issue; or any allotment of Shares in lieu of the whole or part of the divided on Shares in accordance with the Articles, shall not exceed the sum of (AA) 20% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the New Issue and the Capitalisation Issue; and (BB) the aggregate nominal amount of the share capital of the Company purchased by the Company pursuant to the authority granted to the Directors as referred to in paragraph 1(c)(iii)(D) of this Appendix, such mandate to expire at the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting of the Company is required by any applicable law of the Cayman Islands or the Articles to be held or when revoked or varied by an ordinary resolution of the Shareholders in general meeting, whichever is the earliest; and

(D) a general unconditional mandate was given to the Directors authorising them to exercise all the powers of the Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, in accordance with all applicable laws and regulations, such number of Shares with an aggregate nominal amount not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the New Issue and the Capitalisation Issue, such mandate to expire at the next annual general meeting of the Company or the date by which the next annual general meeting of the Company is required by any applicable law of the Cayman Islands or the Articles to be held or when revoked or varied by an ordinary resolution of the Shareholders in general meeting, whichever is the earliest.

(d) Group reorganisation

The companies comprising the Group underwent a reorganisation to rationalise the structure of the Group in preparation for the Listing. The reorganisation involved the following:

(i) on 7 June 2011, Lung Kei was incorporated in Hong Kong and 604 shares and 396 shares, all of HK$1 each, were allotted and issued for cash at par to Mr. Chen Qishi and Mr. Xiao Jinzhuan, respectively;

(ii) on 23 June 2011, Dunxin HK was incorporated in Hong Kong and 9,000 shares and 1,000 shares, all of HK$1.00 each, were allotted and issued for cash at par to Mr. Zheng and Mr. Chen respectively;

(iii) on 26 September 2011, Dunxin BVI was incorporated in BVI and 100 shares of US$1.00 each were allotted and issued for cash at par to Mr. Zheng;

(iv) on 13 October 2011, Mr. Zheng and Mr. Chen transferred 9,000 shares and 1,000 shares of HK$1.00 each in Dunxin HK to Dunxin BVI for cash at par;

(v) on 13 October 2011, Mr. Chen Qishi transferred 604 shares of HK$1.00 each in Lung Kei to Man Hong for cash at par;

(vi) on 13 October 2011, Mr. Xiao Jinzhuan transferred 396 shares of HK$1.00 each in Lung Kei to Man Hong for cash at par;

(vii) on 13 April 2012, Charmfield was incorporated in Hong Kong and one subscriber share of HK$1.00 was allotted and issued for cash at par to the subscriber;

(viii) on 31 May 2012, Gang Bo acquired one share of HK$1.00 in Charmfield for cash at par;

(ix) on 17 August 2012, Zhong Hai transferred (i) 20.8% equity interests in Dunxin PRC to Charmfield for RMB18,720,000.00 (5% of which was in trust for Sebert); and (ii) 2% equity interests in Dunxin PRC to Lung Kei for RMB1,800,000.00;

(x) on 29 November 2012, Sebert transferred 5% equity interests in Dunxin PRC to Charmfield for HK$5,523,000.00 (the "Consideration");

(xi) on 5 December 2012, Man Hong transferred 1,000 ordinary shares of HK$1.00 each, being the entire issued share capital, in Lung Kei to Dunxin BVI for HK$164.00, which was satisfied by the allotment and issue of an aggregate of 21 shares of US$1.00 each in Dunxin BVI, credited as fully paid, to Man Hong;

(xii) on 5 December 2012, Gang Bo transferred one ordinary share of HK$1, being the entire issued share capital, in Charmfield to Dunxin BVI for HK$630.00, which was satisfied by the allotment and issue of an aggregate of 80 shares of US$1.00 each in Dunxin BVI, credited as fully paid, to Gang Bo;

(xiii) on 5 December 2012, Mr. Zheng, Mr. Kung and Ms. Chen assigned to Dunxin BVI the benefits of their loans of HK$82,979,964.00, HK$17,390,280.00 and HK$4,668,945.98 due from Dunxin HK, Charmfield and Lung Kei respectively in consideration of Dunxin BVI issuing 650 shares, 78 shares and 21 shares, all of US$1.00 each, credited as fully paid, to Mr. Zheng, Gang Bo (as directed by Mr. Kung) and Man Hung (as directed by Ms. Chen) respectively;

(xiv) on 5 December 2012, Sebert assigned to Dunxin BVI the benefits of the Consideration due from Charmfield in consideration of Dunxin BVI allotting and issuing 50 shares of US$1.00 each, credited as fully paid, to Sebert; and

(xv) on 29 May 2014, Mr. Zheng, Gang Bo, Sebert and Man Hong transferred 750 shares, 158 shares, 50 shares and 42 shares of US$1.00 each, being the entire issued share capital, in Dunxin BVI to the Company in consideration of the Company issuing 5,850 Shares to Pure Sheen (as directed by Mr. Zheng), 450 Shares to Radiant Prestige (as directed by Mr. Zheng), 450 Shares to Radiant Path (as directed by Mr. Zheng), 1,580 Shares to Gang Bo, 500 Shares to Sebert and 420 Shares to Man Hong, credited as fully paid, and the Company also credited as fully paid at par an aggregate of 750 Shares issued nil paid on 27 August 2012, as to 650 Shares held by Pure Sheen, 50 Shares held by Radiant Prestige and 50 Shares held by Radiant Path.

(e) Changes in share capital of the subsidiaries of the Company

The subsidiaries of the Company are listed in the Accountants' Report set out in Appendix I to this prospectus. The following alterations in the share capital of the subsidiaries of the Company took place within the two years immediately preceding the date of this prospectus:

(i) On 7 June 2011, Lung Kei was incorporated in Hong Kong with an authorised share capital of HK$10,000 divided into 10,000 ordinary shares of HK$1.00 each, and an aggregate of 1,000 shares of HK$1.00 each, were allotted and issued for cash at par to Mr. Chen Qishi (as to 604 shares) and Mr. Xiao Jinzhuan (as to 396 shares) respectively.

(ii) On 23 June 2011, Dunxin HK was incorporated in Hong Kong with an authorised share capital of HK$10,000 divided into 10,000 ordinary shares of HK$1.00 each, and an aggregate of 10,000 ordinary shares of HK$1.00 each were allotted and issued for cash at par to Mr. Zheng (as to 9,000 shares) and Mr. Chen (as to 1,000 shares) respectively.

(iii) On 26 September 2011, Dunxin BVI was incorporated in BVI with an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each, and 100 shares of US$1.00 each were allotted and issued for cash at par to Mr. Zheng.

(iv) On 13 April 2012, Charmfield was incorporated in Hong Kong with an authorised share capital of HK$10,000 divided into 10,000 ordinary shares of HK$1.00 each, and one subscriber share of HK$1.00 was allotted and issued for cash at par to the subscriber.

(v) On 5 December 2012, Dunxin BVI issued 21 shares and 80 shares, all of US$1 each, credited as fully paid, to Man Hong and Gang Bo respectively as considerations for the transfer of the entire issued share capitals in Lung Kei and Charmfield by Man Hong and Gang Bo to Dunxin BVI respectively.

(vi) On 5 December 2012, Dunxin BVI issued 650 shares, 78 shares, 21 shares and 50 shares, all of US$1 each, credited as fully paid, to Mr. Zheng, Gang Bo (as directed by Mr. Kung), Man Hung (as directed by Ms. Chen) and Sebert respectively as considerations for the assignment by Mr. Zheng, Mr. Kung and Ms. Chen to Dunxin BVI the benefits of their loans of HK$82,979,964.00, HK$17,390,280.00 and HK$4,668,945.98 due from Dunxin HK, Charmfield and Lung Kei respectively and the Consideration due from Charmfield.

Save as disclosed in this paragraph and paragraph 1(d) of this Appendix, there has been no alteration in the share capitals of any subsidiaries of the Company within the two years immediately preceding the date of this prospectus.

(f) Repurchase by the Company of its own securities

This sub-paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

(i) *Listing Rules*

The Listing Rules permit companies with a primary listing on the Stock Exchange to purchase their equity securities subject to certain restrictions, the most important of which are summarised below:

(aa) *Shareholders' approval*

All proposed repurchases of securities on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval of a particular transaction.

Note: On 11 June 2014, written resolutions of the Shareholders were passed whereby a general unconditional mandate was given to the Directors authorising any repurchase of Shares by the Company on the Stock Exchange, or any other stock exchange recognised by the SFC in Hong Kong and the Stock Exchange, of up to 10% of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the New Issue and the Capitalisation Issue at any time until the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting of the Company is required by any applicable law of the Cayman Islands or the Articles to be held or when is revoked or varied by an ordinary resolution of the Shareholders in general meeting, whichever is the earliest (the "Buyback Mandate").

(bb) *Source of funds*

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with the Memorandum and the Articles and the applicable laws and regulations of Hong Kong and the Cayman Islands.

Any repurchase will be made out of funds of the Company legally permitted to be utilised in this connection, including out of the profits of the Company, out of the share premium account or out of the proceeds of a fresh issue of shares made for the purpose of the repurchase or, if so authorised by the Articles and subject to the Companies Law, out of capital. Any premium payable on a repurchase over the par value of the shares to be purchased must be provided for out of the profits of the Company or out of the Company's share premium account, or, if so authorised by the Articles and subject to the provisions of the Companies Law, out of capital.

The Directors do not propose to exercise the Buyback Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company. However, there might be a material adverse effect on the working capital requirements of the Company or the gearing level (as compared with the position disclosed in the Accountants' Report, the text of which is set out in Appendix I to this prospectus) in the event the Buyback Mandate is exercised in full.

(ii) ***Reasons for repurchase***

The Directors believe that it is in the best interests of the Company and the Shareholders for the Directors to have general authority from Shareholders to enable the Directors to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or its earnings per Share and will only be made when the Directors believe that such repurchases will benefit the Company and the Shareholders.

(iii) ***General***

(aa) Exercise in full of the Buyback Mandate, on the basis of 992,800,000 Shares in issue immediately after Listing, could result in up to 99,280,000 Shares being repurchased by the Company during the period from the date on which the Buyback Mandate was granted up to the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting of the Company is required by any applicable law of the Cayman Islands or the Articles to be held or when revoked or varied by an ordinary resolution of the Shareholders in general meeting, whichever is the earliest.

(bb) None of the Directors or, to the best of their knowledge having made all reasonable enquiries, any of their associates, has any present intention, if the Buyback Mandate is exercised, to sell any Shares to the Company or any of its subsidiaries.

(cc) The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buyback Mandate in accordance with the Listing Rules and the applicable laws and regulations of Hong Kong and the Cayman Islands.

(dd) If as a result of a repurchase of Shares a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. As a result, a Shareholder, or group of Shareholders acting in concert, depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences under the Takeovers Code as a result of a repurchase of securities made after the Listing.

(ee) No connected person (as defined in the Listing Rules) has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so, if the Buyback Mandate is exercised.

(g) Registration under the Companies Ordinance

The Company has established a place of business in Hong Kong at Office No. 3, 13th Floor, Boss Commercial Centre, No. 28 Ferry Street, Kowloon, Hong Kong and was registered as a non-Hong Kong company under Part XI of the then effective Companies Ordinance (Chapter 32 of the Laws of Hong Kong) on 6 December 2012; and is currently a registered non-Hong Kong company under the Companies Ordinance. Mr. Lam Ho Keung has been appointed as agent of the Company for the acceptance of service of process in Hong Kong and any notice required to be served on the Company at the Company's principal place of business in Hong Kong stated above.

2. FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP

(a) Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or any of its subsidiaries within the two years preceding the date of this prospectus and are or may be material:

(i) an agreement dated 17 August 2012 made among Dunxin HK, Zhong Hai, Lung Kei and Charmfield, pursuant to which Zhong Hai transferred (aa) 20.8% equity interests in Dunxin PRC to Charmfield for RMB18,720,000; and (bb) 2% equity interests in Dunxin PRC to Lung Kei for RMB1,800,000;

(ii) a deed dated 29 November 2012 made between Sebert and Charmfield, pursuant to which Sebert sold 5% of the equity interests in Dunxin PRC to Charmfield for the Consideration;

(iii) an agreement dated 5 December 2012 made among Man Hong, Ms. Chen and Dunxin BVI, pursuant to which, *inter alia*, Man Hong transferred 1,000 ordinary shares of HK$1.00 each, being the entire issued share capital, in Lung Kei to Dunxin BVI for HK$164, which was satisfied by the allotment and issue of an aggregate of 21 shares of US$1.00 each in Dunxin BVI, credited as fully paid, to Man Hong;

(iv) a deed of indemnity dated 5 December 2012 given by Man Hong and Ms. Chen in favour of Dunxin BVI and Lung Kei in respect of any liability for taxation falling on Lung Kei;

(v) an agreement dated 5 December 2012 made among Ms. Chen, Man Hong and Dunxin BVI, pursuant to which, *inter alia*, Ms. Chen agreed to sell and Dunxin BVI agreed to purchase, the benefits of the loans of an aggregate sum of HK$4,668,945.98 advanced by Ms. Chen to Lung Kei for HK$4,668,945.98, which was satisfied by the allotment and issue of 21 shares of US$1.00 each in Dunxin BVI, credited as fully paid, to Man Hong (as directed by Ms. Chen);

(vi) a deed of assignment dated 5 December 2012 made among Ms. Chen, Dunxin BVI and Lung Kei, pursuant to which, *inter alia*, Ms. Chen assigned the benefits of the loans in an aggregate sum of HK$4,668,954.98 advanced by Ms. Chen to Lung Kei in consideration of Dunxin BVI allotting and issuing 21 shares of US$1.00 each in Dunxin BVI, credited as fully paid, to Man Hong (as directed by Ms. Chen);

(vii) an agreement dated 5 December 2012 made among Gang Bo, Mr. Kung and Dunxin BVI, pursuant to which, *inter alia*, Gang Bo transferred one ordinary share of HK$1.00, being the entire issued share capital, in Charmfield to Dunxin BVI for HK$630, which was satisfied by the allotment and issue of an aggregate of 80 shares of US$1.00 each in Dunxin BVI, credited as fully paid, to Gang Bo;

(viii) a deed of indemnity dated 5 December 2012 given by Gang Bo and Mr. Kung in favour of Dunxin BVI and Charmfield in respect of any liability for taxation falling on Charmfield;

(ix) an agreement dated 5 December 2012 made among Mr. Kung, Gang Bo and Dunxin BVI, pursuant to which, *inter alia*, Mr. Kung agreed to sell, and Dunxin BVI agreed to purchase, the loans in an aggregate sum of HK$17,390,280.00 advanced by Mr. Kung to Charmfield for HK$17,390,280.00, which was satisfied by the allotment and issue of 78 shares of US$1.00 each in Dunxin BVI, credited as fully paid, to Gang Bo (as directed by Mr. Kung);

(x) a deed of assignment dated 5 December 2012 made among Mr. Kung, Dunxin BVI and Charmfield, pursuant to which, *inter alia*, Mr. Kung assigned the benefits of the loans in an aggregate sum of HK$17,390,280.00 advanced by Mr. Kung to Charmfield in consideration of Dunxin BVI allotting and issuing 78 shares of US$1.00 each in Dunxin BVI, credited as fully paid, to Gang Bo (as directed by Mr. Kung);

(xi) an agreement dated 5 December 2012 made between Mr. Zheng and Dunxin BVI, pursuant to which, *inter alia*, Mr. Zheng agreed to sell, and Dunxin BVI agreed to purchase, the benefits of the loans in an aggregate sum of HK$82,979,964.00 advanced by Mr. Zheng to Dunxin HK for HK$82,979,964.00, which was satisfied by the allotment and issue of 650 shares of US$1.00 each in Dunxin BVI, credited as fully paid, to Mr. Zheng;

(xii) a deed of assignment dated 5 December 2012 made among Mr. Zheng, Dunxin BVI and Dunxin HK, pursuant to which, *inter alia*, Mr. Zheng assigned the benefits of the loans in an aggregate sum of HK$82,979,964.00 advanced by Mr. Zheng to Dunxin HK in consideration of Dunxin BVI allotting and issuing 650 shares of US$1.00 each in Dunxin BVI, credited as fully paid, to Mr. Zheng;

(xiii) an agreement dated 5 December 2012 made between Sebert and Dunxin BVI, pursuant to which, *inter alia*, Sebert agreed to sell, and Dunxin BVI agreed to purchase, the benefits of the Consideration due from Charmfield for HK$5,523,000.00, which was satisfied by the allotment and issue of 50 shares of US$1.00 each in Dunxin BVI, credited as fully paid, to Sebert;

(xiv) a deed of assignment dated 5 December 2012 made among Sebert, Dunxin BVI and Charmfield, pursuant to which Sebert assigned to Dunxin BVI the benefits of the Consideration due from Charmfield in consideration of Dunxin BVI allotting and issuing 50 shares of US$1.00 each, credited as fully paid, to Sebert;

(xv) a conditional asset acquisition agreement dated 22 August 2013 made between Dunxin PRC as purchaser and Dong Xin as vendor in connection with the acquisition of certain land use rights at Guanshan Industrial Park, Wuan Town, Changtai County, Zhangzhou City, Fujian Province, the PRC and buildings erected thereon together with production and ancillary facilities for an aggregate consideration of RMB129,840,000 (the "Asset Acquisition Agreement");

(xvi) a supplemental agreement to the Asset Acquisition Agreement dated 12 February 2014 made between Dunxin PRC and Dong Xin, pursuant to which Dunxin PRC and Dong Xin confirmed, among other things, that completion of the Asset Acquisition Agreement took place on 28 August 2013;

(xvii) a deed of confirmation dated 22 February 2014 made among Mr. Kung, Sebert, Charmfield and Zhong Hai in respect of the clarification of certain matters relating to the Reorganisation;

(xviii) a deed of confirmation dated 22 February 2014 made among Man Hong, Zhong Hai, Lung Kei, Ms. Chen and Mr. Chen Qishi in respect of the clarification of certain matters relating to the Reorganisation;

(xix) an agreement dated 29 May 2014 made among the Company, Mr. Zheng, Gang Bo, Sebert and Man Hong for the acquisition of 1,000 shares of US$1.00 each in the capital of Dunxin BVI, being its entire issued share capital, in exchange for, and in consideration of, the allotment and issue of an aggregate of 9,250 Shares, as to 6,750 Shares to Mr. Zheng, 1,580 Shares to Gang Bo, 500 Shares to Sebert and 420 Shares to Man Hong, and crediting as fully paid at par the 750 Shares allotted and issued, nil paid on 27 August 2012;

(xx) a license agreement dated 30 May 2014 made between Dunxin BVI and the Company, pursuant to which, *inter alia*, Dunxin BVI grants to the Company exclusive right and license to use certain trade marks owned by Dunxin BVI for a nominal consideration of HK$1.00;

(xxi) the Deed of Non-Competition;

(xxii) a deed of indemnity dated 11 June 2014 given by each of the Covenantors in favour of the Group in respect of any claims for taxation against any member of the Group as referred to in paragraph 4(a) of this Appendix; and

(xxiii) the Public Offer Underwriting Agreement.

(b) Intellectual property rights of the Group

(i) As at the Latest Practicable Date, the Group had the following trade marks registered in Hong Kong:

Trade Mark	Trade Mark Number	Registered Owner	Classes	Registration Date	Expiry Date
A. 敦 Tun's 信 B. 敦 Tun's 信	302265534	Dunxin BVI	16 (Note 1), 18 (Note 2), 28 (Note 3) & 40 (Note 4)	29 May 2012	28 May 2022
A. 敦 Dun Xin 信 B. 敦 Dun Xin 信	302265552	Dunxin BVI	16 (Note 1), 18 (Note 2), 28 (Note 3) & 40 (Note 4)	29 May 2012	28 May 2022
敦信	302265570	Dunxin BVI	16 (Note 1), 18 (Note 2), 28 (Note 3) & 40 (Note 4)	29 May 2012	28 May 2022
PRIZER 标王	302265561	Dunxin BVI	16 (Note 1), 18 (Note 2), 28 (Note 3) & 40 (Note 4)	29 May 2012	28 May 2022
Shui Xian Hua 水仙花	302265589AA	Dunxin BVI	16 (Note 1), 28 (Note 3) & 40 (Note 4)	29 May 2012	28 May 2022

Notes:

1. paper; kraftlinerboard; white top linerboard; corrugating medium; white paperboard; linerboard; testlinerboard; containerboard; packaging paper; packing paper; wrapping paper; recycled paper; cardboard; cardboard articles; cardboard tubes; cardboard for cartons; wood pulp board; wood pulp paper; packaging paperboard; packaging containerboard; plastic materials for wrapping and packaging (not included in other classes); plastic bubble packs for wrapping and packaging; bags made of paper; bags made of plastic; bags of paper or plastic for packaging; cardboard materials for use in packaging; containers of card for packaging; containers of paper for packaging; packaging boxes/cartons/containers made of paper, card or cardboard; towels made of paper; face towels made of paper; handkerchiefs made of paper; toilet paper; hygienic paper; napkins made of paper; table napkins made of paper; tablecloths made of paper; tablemats made of paper; coasters of paper; place mats of paper; printed matters; printed publications; printed timetables; pamphlets; flyers; catalogues; handbooks; booklets; books; posters; manuals; albums; newsletters; notebooks; covers (stationery); parchment paper; writing

paper; writing pad; envelopes; announcement card; index card; calendars; cards; greeting cards; paper flags; forms; folders; documents files; bottle envelopes made of paper or cardboard; bottle wrappers made of paper and cardboard; graphic prints; graphic representations; graphic reproductions; jackets for papers; advertisement board made of paper or cardboard; signboards made of paper or cardboard; trading cards other than for games.

2. shopping bags; handbags; briefcases; suitcases; cases of leather or leatherboard; canvas cases; school bags; school satchels; rucksacks; backpacks; travelling bags; umbrellas; attaché cases.

3. poker cards; playing cards; bingo cards; scratch cards; trading cards; games, namely card games, board games, chess games and party games; chessboards; dominoes; jigsaw puzzles; mahjong; paper masks (toy masks); paper party hats.

4. material treating/processing for manufacturing paper and board; paper finishing; printing; offset printing; pattern printing; laminating; sorting and recycling of waste and recyclable materials.

(ii) As at the Latest Practicable Date, the Group had the following trade marks registered in the PRC:

Trade Mark	Registration Number	Registered Owner	Class	Products	Registration Date	Expiry Date
敦信	1342948	Dunxin PRC	16	printed material; covers; loose-leaf covers; New Year greeting cards; postcards; notepads; notebooks; ledgers; playing cards; poker cards *(Note 1)*	14 December 2009	13 December 2019
敦 Dun Xin 信	7045039	Dunxin PRC	18	shopping bags; handbags; leather case or leather box; canvas cases; school bags; backpacks; travelling bags; umbrellas; briefcases *(Note 2)*	7 October 2010	6 October 2020
敦 Dun Xin 信	4116555	Dunxin PRC	16	paper; pattern paper; wood pulp paper; printing paper (including plastic paper, paper for newspaper; paper for books or magazines; paper for securities; gravure-paper; letterpress paper); paperboards; packaging/packing paper; cartons; folders/documents files; stationery; stationery boxes (full set) *(Note 3)*	28 October 2007	27 October 2017
鯉魚新一代	4653605	Dunxin PRC	28	cards; poker cards; chess (games); game consoles; checker boards; bingo playing cards; ball games; chessboards; fishing tools; toys *(Note 4)*	7 January 2009	6 January 2019
Shui Xian Hua 水仙花	4476000	Dunxin PRC	28	cards; poker cards; chess (games); checker boards; bingo playing cards; game consoles; swivel chairs; the game of "Go"; ball games; chessboards (chess) *(Note 5)*	21 October 2008	20 October 2018

Trade Mark	Registration Number	Registered Owner	Class	Products	Registration Date	Expiry Date
	4926087	Dunxin PRC	28	cards; poker cards; chess (games); checker boards; bingo playing cards; game consoles; swivel chairs; the game of "Go"; ball games; chessboards (chess) *(Note 6)*	14 May 2009	13 May 2019
	3334233	Dunxin PRC	28	game consoles; toys; chess (games); ball games; exercise equipment; fishing tools; gymnastics equipment; swivel chairs; playing cards; poker cards *(Note 7)*	7 March 2004	6 March 2024

Notes:

1. Please note that the above types of products in English are for reference only. The following Chinese version is recorded on the relevant trade mark certificate: 印刷品；封面；活頁封面；賀年卡；明信片；便箋簿；筆記本；分類賬本；紙牌；撲克牌.
2. Please note that the above types of products in English are for reference only. The following Chinese version is recorded on the relevant trade mark certificate: 購物袋；手提包；皮箱或皮紙板箱；帆布箱；書包；背包；旅行包；傘；公文箱.
3. Please note that the above types of products in English are for reference only. The following Chinese version is recorded on the relevant trade mark certificate: 紙；型紙；木漿紙；印刷紙；（包括膠版紙、新聞紙；書刊用紙；證券紙；凹版紙；凸版紙）；箱紙板；包裝紙；紙箱；文件夾；文具；文具盒（全套）.
4. Please note that the above types of products in English are for reference only. The following Chinese version is recorded on the relevant trade mark certificate: 紙牌；撲克牌；棋（遊戲）；遊戲機；跳棋盤；賓果遊戰牌；運動球類；棋盤；釣魚用具；玩具.
5. Please note that the above types of products in English are for reference only. The following Chinese version is recorded on the relevant trade mark certificate: 紙牌；撲克牌；棋（遊戲）；跳棋盤；賓果遊戰牌；遊戲機；轉椅；圍棋；運動球類；棋盤（國際象棋）.
6. Please note that the above types of products in English are for reference only. The following Chinese version is recorded on the relevant trade mark certificate: 紙牌；撲克牌；棋（遊戲）；跳棋盤；賓果遊戰牌；遊戲機；轉椅；圍棋；運動球類；棋盤（國際象棋）.
7. Please note that the above types of products in English are for reference only. The following Chinese version is recorded on the relevant trade mark certificate: 遊戲機；玩具；棋（遊戲）；運動球類；鍛煉身體器械；釣魚用具；體操器械；轉椅；紙牌；撲克牌.

(iii) As at the Latest Practicable Date, the Group had the following design patent registered in the PRC:

Registered Owner	Name of the Design Patent	Registration Number	Validity Period
Dunxin PRC	撲克牌	ZL201230469092.X	29 September 2012 to 28 September 2022

(iv) As at the Latest Practicable Date, the Group has registered the following domain name:

Domain Name	Registered Owner	Expiry Date
www.dxwj.com/	Dunxin PRC	1 March 2017

3. FURTHER INFORMATION ABOUT THE DIRECTORS, MANAGEMENT, STAFF, SUBSTANTIAL SHAREHOLDERS AND EXPERTS

(a) Disclosure of Interests and Long and Short Positions

(i) Immediately following completion of the Share Offer and the Capitalisation Issue (taking no account of Shares which may be taken up under the Share Offer) the interests or short positions of the Directors in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of part XV of the SFO (including interests and short positions which they are deemed or taken to have under such provisions of the SFO) once the Shares are listed on Stock Exchange or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein once the Shares are listed on the Stock Exchange or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange once the Shares are listed on the Stock Exchange (assuming that their interests and short positions will remain unchanged after the Latest Practicable Date) will be as follows:

(aa) ***Long positions in Shares***

Name of Director	Capacity/ Nature of interest	Number of Shares held	Approximate percentage of interest in the Company
Mr. Zheng *Note*	Interest of controlled corporation	558,450,000	56.25%

Note: Pure Sheen, Radiant Prestige and Radiant Path will be beneficially interested in 483,990,000 Shares, 37,230,000 Shares and 37,230,000 Shares, respectively. Mr. Zheng beneficially owns the entire issued share capital in each of Pure Sheen, Radiant Prestige and Radiant Path.

(ii) Each of Mr. Zheng, Mr, Zheng Dunqian and Mr. Chen has entered into a director's service agreement dated 11 June 2014 with the Company under which each has been appointed to act as an executive Director for an initial term of two and a half years commencing from the Listing Date, and will continue thereafter until the agreement is terminated by either party giving to the other party not less than six calendar months' notice in writing. Each of these executive Directors is entitled to the basic salary subject to increments within 10% of basic salary without the discretion of the Board provided that in respect of each of the three financial years ending 31 December 2016 any such increment shall not exceed 10% of the executive Director's salary at the time of the relevant review. An executive Director is required to abstain from voting and is not counted in the quorum in respect of any resolution of the Board regarding the amount of the monthly salary, the discretionary bonus or other benefits or allowances payable to him. The current aggregate annual salaries of the executive Directors are as follows:

Name	**Amount**
Mr. Zheng	HK$1,967,000
Mr. Zheng Dunqian	HK$1,322,000
Mr. Chen	HK$1,377,000

(iii) Each of the independent non-executive Directors, namely Mr. Kwong Kwan Tong, Mr. Ye Deshan and Mr. Hu Zhenghui has entered into an appointment letter dated 15 May 2013, 15 May 2013 and 9 July 2013, respectively with the Company for an initial term of three years from the respective dates of their appointment letters. Commencing from the Listing Date, the annual remuneration payable to the independent non-executive Directors will be as follows:

Name	**Amount**
Mr. Kwong Kwan Tong	HK$144,000
Mr. Ye Deshan	HK$80,000
Mr. Hu Zhenghui	HK$80,000

(iv) The aggregate of the remuneration paid and benefits in kind granted to the Directors by the Group for the year ended 31 December 2013 was approximately HK$596,450, representing salaries and allowances.

(v) The estimated aggregate remuneration payable to and benefit in kind receivable by the Directors are HK$2,751,600 in respect of the year ending 31 December 2014 under the arrangements currently in force.

(b) Substantial shareholders

So far as the Directors are aware, immediately following completion of the Share Offer and the Capitalisation Issue (taking no account of Shares which may be taken up under the Share Offer) no persons (not being a Director or chief executive of the Company or persons mentioned in the section headed "Substantial and Controlling Shareholders" of this prospectus) will have interests or short positions in the shares or underlying shares of the Company (within the meanings of the SFO) which will fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, will be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

(c) Agency fees or commissions received

None of the Directors or the promoters of the Company has received any agency fees or commissions from any member of the Group within the two years immediately preceding the date of this prospectus.

(d) Related party transactions

There were various related party transactions between the Group and various related parties during the two years immediately before the date of their prospectus, details of which are set out in note 33 headed "Related parties transactions" in the paragraph headed "II. Notes to Financial Information" of the Accountants' Report, the text of which is set out in Appendix I to this prospectus, and paragraphs 1(d) and 2(a) of this Appendix.

(e) Disclaimers

Save as disclosed herein:

(i) none of the Directors or any chief executive has any interest or short position in the shares or underlying shares of the Company or any associated corporation (within the meaning of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) once the Shares are listed or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein once the Shares are listed on the Stock Exchange or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange once the Shares are listed on the Stock Exchange;

(ii) none of the Directors nor any of the experts whose names are listed in the paragraph headed "Consents of experts" of this Appendix has any direct or indirect interests in the promotion of, or in any assets which have been acquired or disposed of by or leased to any member of the Group within the two years immediately preceding the date of this prospectus, or which are proposed to be acquired or disposed of by or leased to any member of the Group;

(iii) none of the Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole;

(iv) taking no account of Shares which may be taken up under the Share Offer, the Directors are not aware of any person who will, immediately following the completion of the Share Offer and the Capitalisation Issue, have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who will directly or indirectly be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group;

(v) none of the Directors has any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)); and

(vi) none of the experts whose names are listed in the paragraph headed "Consents of experts" of this Appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

4. OTHER INFORMATION

(a) Estate duty and tax indemnities

The Covenantors have given joint and several indemnities in respect of (i) any liability for Hong Kong estate duty which might be payable by the Company or any of its subsidiaries by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong)) to the Company or any of its subsidiaries on or before the date on which the Share Offer becomes unconditional (the "Effective Date") and (ii) any taxation which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received on or before the Effective Date, except in certain circumstances, including where provisions have been made in the audited accounts of the Group.

The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries in the Cayman Islands.

(b) Litigation

No member of the Group was engaged in any litigation or arbitration 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 as at the Latest Practicable Date.

(c) Sponsor

The Sole Sponsor has made an application on behalf of the Company to the Listing Committee for the granting of the approval of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein. The total services fee payable to the Sole Sponsor relating to the listing application of the Group is HK$4,350,000.00. As at the Latest Practicable Date, the Sole Sponsor received approximately HK$2,850,000 of it. The Sole Sponsor is also entitled to underwriting commission under the Underwriting Agreements.

(d) Preliminary expenses

The estimated preliminary expenses of the Company are approximately US$7,500 and are payable by the Company.

(e) Promoter

(i) The promoter of the Company is Mr. Zheng.

(ii) Save as disclosed herein, within the two years preceding the date of this prospectus, no amount or benefit has been paid or given to the promoter in connection with the Share Offer or the related transactions disclosed in this prospectus.

(f) Qualification of experts

The followings are the qualifications of the experts who have given their opinions or advice which are contained in this prospectus:

Name of expert	Qualifications
Kingsway Capital	a corporation licensed to carry on type 6 (advising on corporate finance) regulated activities under the SFO
Martin C. K. Pong & Company	Certified Public Accountants, Hong Kong
PKF	Certified Public Accountants, Hong Kong
Grant Sherman Appraisal Limited	Property valuer
Conyers Dill & Pearman (Cayman) Limited	Cayman Islands attorneys-at-law
Dacheng Law Offices	PRC legal advisers

(g) Consents of experts

Kingsway Capital, Martin C. K. Pong & Company, PKF, Grant Sherman Appraisal Limited, Conyers Dill & Pearman (Cayman) Limited and Dacheng Law Offices have given and have not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or valuation certificates and/or the references to their names in the form and context in which they are respectively included.

(h) Binding effect

This prospectus shall have the effect, if an application is made in pursuant hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (WUMP) Ordinance so far as applicable.

(i) Miscellaneous

(i) Save as disclosed herein, within the two years preceding the date of this prospectus:

(A) no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(B) no commission, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries; and

(C) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.

(ii) The Company has no founder shares, management shares or deferred shares.

(iii) The register of members of the Company will be maintained in Hong Kong by Tricor Investor Services Limited. Unless the Directors otherwise agree, all transfers and other documents of title of Shares must be lodged for registration with, and registered by the Hong Kong Share Registrar upon the Listing.

(j) Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the Application Forms, the written consents referred to in the paragraph headed "Consents of experts" in Appendix VI to this prospectus, and copies of the material contracts referred to in the paragraph headed "Summary of material contracts" in Appendix VI to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Angela Ho & Associates at 1109, Tower One, Lippo Centre, 89 Queensway, Hong Kong during normal business hours up to and including 30 June 2014:

(a) the Memorandum and the Articles;

(b) the audited financial statements of Dunxin PRC for the two years ended 31 December 2013;

(c) the Accountants' Report, the text of which is set out in Appendix I to this prospectus;

(d) the letter relating to the unaudited pro forma financial information of the Group, the text of which is set out in Appendix II to this prospectus;

(e) the letter, summary of valuation and valuation certificates relating to the property interests owned by the Group prepared by Grant Sherman Appraisal Limited, the texts of which are set out in Appendix III to this prospectus;

(f) the Companies Law;

(g) the letter prepared by Conyers Dill & Pearman (Cayman) Limited referred to in the section headed "General" in Appendix IV to this prospectus summarizing certain aspects of the Cayman Islands company law;

(h) the PRC legal opinion issued by Dacheng Law Offices, the PRC legal advisers to the Company in respect of, among other things, general corporate matters and property matters of the Group in the PRC;

(i) the service agreements referred to in the paragraph headed "Further Information about the directors, management, staff, substantial shareholders and experts" in Appendix VI to this prospectus;

(j) the material contracts referred to in the paragraph headed "Summary of material contracts" in Appendix VI to this prospectus; and

(k) the written consents referred to in the paragraph headed "Consents of experts" in Appendix VI to this prospectus.

CHANGGANG DUNXIN
ENTERPRISE COMPANY LIMITED
長港敦信實業有限公司