

OVERVIEW

The Group is principally engaged in the production and sale of white top linerboard, light-coated linerboard and core board. The Group has enjoyed significant growth in its revenue and net profits with a CAGR of approximately 58.3% and 234.6%, respectively, for the three years ended 31 December 2006. The Group's profit attributable to equity holders of the Company increased more than 10 times from RMB4.4 million in 2004 to RMB49.9 million in 2006.

According to the China Paper Association:

- Changle Sunshine, a key operating subsidiary of the Group, was the largest producer of white top linerboard by production output in China for the year ended 31 December 2006;
- Changle Sunshine was one of the top three largest producers of core board by production output in China for the year ended 31 December 2006; and
- Changle Sunshine had the largest production capacity for light-coated linerboard in China as at 30 June 2007.

White top linerboard and light-coated linerboard are each a main material layer of boxes used to package various consumer products, including food, beverages and electronics. Core board is used to produce durable spindles which are widely adopted for various packaging purposes as well as for industrial uses. The Directors believe that the main products of the Group, which the Directors consider to be of higher grade, command a higher market price compared to typical paper products in the same categories. The Group also produces packaging boxes, copper plate paper and other related products.

Through the Group's manufacturing processes, the Group recycles recovered paper into the Group's main products. The Group obtains its supply of recovered paper domestically within China as well as through imports from other countries. In this respect, the Directors consider the Group's main products, containing a high percentage of recovered paper, to be environmentally friendly.

The Group has implemented environmentally responsible practices and high environmental standards in its custom designed and integrated production process, from the sourcing of raw materials and the treatment of wastes to the re-processing of by-products and the processing of surplus products. In September 2007, Changle Sunshine was accredited with GB/T 24001-2004 idt ISO14001:2004 certification in relation to its environmental management system and with GB/T 19001-2000 idt ISO9001:2000 certification in relation to its quality control system. The ISO and GB/T certification processes involve subjecting the Group's environmental and quality control systems to annual reviews and observation for specified periods.

BUSINESS

The table below sets out the breakdown of the Group's turnover by product category for the periods indicated:

	For the year ended 31 December 2004			For the year ended 31 December 2005			For the year ended 31 December 2006			Six months ended 30 June 2006			Six months ended 30 June 2007		
	RMB '000	gross profit margin %		RMB '000	gross profit margin %		RMB '000	gross profit margin %		RMB '000 (unaudited)	gross profit margin %		RMB '000	gross profit margin %	
White top linerboard	178,559	73.0	17.1	334,209	74.7	21.2	424,004	69.1	21.1	186,498	68.0	21.0	448,988	77.2	16.8
Light-coated linerboard	—	—	—	—	—	—	—	—	—	—	—	—	5,892	1.0	12.4
Core board	46,203	18.9	14.0	107,139	24.0	15.9	123,804	20.2	19.6	59,256	21.6	17.6	66,054	11.4	25.1
Specialized paper products ^(Note)	19,924	8.1	10.1	5,929	1.3	3.6	65,559	10.7	7.9	28,684	10.4	11.3	60,946	10.4	7.8
Total	244,686	100.0	15.9	447,277	100.0	19.7	613,367	100.0	19.3	274,438	100.0	19.2	581,880	100.0	16.7

Note: The specialized paper products of the Group comprise packaging boxes, copper plate paper and other related products.

As at 30 June 2007, the Group operated five technologically advanced production lines with an aggregate annual estimated production capacity of approximately 360,000 tonnes, and employed over 1,100 full-time employees. The Group has two production bases, one in Weifang, Shandong province and the other in Kunshan, Jiangsu province.

The Group has fully integrated manufacturing facilities supported by its own power and steam generation plant, waste treatment systems, recovered paper collection points, transportation vehicles, raw materials storage yard and an extensive network of sales representative offices in the PRC. As part of the Group's strategy, the Group intends to expand the number of its recovered paper collection points from its current two collection points in Weifang, Shandong province and Harbin, Heilongjiang province, to 10 by the end of 2008.

The Group's products are mainly sold in the PRC market. In 2007, the Group increased its exports significantly and the Group's products have been exported overseas to the Middle East, North America and Asia. The table below sets forth the breakdown of the Group's revenue derived from domestic and export sales for the three years ended 31 December 2006 and the six months ended 30 June 2006 and 2007:

	Year ended 31 December						Six months ended 30 June			
	2004		2005		2006		2006		2007	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Domestic	244,686	100.0	446,304	99.8	610,024	99.5	274,223	99.9	523,737	90.0
Export	—	0.0	973	0.2	3,343	0.5	215	0.1	58,143	10.0
Total	244,686	100.0	447,277	100.0	613,367	100.0	274,438	100.0	581,880	100.0

The Group has a large customer base in China, comprising over 1,000 customers in 2007 of whom 300 are relatively major customers. The Group's customers are mainly corrugators and paperboard and packaging companies. These customers in turn manufacture their products for leading brand name end-users across various industries such as food and beverages, electronics and textiles. The Group has signed strategic co-operation agreements with several packaging or printing companies who are the suppliers to various leading consumer product manufacturers, such as Mengniu Dairy, Tsingtao Brewery, Yili Dairy, Haier, Huiyuan Juice and Master Kong Chef, for their product packaging paper requirements.

The Directors believe that the Group is well-positioned to capture future growth opportunities as it has made substantial capital investments to secure valuable resources, such as the acquisition of land use rights over adjacent land of approximately 325,635 sq.m. next to its Weifang production site at a consideration of approximately RMB42.2 million. The Group also increased its equity interest in Shengshi Thermoelectricity from 20% to 80% which provides the Weifang production facility with a stable, convenient source of electricity and steam which are two of the Group's major inputs in its production process.

During the Track Record Period, the Group did not encounter any material disruption of its operations.

The Directors believe that as a result of its product quality, commitment to responsible environmental practices, strong reputation, customer-oriented services and an extensive network of sales representative offices in the PRC, the Group is well-positioned to enhance its market position.

COMPETITIVE STRENGTHS

Well-established market leadership position and potential for further expansion

The Group has a market leading position as a manufacturer of white top linerboard, light-coated linerboard and core board in China. According to the China Paper Association:

- Changle Sunshine, a key operating subsidiary of the Group, was the largest producer of white top linerboard by production output in China for the year ended 31 December 2006;
- Changle Sunshine was one of the top three largest producers of core board by production output in China for the year ended 31 December 2006; and
- Changle Sunshine had the largest production capacity for light-coated linerboard in China as at 30 June 2007.

The Directors believe that, given the scale of the Group's manufacturing operations, the Group benefits from certain economies of scale and cost efficiencies in terms of production and administrative costs. In addition, the Group has also established an extensive marketing and distribution network, comprising 19 sales representative offices throughout China. Coupled with its own transportation vehicles, this network ensures efficient service and visibility to the Group's actual and potential customers and enhances the Group's marketing efforts. Furthermore, as the Group engages in direct sales, it has the advantage of being able to maintain close relationships with its customers and their end-users, which enables the Group to meet their needs and requirements quickly and efficiently.

The Directors believe that the Group, with its resources and established market leadership position, is well-positioned to further expand its market share in China.

Strong product and process technology for enhanced operational efficiency

The Group is able to increase its operational efficiencies primarily through economies of scale, technologically advanced equipment, integrated production facilities and equipment know-how. The following advantages contribute to its operational efficiencies:

- the Group's multiple production lines provide economies of scale and allow the Group to manufacture a variety of products simultaneously while minimizing equipment shutdowns required for product and specification changes;

- the Group has cost-effective integrated operations and supporting infrastructure, including its power and steam generation plant in Weifang;
- the Group has designed its product mix both to meet market demand and to maximize recycling of water and scrap fiber by-product from the production of one product for use in the production of another product; and
- through production know-how, the Group has been able to accommodate the use of an increased variety of recovered paper grades while maintaining product quality and performance characteristics, which provides the Group with increased flexibility in sourcing raw materials at competitive prices.

Fast-growing demand for the Group's products

The Group's white top linerboard and light-coated linerboard products are aimed at the packaging needs of consumer product manufacturers across a broad range of industries, such as food and beverages and electronics, while the Group's core board products are used to produce durable spindles which are widely adopted for various packaging purposes as well as for industrial uses.

The consumer market in China is one of the fastest growing industries in China driven primarily by its rapid economic growth. As the consumer market in China continues to develop and mature, superior product packaging will become more critical in the consumer product selection process. The Directors believe that demand for the Group's white top linerboard and light-coated linerboard products will increase as these higher grade products are able to support high quality printing, leading to better colour effect.

Furthermore, as a result of industrialization, the spinning speeds of machinery used in the textile and paper industries have increased significantly and industrial cores are required to withstand these higher spinning speeds. Hence there is a trend towards the use of core board as the material for cores due to its relatively high stacking strength and ability to withstand high pressure. In this connection, the Directors believe that as industrial machinery becomes more advanced, the demand for the Group's core board products will increase.

Environmental protection issues have become increasingly important both in China and abroad, in terms of governmental regulations as well as customer preferences. In this respect, the Directors believe that through these environmental regulations and higher consumer awareness, the market for the Group's environmentally friendly packaging materials, including the Group's main products will increase.

Environmentally-friendly operations and products

As applications for the Group's main products are primarily driven by the consumer markets, there is an increasing public preference and need for products perceived to be more environmentally friendly. In addition, as environmental awareness grows, an increasing number of countries are gradually establishing environmental legislation. For example, in the European Union, a directive on packaging and packaging waste was issued to increase reuse, recovery and recycling of wastes. The Directors also believe that improvements in the Asian and European recycling infrastructure will facilitate the use of environmentally friendly products.

In this respect, all the Group's main products, namely white top linerboard, light-coated linerboard and core board, are manufactured with a very high content level of recovered

paper, which minimizes the harmful impact on the environment without sacrificing competitive price or performance characteristics such as printability and stacking strength.

The Group's white top linerboard and light-coated linerboard products also support water-based printing. Water-based printing is a more environmentally friendly form of packaging printing as compared with oil-based printing.

The Group also observes environmentally responsible practices in all aspects of its manufacturing operations, from the sourcing of raw materials and the treatment of wastes to the re-processing of by-products and surplus products, and has been in compliance with all applicable PRC environmental laws and regulations since its establishment in 2000. Waste water from the production process is treated in the Company's sewage treatment plant and the treated water is subsequently re-used in the Group's production lines. Pulp debris generated as by-products from the production of linerboard is also recycled and used as raw materials for the Group's production of core board products, hence limiting the amount of waste materials generated by the Group's manufacturing process.

The table below sets out the chemical oxygen demand (COD) and ammonia nitrogen (NH₃N) applicable discharge limits, and the Group's actual COD and NH₃N discharge amounts during the Track Record Period.

	<u>For the year ended 31 December</u>			<u>For</u>
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>the six months</u>
	(ton/year)	(ton/year)	(ton/year)	ended 30 June
COD				2007
Actual discharge	13.23	47.01	48.53	(ton/year)
Discharge limit	69.00	69.00	95.50	95.50
NH ₃ N				
Actual discharge	N/A	N/A	4.91	0.03
Discharge limit	N/A	N/A	15.10	15.10

Note: Pursuant to the requirements as stipulated under "Technical Specification Requirements for Monitoring of Surface Water and Waste Water" promulgated by the State Environmental Protection Administration since 2006, NH₃N has been one of the inspection benchmarks for waste water.

Please refer to the paragraph on "Environmental matters" below for more details.

Stable and experienced management team

The Group's continued success is attributable, to a large extent, to its stable and experienced management team which possesses extensive operating experience and industry knowledge. The Group's management team has on average more than 15 years' experience in the paper industry. Moreover, the Group's management team has worked together for approximately six years managing the Group's expansion in operations through both organic growth and strategic acquisitions to its current scale of operations. The Directors believe that the proven ability of the Group's senior management team to deliver strong and rapid growth and its extensive paper industry experience are of critical importance to the Group's business.

The Group has adopted the Pre-IPO Share Option Scheme and, upon the Listing, the Share Option Scheme to align the interests of the senior management team with the shareholders of the Company in order to ensure that the Group's management is incentivized to create value for the Group's business. The Directors believe that a performance-based

culture among the Group's employees provides strong incentives to the management and employees to maximize shareholder returns.

The Directors believe that the Group has a high yield of return in terms of its profits relative to capital expenditure and this is primarily due to: (i) strong technical knowledge of the Group's management team which has adopted efficient production technologies and implemented effective cost control measures such as the use of domestic technology and equipment in the Group's production lines in conjunction with imported technology and equipment and the increased sourcing of recovered paper from the Group's collection points in China; and (ii) the Group's operational ability to use waste materials from the production of linerboard as a form of raw materials for the manufacture of core board which lowers the Group's overall costs of production.

BUSINESS STRATEGIES

The Group aims to enhance its market position, maximize shareholder value and pursue a sustainable business growth strategy. To achieve this, the Group plans to focus on the following strategies.

Maintaining and increasing dominant share of the Group's fast growing markets

The Directors believe that the white top linerboard, light-coated linerboard and core board markets will continue to experience strong growth in the next few years due to the increased demand for higher grade packaging material for consumer products and increased industrialization in China.

As such, the Group intends to focus on investing its resources to further enhance its leadership position and increase its share in these attractive and fast growing markets. The Group plans to further expand its production capacity and improve its production efficiency and productivity to meet current and anticipated demand for its three main products, and capture market share from smaller competitors in these markets.

The Group is currently constructing a new core board production line. This construction is being funded from the proceeds of the 2007 Convertible Bonds, bank loans and internal resources of the Group. In addition, the Company intends to expand its existing light-coated linerboard and white top linerboard production facilities. The Group plans to use bank loans and internal resources to fund such expansion. Upon completion of such construction, the Group's current total annual production of approximately 360,000 tonnes will increase by approximately 700,000 tonnes to an estimated total annual production of 1,060,000 tonnes by the third quarter 2009, comprising approximately 790,000 tonnes of white top linerboard and light-coated linerboard products, approximately 260,000 tonnes of core board products and 10,000 tonnes of copper plate paper products. As part of this expansion, the Group has already acquired land use rights for land adjacent to its existing production facilities in Weifang of approximately 325,635 sq.m.

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The following table sets forth information relating to the Group's existing and proposed production lines in Weifang and Kunshan as of the Latest Practicable Date:

Primary Product(s)	Estimated Annual Maximum Production Output (tonnes)	Commencement of Production	Production line
White top linerboard ^(Note 5)	110,000	June 2004	PL1
White top linerboard and/or light-coated linerboard ^(Note 5)	180,000	November 2006 for white top linerboard and May 2007 for light-coated linerboard	PL2 ^(Note 1)
White top linerboard and/or light-coated linerboard ^(Note 5)	500,000	Estimated to be around third quarter of 2009	PL7 ^{(Note 4)(Note 7)}
Core board ^(Note 5)	40,000	January 2001	PL3 ^(Note 2)
Core board ^(Note 5)	20,000	May 2002	PL4
Core board ^(Note 5)	200,000	Estimated to be around third quarter of 2008	PL6 ^(Note 3)
Copper plate paper ^(Note 6)	10,000	August 2005	PL5
Total:	1,060,000		

Notes:

- (1) PL2 can produce both white top linerboard and light-coated linerboard products interchangeably. According to the Board, the estimated annual production output of PL2 could be further increased by 30,000 tonnes by upgrading the existing machines.
- (2) Initially, PL3 produced white top linerboard products. From mid-2004 onwards, it has been used to produce core board products.
- (3) The Group started the construction of PL6 in July 2007.
- (4) The Group will use the proceeds of the Global Offering to fund the construction of PL7.
- (5) Production line in Weifang.
- (6) Production line in Kunshan.
- (7) PL7 can produce both white top linerboard and light-coated linerboard products.

Continuing to enhance operating efficiency

The Group seeks to continue enhancing its operating efficiencies through the following means:

- optimize and upgrade its production process and equipment to eliminate or minimize impediments to increase production volumes and to enhance production efficiency and product quality;
- develop the use of new alternative raw materials with suppliers to improve machine performance and reduce costs;
- enhance the Group's process technology and adjust the ingredient mix of the Group's products, in order to optimize the cost structure;

- reduce new machine start-up time to achieve design capacity and quality within the shortest possible time;
- optimize the efficiency of the waste water treatment and recycling process for the purposes of reducing the use of water;
- improve the water consumption efficiency of the Group's production process;
- hire new research staff to establish a technology center and to foster closer collaboration efforts with Shandong Institute of Light Industry (山東輕工業學院); and
- install an enterprise resource planning (ERP) system at the Group's Weifang production facilities to enhance total operating efficiencies.

Strengthening the Group's relationship with leading consumer product manufacturers

The Group intends to continue to strengthen its relationship with leading consumer product manufacturers who require high quality product packaging. As at the Latest Practicable Date, the Group had signed strategic co-operation agreements with several packaging or printing companies who are the suppliers to various leading consumer product manufacturers such as Haier, Huiyuan Juice, Master King, Mengniu, Tsingtao Brewery and Yili Dairy. These leading market players produce consumer products in large quantities which require packaging, and in turn generate demand for the Group's products. The Group continues to develop close relationships with these leading manufacturers and their printing and packaging suppliers through regular consultations to better understand their current and future product packaging needs and develop innovative packaging products to meet such needs. For details of the strategic co-operation agreements, please refer to the paragraph "Customers" in this section of the prospectus.

Expanding its network of strategically located recovered paper collection points

As at the Latest Practicable Date, the Group had two recovered paper collection points in Weifang, Shandong province and Harbin, Heilongjiang province, which provide the Group with recovered paper as raw materials at competitive prices. The collection points are strategically located, offering easy access by collection trucks. The Group plans to set up another eight recovered paper collection points by the end of 2008, four of which will be in Beijing, Qingdao, Shenyang and Tianjin. The Group also intends to expand its network of collection points in various second-tier cities in northern and eastern China. The Directors believe that establishing a network of recovered paper collection points enables the Group to secure a stable source of raw materials and will provide cost savings.

Pursuing strategic acquisitions and joint ventures

The Directors believe that strategic acquisitions and joint ventures that enhance or complement the Group's business will enable the Group to enhance its market share. Although the Group does not have any specific merger or acquisition plans, the Group intends to selectively pursue strategic opportunities in China which would complement or create synergies for the Group's business, including but not limited to making investments in the Group's upstream supply chain to secure stable sources of raw materials.

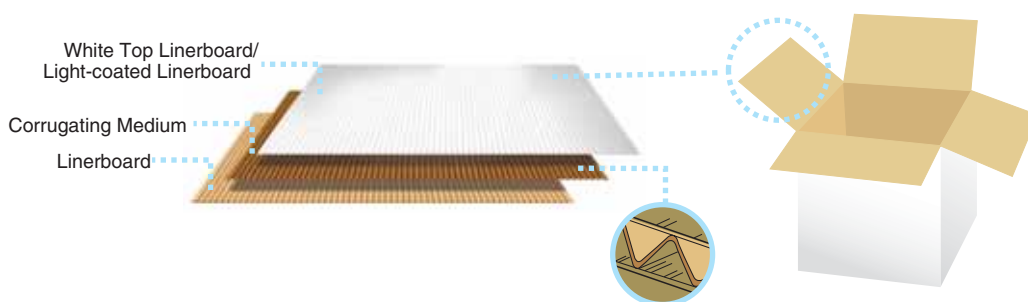
PRODUCTS

The Group specializes in the manufacture of white top linerboard, light-coated linerboard and core board products. Each of the Group's products is further categorized into a range of

grades with different specifications and customized for different industrial and consumer packaging purposes, ranging from general utility boxes, specialized boxes for merchandise requiring optimal protection, such as food and beverages and electronics, to durable spindles which are adopted for various packaging purposes as well as industrial uses.

White top linerboard

Linerboard is one of the main layers of paper used in the manufacturing of corrugated board. White top linerboard is used to provide the outer facing surface of the corrugating medium, and this combination of linerboard and fluted inner sheet of corrugating medium gives the board its rigid structure and stacking strength. White top linerboard is typically used as the packaging material for boxes which require high quality printability and stacking strength.

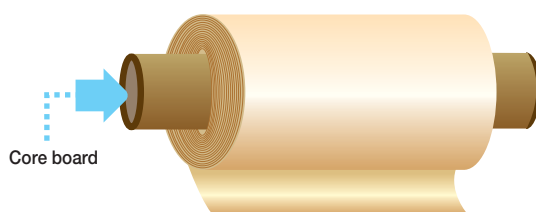


Light-coated linerboard

This is a form of white top linerboard comprising a multiple-ply sheet composed of a bleached upper ply layer coated by a coating medium. Such coating allows superior printability by offering better brightness and gloss, and at the same time, delivers excellent ink transfer quality. The coating layer of the Group’s light-coated linerboard products is approximately 8-10g/m² while the coating layer of traditional coated duplex board products is approximately 35-40g/m². A product is considered more environmentally friendly and recyclable if it has a lighter coating layer. Hence light-coated linerboard is considered environmentally friendly.

Core board

Core board is the main material used to produce “cores” which are tubes generally used as the base around which various products, such as paper and yarn, are wound. It is predominantly used to produce durable spindles with the ability to withstand high spinning speeds, and to produce strong paper cores and related products.



Specialized paper products

The Group’s specialized paper products comprise packaging boxes, copper plate paper and other related products.

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The Group operates an integrated packaging manufacturing facility, including designing and printing of the packaging boxes. The Group cuts its white top linerboard products to meet customer requirements and uses the leftover white top linerboard products to make packaging boxes, which minimizes wastage. Please refer to the paragraph “Environmental matters” below for further details. In addition, the Group manufactures copper plate paper products, which are typically used as labels for beverage glass bottles.

The following table sets out typical specifications of the principal products of the Group:

<u>Product</u>	<u>Grades / Series</u>	<u>Average burst index (KPa m²/g)</u>	<u>Average stacking strength (Nm/g)</u>	<u>Basis weight (g/m²)</u>	<u>Recovered paper content (%)</u>
White top linerboard	Snow Lily	3.0-4.0	8.0-9.0	140-250	80-83
	Lotus	2.3-2.8	7.5-8.5	140-220	85-87
	Orchid	2.0-2.2	6.5-7.5	140-220	86-90
	Daffodil	1.6-1.8	6.0-6.5	140-220	100
Light-coated linerboard	Edelweiss	2.3-2.8	8.0-9.0	150-250	82-86
Core board	B		9	360-500	100
	S300		11	360-500	100
	S400		13	360-500	100
	S500		15	360-500	100
	S600		16	360-500	100
	S800		18	360-500	100
	S900		20	360-500	100

Note: The grading system for the Group’s white top linerboard products is divided into series, each with a pre-determined range of specifications, to facilitate product selection by the Group’s customers. The various series and their parameters have been derived based on the Group’s experience and history of dealings with its customers.

PRODUCTION FACILITIES

The main production facility of the Group is based in Weifang. The Group also has a production facility in Kunshan. Weifang is situated in Shandong province in northeast China with convenient transportation links by water, air and land, while Kunshan is situated in Jiangsu province, which is located along the eastern coast of China.

In relation to its Weifang production site, the Group has been granted land use rights from the Changle government over four pieces of land comprising a total area of approximately 272,830.4 sq.m., all of which are for 50 years from 2000, 2003 and 2004, respectively. In relation to its Kunshan production site, the Group has been granted land use rights from the Kunshan government for 50 years from 2004, covering an area of approximately 11,275.2 sq.m.

In January 2007, the Group obtained the land use right for land adjacent to its existing facilities in Weifang comprising of approximately 325,635 sq.m. for the construction of two production lines for producing (i) core board (ie. PL6) with a production output of 200,000 tonnes per year; and (ii) white top linerboard/light-coated linerboard (ie. PL7) with a production output of 500,000 tonnes per year. In July 2007, the Group received approval to start the construction of a new production line with an estimated annual maximum production output of

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200,000 tonnes of core board per year, coupled with supporting facilities. It is estimated that the new core board production line will commence production in the third quarter of 2008. Besides, the Group has completed feasibility studies for the proposed PL7, which will be subject to relevant approvals from various governmental authorities in the PRC.

The Group manufactures its products according to customers' specifications, hence ensuring minimal wastage and enhanced inventory control. The following table sets forth information relating to the Group's existing production lines in Weifang and Kunshan as of the 30 June 2007:

Primary Product(s)	Estimated Annual Maximum Production Output	Commencement of Production	Production line
	(tonnes)		
White top linerboard ^(Note 3)	110,000	June 2004	PL1
White top linerboard and/or light-coated linerboard ^(Note 3)	180,000	November 2006 for white top linerboard and May 2007 for light-coated linerboard	PL2 ^(Note 1)
Core board ^(Note 3)	40,000	January 2001	PL3 ^(Note 2)
Core board ^(Note 3)	20,000	May 2002	PL4
Copper plate paper ^(Note 4)	10,000	August 2005	PL5 ^(Note 4)
Total:	360,000		

Notes:

- (1) PL2 can produce both white top linerboard and light-coated linerboard products interchangeably. According to the Board, the estimated annual production output of PL2 could be further increased by 30,000 tonnes by upgrading the existing machines.
- (2) Initially, PL3 produced white top linerboard products. From mid-2004 onwards, it has been used to produce core board products.
- (3) Production line in Weifang.
- (4) Production line in Kunshan.

With the exception of periodic repair and during the Group's low seasons (usually December to January), the Group seeks to maintain uninterrupted operation of its production lines. The Group has not experienced any material interruption in its operations during the Track Record Period.

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The table below sets out the utilisation rates in relation to the Group's principal products for each of the three years ended 31 December 2006 and the six months ended 30 June 2006 and 2007. The estimated production capacity is calculated by multiplying the aggregate of the maximum output per day of each production line for the relevant product by the maximum of manufacturing days a year.

	Year ended 31 December									Six months ended 30 June		
	2004			2005			2006			2007		
	Full year approximate Production capacity (Tonnes)	Approximate output for the year (Tonnes)	Approximate utilisation rate for the year	Full year approximate Production capacity (Tonnes)	Approximate output for the year (Tonnes)	Approximate utilisation rate for the year	Full year approximate Production capacity (Tonnes)	Approximate output for the year (Tonnes)	Approximate utilisation rate for the year	Half year approximate Production capacity (Tonnes)	Approximate output for the six months (Tonnes)	Approximate utilisation rate for the six months
Primary Products												
White top linerboard	53,760	51,231	95.3%	107,023	95,147	88.9%	132,968	120,998	91.0%	141,936 ^(Note)	136,702	96.3%
Core board	28,849	22,372	77.5%	56,065	48,734	86.9%	58,809	55,323	94.1%	29,278	28,360	96.9%
Copper plate paper	—	—	—	972	936	96.3%	5,700	4,347	76.3%	3,192	2,355	73.8%
Total	82,609	73,603	89.1%	164,060	144,817	88.3%	197,477	180,668	91.5%	174,406	167,417	96.0%

Note: In May 2007, the Group commenced commercial production of light-coated linerboard. The Group's PL2 production line can be used interchangeably for the production of white top linerboard and light-coated linerboard. If PL2 was used to produce only white top linerboard, the Group's annual approximate production capacity for white top linerboard as at 30 June 2007 would have been approximately 290,000 tonnes/year. If PL2 was used to produce only the light-coated linerboard, the Group's production capacity for white top linerboard (using the PL1 production line) and the light-coated linerboard as at 30 June 2007, approximately 110,000 tonnes/year and 180,000 tonnes/year, respectively. The Group's half year production capacity for the six months ended 30 June 2007 of 141,936 tonnes/year assumes that the Group's PL2 production line was used to produce only white top linerboard and not light-coated linerboard.

SUPPORTING FACILITIES

The major facilities supporting the Group's production are as follows:

Power and steam generation plant

The Group requires a considerable amount of electricity and steam for its daily operations. In June 2007, Changle Sunshine increased its 20% equity interest in Shengshi Thermoelectricity to a controlling stake of 80%. Shengshi Thermoelectricity is located in the vicinity of the Group's Weifang production plant and has been granted land use rights from the Changle government over a piece of land comprising 84,895.3 sq.m. for 50 years from 2005. Shengshi Thermoelectricity, with an installed capacity of approximately 60 MW of electricity, supplies a significant portion of the Group's power and steam requirements. In addition, Shengshi Thermoelectricity obtained the land use right over a piece of land comprising approximately 115,110.19 sq.m. for 50 years from 2003. The use of electricity and steam are not interchangeable in the Group's operations, as steam serves a specific function in the Group's production processes. Shengshi Thermoelectricity did not supply electricity to any third party other than its shareholders during the Track Record Period, and the Group is free to purchase electricity directly from the power grid apart from Shengshi Thermoelectricity. For the three years ended 31 December 2006 and the six months ended 30 June 2007, Shengshi Thermoelectricity's revenue derived from sale of steam to third parties was nil, nil, RMB560,000 and approximately RMB650,000, respectively, which in turn represented nil, nil, approximately 0.7% and approximately 0.7% of the turnover of Shengshi Thermoelectricity, respectively. For the three years ended 31 December 2006 and six months ended 30 June 2007, electricity and steam accounted for 7.8%, 7.2%, 13.4% and 13.5%, respectively, of the total costs of goods sold of the Group. Shengshi Thermoelectricity commenced commercial operations in 2003. As at 30 June 2007, Shengshi Thermoelectricity had approximately 150 employees. The senior management of Shengshi Thermoelectricity has remained unchanged,

notwithstanding the Group's increase in equity interest in Shengshi Thermoelectricity. The management team of Shengshi Thermoelectricity has extensive experience in the management of a power and steam generation plant. As advised by the PRC legal advisers to the Company, Shengshi Thermoelectricity has complied with the relevant environmental, labor and production rules and regulations during the Track Record Period. Please refer to the paragraph entitled "Shengshi Thermoelectricity" in "History and Development" section of this prospectus for details of the acquisition.

Waste water treatment facilities

The Group's waste water treatment facilities primarily comprise an internal circulation anaerobic reactor, a surface aerator for biological treatment and a precipitation pond. The waste water treatment facilities of the Group meet applicable local discharge standards. Please refer to the paragraph "Environmental Matters" below for further details.

Raw material storage yards and warehouses for finished products

The Group's raw materials storage yards cover a land area of approximately 80,000 sq.m. while the Group's warehouses for finished products cover a land area of approximately 15,000 sq.m. The Directors believe this provides the Group with the flexibility to plan sales orders, store goods and respond efficiently to customer orders.

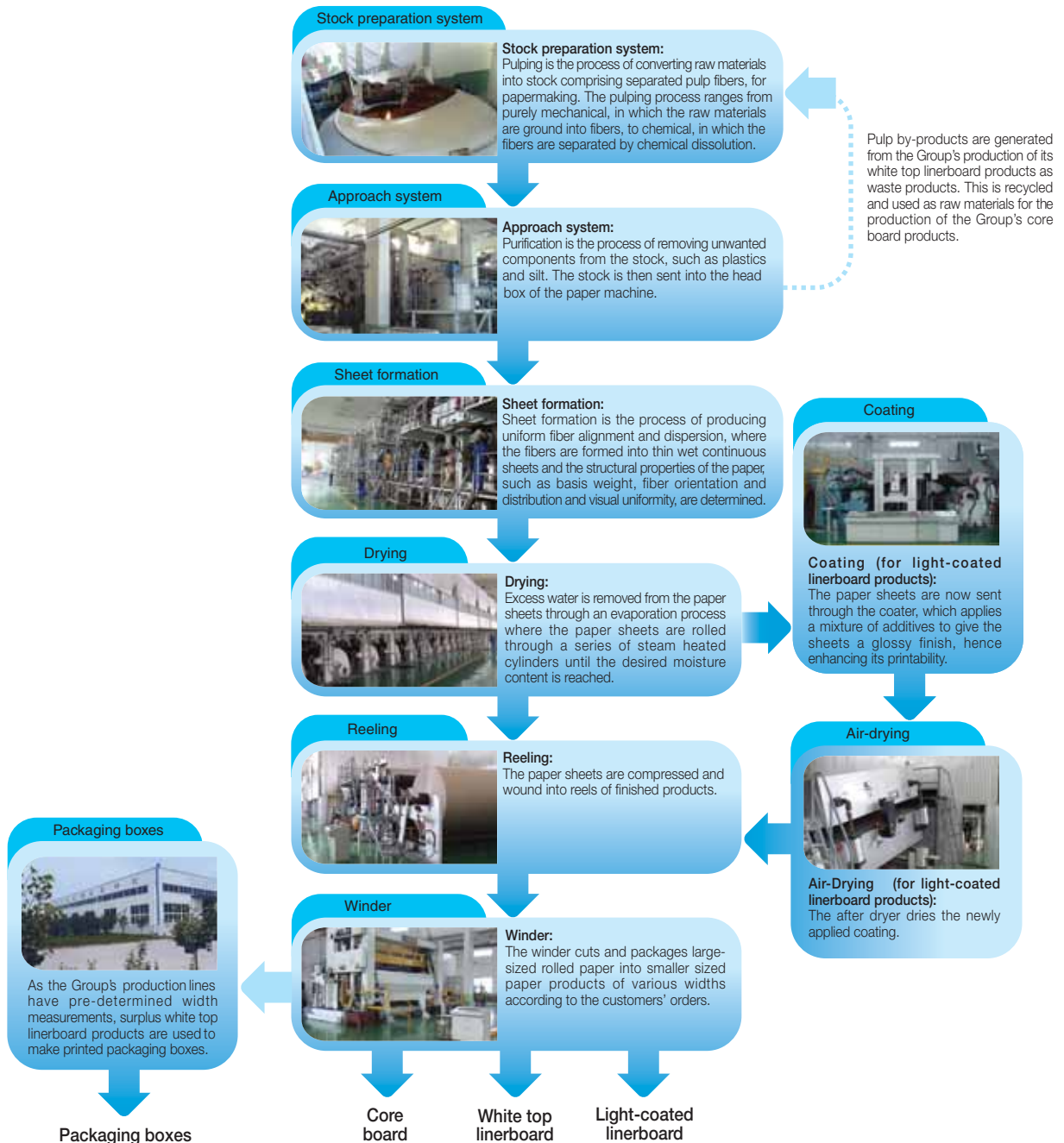
Recovered paper collection points

In 2007, the Group set up a recovered paper collection point in Harbin, China for the purpose of sourcing recovered paper in a cost efficient way. The Group also has another collection point in Weifang. The collection points are strategically located for convenient transportation of raw materials to the Group’s production facility in Weifang. The Group plans to set up another eight recovered paper collection points by the end of 2008, four of which will be in Beijing, Qingdao, Shenyang, and Tianjin. The Group also intends to expand its network of collection points in various second-tier cities in northern and eastern China. The Directors believe that this enables the Group to secure a stable source of raw materials and will provide cost savings. The following map shows the geographical distribution of the Group’s existing and proposed recovered paper collection points in China as at the Latest Practicable Date:



PRODUCTION PROCESS

The following flow charts provide an overview of the major steps involved in the production process for the Group's principal products:



QUALITY CONTROL

The Group has implemented a comprehensive and effective quality control and production tracking system in respect of the raw materials it sources and at every stage of the production process. Every stage of the Group's production process is highly integrated and computer-controlled and continuously monitored by the Group's engineers. This ensures high levels of production safety, consistent throughput and efficiency, and minimizes human errors. The

Group's production lines are also regularly inspected and maintained by the Group's engineers to ensure that they are in proper working condition.

As at 30 June 2007, the Group had 28 employees responsible for quality control, eight of which have bachelor degrees. All of them have at least three years of experience in quality control matters, and the five managers that lead the quality control department possess approximately 15 years of relevant experience.

In September 2007, Changle Sunshine was accredited with GB/T 19001-2000 idt ISO9001:2000 certification in relation to its quality management system and ISO14001:2004 certification in relation to its environmental management system. Both accreditations are valid until September 2010. The Group has also obtained OHSAS18001:1999 certification for its health and safety management systems. The OHSAS18001:1999 standard is an occupational health and safety assessment series for health and safety management systems. It is intended to help an organization control occupational health and safety risks.

The Group continuously seeks to improve its production process so as to enhance the quality of its products, such as through research collaboration with the Shandong Institute of Light Industry (山東輕工業學院).

Samples are taken from every roll of paper produced by the Group for quality testing. The products are graded in accordance with their series and quality. Samples are also taken after the reeling stage of the production process from the jumbo rolls. These are tested for various physical properties, such as basis weight, surface brightness and burst index.

Production reports are generated by the Group's production department on a daily basis in respect of each production line, which set out various production data including production volume, amount of raw materials used, results of quality control inspections and any problems encountered during the production process.

During the Track Record Period, the Group did not experience any significant amount of products which were returned by its customers.

RAW MATERIALS

Recovered paper (domestic recovered paper and overseas recovered paper) and kraft pulp are the principal raw materials for the production of the Group's products. There are different grades of quality for white top linerboard, light-coated linerboard and core board. At a given level of quality, recovered paper and kraft pulp are not interchangeable raw materials. However, in order to maintain the Group's cost competitiveness, the Group undertakes to continuously improve its production by adjusting the ingredient mix so that its usage of kraft pulp is minimized. For example, for the Group's white top linerboard, the recovered paper content ranges from 80% to 100%; for light-coated linerboard, the recovered paper content ranges from 82% to 86%; and for core board, the recovered paper content is at 100%. Raw materials consumed comprised 88.7%, 87.6%, 80.2%, and 79.8% of total cost of goods sold for the years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007, respectively.

During the corresponding periods, recovered paper consumed accounted for RMB99.8 million, RMB179.0 million, RMB214.5 million and RMB230.4 million, or 48.5%, 49.9%, 43.4% and 47.6% of total cost of goods sold, respectively. During the corresponding periods, kraft pulp consumed accounted for RMB45.9 million, RMB79.6 million, RMB101.0 million and RMB112.5

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million, or 22.3%, 22.2%, 20.4% and 23.2% of total cost of goods sold, respectively. During the corresponding periods, chemicals consumed accounted for RMB36.9 million, RMB55.6 million, RMB81.5 million and RMB43.7 million, or 17.9%, 15.5%, 16.4% and 9.0% of total cost of goods sold, respectively.

The Group's purchases are denominated in US Dollars for import purchases and RMB for domestic purchases. Purchases denominated in US Dollars represented approximately 25.2%, 28.4%, 42.1% and 41.6%, respectively, of the Group's total purchases for the three years ended 31 December 2006 and the six months ended 30 June 2007. The average credit period is typically 90 days and payment to the Group's suppliers are generally made by way of letters of credit, telegraphic transfer or bills receivable issued by banks.

The Group does not rely on a single source of supply for any of its raw materials and has not encountered any significant raw materials shortage or production disruption due to raw materials shortage during the Track Record Period. The Directors believe that the sources of raw materials are sustainable and that in any event, the Group's raw materials can be purchased from a number of different suppliers at prices comparable to those charged by the Group's current suppliers. The PRC legal advisers to the Company have confirmed that PRC laws do not specifically set any requirements in relation to the qualifications of foreign exporters to the PRC of recovered paper and the sources of such recovered paper. All recovered paper being imported into China is inspected by the relevant Chinese authorities and those that do not meet the relevant environmental standards will be rejected.

For the Track Record Period, the Group's five largest suppliers in aggregate accounted for approximately 24.7%, 22.4%, 24.4% and 22.1%, respectively, of the Group's total purchases. For the Track Record Period, the Group's single largest supplier accounted for approximately 8.5%, 6.9%, 11.5% and 9.2%, respectively, of the Group's total purchases. None of the Directors, their respective associates or Shareholders holding more than 5% of the issued share capital of the Company holds any interest in any of the Group's five largest raw material suppliers for the years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007. During the Track Record Period, the trade payable turnover days of the Group were approximately 90.20 days, 134.5 days, 101.7 days and 106.0 days, respectively.

Based on the advice of the Company's PRC legal advisers, suppliers of kraft pulp and recovered paper are not required to have any licence to make such sales in the PRC; however imports of overseas recovered paper into the PRC are subject to inspection by the relevant PRC authorities.

The table below shows the average of the Group's purchase prices of raw materials for the Track Record Period. The purchase prices were calculated by reference to the average of the purchase price of raw materials purchased during the relevant periods.

	<u>31 December 2004</u>	<u>31 December 2005</u>	<u>31 December 2006</u>	<u>30 June 2006</u>	<u>30 June 2007</u>
	RMB / ton	RMB / ton	RMB / ton	RMB / ton	RMB / ton
Domestic recovered paper	1,291	1,227	1,301	1,219	1,407
Overseas recovered paper	1,396	1,406	1,355	1,277	1,501
Kraft pulp	4,283	3,989	4,788	4,299	5,483

In view of the importance and volatility of the principal raw material costs, the Group constantly monitors changes in principal raw material costs. When negotiating selling prices

with its customers, the Group takes into account, amongst other things, the fluctuation in prices of principal raw materials. During the Track Record Period, the cost of principal raw materials was volatile; however, the Group was able to maintain its gross margin for the three years ended 31 December 2006 and the six months ended 30 June 2007 at 15.9%, 19.7%, 19.3% and 16.7%, respectively.

The Directors believe that the Group has the ability to mitigate the impact from fluctuations in the cost of the principal raw materials through (i) the ability to pass on part of the increases to its customers, (ii) the Group's sourcing of recovered paper at a lower cost through its own network of recovered paper collection points, (iii) improvements in production efficiency and (iv) economies of scale. With an experienced management team, comprising key management personnel each of whom has on average of over 15 years of experience in the paper industry, the Directors believe that the Group is able to manage fluctuations in the cost of the principal raw materials in order to maintain a stable gross margin in the future.

Recovered paper

Recovered paper is the Group's largest raw material component. For the three years ended 31 December 2006 and the six months ended 30 June 2007, the Group's overseas recovered paper, which was mainly sourced from North America, comprised approximately 10.9%, 18.6%, 16.1% and 17.1% of the Group's cost of sales, respectively, and domestic recovered paper, which was mainly sourced from the Northern China region, comprised approximately 37.6%, 31.3%, 27.3% and 30.5% of the Group's cost of sales, respectively. The Group also has two collection points in Weifang and Harbin, which the Directors believe enable the Group to enjoy cost savings. The Group plans to set up another eight recovered paper collection points by the end of 2008, four of which will be in Beijing, Qingdao, Shenyang, and Tianjin.

The Group sources overseas recovered paper mainly from approximately six suppliers, with each of whom the Group has an approximately 5-year working relationship.

Kraft pulp

The Group uses kraft pulp in the production of its white top linerboard and light-coated linerboard products to increase the consistency of the appearance and strength of the products. Almost all of the kraft pulp used by the Group is imported, mainly from North and South America, Russia and Canada. The Group generally keeps approximately 22 days' supply of kraft pulp in storage and approximately another two months' supply en route.

The Group sources kraft pulp mainly from approximately four suppliers, all of whom have had working relationships with the Group for approximately five years. The Group does not enter into any long term contracts with any of its kraft pulp suppliers, and the Directors believe that this allows the Group to have greater sourcing flexibility and more choices in view of the volatility of kraft pulp prices.

Chemicals

The Group uses various kinds of chemicals in its production process including primarily starch and retention agent. Starch is used to enhance the strength of its products, and retention agent is used to increase the retention rate of stock. The Group purchases chemicals from third party suppliers in China and various countries, such as Japan, Korea and Brazil.

TRANSPORTATION AND DELIVERY SYSTEM

The Group relies on rail, road and water transportation for delivery of products to its customers and raw material supplies to its production facilities. The Group has its own vehicle fleet to meet some of its transportation needs in a timely and cost efficient manner.

As at 30 June 2007, the Group had 38 container trucks, which are equipped with GPS satellite computerized navigation systems to allow the Group to track and monitor the trucks. This enables the Group to allocate its internal resources efficiently and plan its delivery schedules. Each truck has an approximately 30 metric tonne capacity. The Group's delivery routes cover all major cities in Shandong Province, as well as other PRC major cities in other provinces, including but not limited to Guangdong, Hunan, Xinjiang and Zhejiang. In other locations in China, delivery of the Group's products is primarily by rail.

The Group is also strategically located within approximately 150 kilometers of Qingdao Port, which is linked to Weifang via a highway. This easy access ensures timely and reliable delivery of raw materials supplies to the Group, as well as the delivery of the Group's products to certain locations outside Shandong province and overseas. The Group has not experienced any material delay in the delivery of its products during the Track Record Period.

SALES AND MARKETING

Sales and marketing network

The Group has established an extensive sales and marketing network in China. The Group co-ordinates its domestic and international sales efforts from its sales headquarters in Weifang. In order to facilitate sales efficiency and optimize decision-making, the Group manages the nationwide sales and marketing network across five sales and marketing regions comprising 19 sales representative offices, where each region reports individually to the Group's headquarters.

As at 30 September 2007, there were certain non-registrations in relation to the tenancies of nineteen properties leased by the Group in China, all of which are used by the Group as its sales representative offices. The lessors of these properties have not yet provided the relevant building ownership certificate to the Group, and consequently, the related tenancy agreements entered into by the Group have not been registered with the relevant PRC authorities as required under the PRC laws and regulations. According to the PRC legal advisors of the Company, non-registration of the tenancies does not affect the legality of the use of these properties by the Group. In this respect, the Covenantors have undertaken to indemnify the Company against any costs, expenses, losses and claims that the Company may suffer as a result of such relocation. For further details on the relevant properties, please refer to Appendix V to this prospectus.

If there is any dispute regarding the legal title of such properties and/or if the Group's right to occupy such properties is challenged, the Group may have to vacate from the premises and relocate to properties with proper titles. The Directors confirm that the Group would not renew the leases of such properties if the lessors do not provide the relevant building ownership certificate and will relocate to properties with proper title. The Directors also confirm that these properties are not crucial to the Group's operations and the non-registrations of tenancies would not have a material adverse impact on the Group as sales representative offices in similar areas and locations can be easily identified.

The following map shows the geographical distribution of the Group's sales representative offices and production bases in China as at the Latest Practicable Date:



Sales and marketing strategy

The Group aims to strengthen its ongoing business relationships with its existing customers, maintain a high level of customer satisfaction and attract potential new customers by continuous promotion of its products and market research. The Group engages in direct sales, and does not use any intermediaries. This gives the Group the advantage of being able to maintain close relationships with its customers and their end-users, hence the Group is better-positioned to meet their needs and requirements.

The Group's sales and marketing activities include:

- monthly visits to customers to discuss, among other things, market trends, pricing and customer's business;
- organizing promotional seminars and forums in various cities in China for existing and potential customers;
- participation in paper industry exhibitions in China and overseas; and
- contacting corporate end-users directly and arranging site-visits for end-users to strengthen their understanding and impression of the Group and its production process so as to encourage them to use the Group's products or to buy from the Group directly.

In addition, the Group has established an after-sales management system, such as collecting feedback from various customers on the quality of the Group's products through periodic visits to these customers, understanding the operational requirements of its customers as well as dealing with any complaints by customers. In the event of any product quality issues, the relevant sales representative office conducts an on-site investigation, including collecting samples and product details such as the series number, specifications and production date.

Sales and marketing team

The Group has a sales and marketing team of approximately 70 personnel, and in order to ensure a high level of customer service, the Group has a network of 19 sales representative offices throughout China, encompassing five strategic regions, namely Northeast China, Northern China, Central China, Eastern China and Southern China. Each sales representative office has exclusive responsibility for a distinct geographical area of China. Approximately two-thirds of the sales personnel have on average been with the Group for more than two years. In addition, the Group has a sales team of eight personnel which is responsible for export sales to the Group's international customers.

The Group's sales and marketing team usually relies on direct marketing calls and follows up by direct visits to potential customers, comprising corrugators, printing and packaging companies as well as their leading domestic brand end-users, to discuss their product requirements. They are also responsible for providing after-sales services to customers, including arranging delivery logistics and dealing with questions and problems in relation to the products.

All sales personnel receive a one-month formal training on the characteristics of the Group's paper products, which is followed by appropriate on-going training. The Group has introduced an incentive commission program for its sales personnel which is based on their sales performance.

Pricing

Pricing for the Group's products is determined by various factors, including raw material costs, operating expenses, market demand and competition. The Group applies different pricing for customers depending on market conditions, customer's creditworthiness and location. Prices are reviewed and set on a monthly basis.

Customers

The Group has a large customer base in China, comprising over 1,000 customers in 2007, of whom approximately 300 are relatively major customers. The Group's customers are mainly corrugators and paperboard and packaging companies. The Group's customers manufacture their products for corporate end-users across various industries such as food and beverages, electronics and textiles. The Directors believe this broad base of end-users allows the Group to limit exposure to any particular industry as well as any seasonal fluctuations.

In order to further expand its market share, the Group is actively pursuing strategic arrangements with the designated packaging companies of various consumer manufacturers, who are the end-users of the Group's products, to obtain preferred manufacturing rights to produce white top linerboard products for these packaging companies. The Directors believe that such arrangements are attractive to these brand-name end-users which require the

packaging of their products to be uniform in quality and appearance to support their brand identity.

In China, the Group has been successful in becoming a supplier to a wide range of corrugators and paper board and packaging companies who in turn manufacture their products for leading domestic brand end-users across various industries such as food and beverages, electronics and textiles. In July 2007, the Group signed several strategic co-operation agreements with several packaging or printing companies who are the suppliers to various leading consumer product manufacturers. These manufacturers include Mengniu Dairy, Tsingtao Brewery, Yili Dairy, Haier, Huiyuan Juice and Master Kong Chef. Generally, these strategic co-operation agreements have a term of three years. These packaging and printing companies, who are Independent Third Parties, give priority consideration to the Group's products when sourcing and purchasing raw materials. The Group regularly consults the partner companies on their requirements and development trends, and provides them with technical support and guidance. There are no sales and pricing policies, sales commitment, or specific terms on termination set out in these agreements. For the three years ended 31 December 2006 and the six months ended 30 June 2007, 100.0%, 99.8%, 99.5% and 90.0%, respectively, of the Group's sales were made to customers in China, while 0%, 0.2%, 0.5% and 10.0%, respectively, were generated from sales to customers in other regions, such as the Middle East, North America, South Korea and Southeast Asia.

The Group's customers are diversified across China with a majority concentrated in the Eastern China region where its main production facility is located. The Group's proximity to a majority of its customers allows it to provide cost-effective and timely delivery and services to its customers.

For the three years ended 31 December 2006 and the six months ended 30 June 2007, the Group's five largest customers in aggregate accounted for approximately 11.6%, 10.6%, 10.2% and 10.8%, respectively, of the Group's total sales. For the same periods, the Group's single largest customer accounted for approximately 2.8%, 2.9%, 2.6% and 3.6%, respectively, of the Group's total sales. None of the Directors, their respective associates or Shareholders holding more than 5% of the issued share capital of the Company holds any interest in any of the Group's five largest customers for the years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007.

Terms of Sales and Credit Policy

Typically, the Group enters into annual sales contracts with its customers, with prices being quoted by the Group and agreed with the customers on a monthly basis.

The Group's sale and credit terms depend on the volume of purchases, reputation, creditworthiness of the customer, and the mode of settlement. If settlement is by telegraphic transfer, the Group typically grants a discount, and if settlement is by bills, the Group will generally not grant a discount. Pursuant to the Group's credit policy, the Group categorizes its customers as Type A, Type B and Type C. In general, Type A customers can enjoy approximately 30 days of credit while Type B customers can enjoy approximately three days of credit. Type C customers are required to pay in advance.

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The table below sets out the percentage of the Group's Type A, B and C customers during the Track Record Period.

	For the year ended 31 December			For the six months ended 30 June 2007
	2004	2005	2006	2007
	(%)	(%)	(%)	(%)
Type A	51.0	45.0	58.0	52.0
Type B	42.0	39.0	35.0	38.0
Type C	7.0	16.0	7.0	10.0
Total:	100.0	100.0	100.0	100.0

As at 30 June 2007, more than 75% of the Group's customers fell within the Type A and Type B categories. During the Track Record Period, the trade receivable turnover days of the Group were approximately 61.1, 40.0, 38.2 and 42.5 days, respectively. The Group reviews its customer categorization on a quarterly basis.

The Group periodically reviews the payment status of its accounts receivables and takes appropriate measures to collect overdue accounts. The Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectable. The identification of bad and doubtful debts requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of trade and other receivables and doubtful debts expenses in the year in which such estimate has been changed.

During the Track Record Period, the Group made provisions in the amount of RMB500,000, RMB100,000, RMB400,000 and nil, respectively.

INVENTORY MANAGEMENT

The Group maintains close inventory control over raw materials and finished products to optimize its operations and minimize wastage. It conducts a monthly physical stock of all its inventory. The Group's policy is to evaluate its inventory levels based on market conditions, orders, production schedules and raw material prices.

The Group generally keeps approximately 19 and 22 days' supply of recovered paper and kraft pulp, respectively, in storage and another 2.4 and 2 months' supply of recovered paper and kraft pulp, including items en route from suppliers, respectively. The Directors believe that this enables the Group to cope well in the event of any price volatility or increased orders.

The Group's inventory of finished products primarily comprises products awaiting delivery to customers as the Group typically manufactures its products according to customers' specifications only after it has received an order. The Group's inventory of raw materials primarily comprises recovered paper, kraft pulp and chemicals. During the Track Record Period, the Group's inventory amounted to approximately RMB41.4 million, RMB62.2 million, RMB105.1 million and RMB154.8 million, respectively. The inventory turnover of the Group's raw materials for the Track Record Period was approximately 73.4, 63.3, 77.5 and 58.3 days, respectively.

The Group made a provision for inventory obsolescence of RMB0.9 million in 2006. It made no such provision in any other period during the Track Record Period.

RESEARCH AND DEVELOPMENT

As at 30 June 2007, the Group had approximately 20 employees engaged in product research and development. Most of these employees have completed specialist training in either paper production or engineering. During the Track Record Period, the Group expended approximately RMB300,000, RMB700,000, RMB700,000 and RMB400,000, respectively, for such training.

The Group focuses its research and development efforts on improving manufacturing efficiencies and developing new and innovative products designed to improve the performance characteristics of the Group's white top linerboard, light-coated linerboard and core board products. In addition, the research and development team also undertakes market and industry research, including demand of products, potential market growth, investment opportunities, returns from the development of new projects and its competitors' products, prices and sales.

In November 2005, the Group entered into a research collaboration agreement with the Shandong Institute of Light Industry (山東輕工業學院) in relation to the chemicals used in the paper manufacturing processes. Shandong Institute of Light Industry (山東輕工業學院) was established in 1978. It is a learning institute which is authorized to award bachelor and master degrees. Its leading discipline is in pulp and paper production, and in 2005, it established Shandong Province's key laboratory for the study of pulp and paper production and technology. Save as disclosed above, the Group does not have any other relationship with Shandong Institute of Light Industry (山東輕工業學院). The intellectual property rights of any results of this collaboration are jointly owned by the Group and the Shandong Institute of Light Industry (山東輕工業學院). Under the agreement, the Group designates a research team to collaborate with the relevant personnel from Shandong Institute of Light Industry (山東輕工業學院) and provides various chemical samples for research purposes. In turn, the Shandong Institute of Light Industry designates one Ph.D. holder and other relevant personnel to conduct research in the Group's production facilities and provides training services to the Group. The collaboration agreement does not set out any specific agreement as to any actual or planned investment amount. The collaboration was established to help resolve practical difficulties relating to the Group's chemical application techniques in its production process. According to the collaboration agreement, which does not have an expiration date, 90% of the research costs incurred are to be borne by the Group with the remaining amount to be borne by the Shandong Institute of Light Industry (山東輕工業學院).

INTELLECTUAL PROPERTY RIGHTS

The key intellectual property rights of the Group comprise the trademarks which are used in the marketing and sales of the Group's products. Details of the intellectual property rights of the Group are set forth in the paragraph headed "Intellectual property rights of the Group" in Appendix VII to this prospectus.

The Group maintains commercial secrecy over the production process of the Group's products. However, the Group does not intend to file for any patent registration in respect of such production technology. During the Track Record Period, the Group did not have any pending or threatened claims against it, nor has any claim been made by the Group against

third parties, with respect to the infringement of intellectual property rights owned by it or third parties.

COMPETITION

The Group competes primarily in the China market. The paper industry in China has historically been a highly fragmented and competitive industry predominantly because of the numerous kinds of paper that are being manufactured within the industry. The domestic and foreign players in the industry usually compete on the basis of product quality, consistency, performance, product development, customer service, distribution capabilities and price.

The main entry barriers to large-scale paper manufacturing operations include capital intensity, environmental sensitivity and constraints in raw material supplies. Following China's accession to the WTO, it is anticipated that an increasing number of domestic and foreign enterprises may set up paper manufacturing businesses in China or enter into joint ventures with local paper manufacturers, hence further intensifying future competition. In addition, the Group faces competition from imported paper products.

The Directors believe that the Group's competitive strengths have enabled the Group to achieve a leadership position in the relevant product markets in China.

According to the statistics collated by the China Paper Association, Changle Sunshine was the largest producer of white top linerboard and one of the top three largest producers of core board by production output in China for the year ended 31 December 2006. The following tables show the top five largest manufacturers of white top linerboard products and core board products in China in terms of production output in 2006.

White top linerboard

<u>Ranking</u>	<u>Manufacturer (note)</u>	<u>Approximate production output (tonnes)</u>
1	Changle Sunshine	120,000
2	A company	50,000
3	B company	50,000
4	C company	40,000
5	D company	40,000

Core board

<u>Ranking</u>	<u>Manufacturer (note)</u>	<u>Approximate production output (tonnes)</u>
1	A company	70,000
2	B company	70,000
3	Changle Sunshine	55,000
4	C company	50,000
5	D company	50,000

Note: To avoid any unnecessary legal dispute from the companies so named in the report and statistics provided by China Paper Association, their rankings are disclosed on an anonymous basis.

WORKPLACE SAFETY

The PRC laws and regulations that are applicable to social responsibility such as labour, health, safety, insurance and accidents are: 《中華人民共和國勞動法》 (Labour Law of the People's Republic of China), 《中華人民共和國安全產法》 (Production Safety Law of the PRC, the "Production Safety Law"), 《社會保險費征繳暫行條例》 (Interim Regulations concerning the Levy of Social Insurance), 《住房公積金條例》 (Regulation concerning Housing Fund), 《企業職工生育保險試行辦法》 (Interim Measures concerning the Maternity Insurance) and 《工傷保險條例》 (Regulation on Injury Insurance). The Directors believe that the Group has complied with the relevant labour and safety regulations in all material respects and has maintained a good safety track record without the occurrence of any major work injury during the Track Record Period. Some of the work safety measures taken by the Group include safety markings in the production areas, anti-slip pedestrian walkways, and appropriate warning signages. The Group has developed an employee manual and provides safety-related training to employees from time to time. In addition, the Group has established a production safety committee to oversee work safety issues in relation to the employees and the Group's compliance with the applicable PRC laws and regulations. Changle Sunshine has also applied and was successfully accredited with OHSAS18001:1999 certification on 26 September 2007. OHSAS18001:1999 is an occupational health and safety assessment series for health and safety management systems. It is intended to help an organization control occupational health and safety risks. In addition, the Group also maintained medical insurance and work-related injury insurance for its employees in the PRC during the Track Record Period.

ENVIRONMENTAL MATTERS

Given the increasing awareness of environmentally responsible practices among consumers and producers, and the growing trend towards substituting plastic and metal packaging materials with more bio-degradable and recyclable packaging materials such as paper, the Directors believe that it is a competitive strength of the Group that it has implemented environmentally responsible practices and high environmental standards in its production process. Furthermore, this significantly reduces the risk of exposure to liabilities under environmental protection laws and regulations. In September 2007, Changle Sunshine was accredited with GB/T 24001-2004 idt ISO14001:2004 certification in relation to its environmental management system and GB/T 2000 idt ISO9001:2000 certification in relation to its quality control system. The PRC legal advisers to the Company have confirmed that the Group has complied with all applicable environmental rules and regulations in the PRC in all material respects during the Track Record Period. In addition, confirmations were issued by 昌樂縣環境保護局 (Changle Environment Protection Bureau) and 昆山市環境保護局 (Kunshan Environment Protection Bureau) dated 25 July 2007 and 30 August 2007 which confirmed that members of the Group have complied with the relevant environmental laws and regulations in the PRC in all material respects and there has not been any penalty imposed on the Group as a result of violation of environmental rules and regulations. Please refer to "PRC Laws and Regulations — Environmental Protection" for a discussion of the applicable environmental rules and regulations to which the Group is subject.

The Group has implemented various measures to comply with the applicable environmental rules and regulations in the PRC, which include:

- the establishment of an environmental supervisory committee comprising two Directors and two supervisors. This committee has overall responsibility for the design and implementation of, and compliance with, the Group's environmental protection policies and measures. The two relevant Directors have more than 20 years

experience in environmental protection management in relation to production facilities in the PRC; and the two supervisors have an average of five years experience in handling environmental compliance matters;

- carrying out relevant environment impact assessments before commencing construction of the Group's production facilities; and such assessments have been approved by the relevant Environmental Protection Bureau. Companies operating in the PRC are required under PRC environmental laws and regulations to carry out an environment impact assessment before commencing construction of production facilities;
- providing training to the Group's staff in order to familiarize the staff with the requirements of the environmental rules and regulations in the PRC which may be relevant to the operations handled by such staff;
- making required filings with the relevant PRC authorities in a timely manner; and
- installing the following pollution treatment facilities that meet the relevant environmental standards to treat pollutants before discharge and adopting the following practices:

Waste water Treatment Measures

Waste water from the production process is treated in the Company's sewage treatment plant, which is equipped with anaerobic and aerobic technology imported from Europe. Water discharged from the sewage treatment plant is re-used in the Group's production lines after undergoing thorough treatment. The daily treatment capacity of the sewage treatment plant is 20,000m³, which is sufficient for the Group's current production capacity.

Waste Gas Treatment Measures

Waste gas from the production process comprises mainly foul-smelling gases such as sulfurated and methane hydrogen generated from the sewage treatment plant. The discharge of these gases is controlled: sulfurated hydrogen is removed through removal equipment and methane is removed through a methane burner.

Solid Waste Treatment Measures

Solid waste comprises mainly pulp residue, de-inked pulp, plastic fragments and sand from the production process as well as sludge from the sewage treatment facilities. All the pulp residue is used in the production of core board; the sand is transported out of the production site for road construction and pit-filling; and all the other solid waste from the sewage treatment plant is incinerated.

Noise Treatment Measures

Noise from the Group's production facilities is generated by the production lines, refiners, vacuum pumps, air compressors and hydra-pulpers. In this respect, the Group has established isolation rooms with noise absorption solutions in the walls of these isolation rooms.

Re-processing of pulp by-product

Pulp debris is generated from the Group's production of its white top linerboard and light-coated linerboard products as a waste product. The Group recycles and uses such pulp as a

raw material for the production of its core board products. This minimizes waste and increases cost efficiency for the Group's production operations.

The Group has invested approximately RMB30.9 million, RMB8.8 million and RMB0.4 million, respectively, in the treatment measures for waste water and waste gas, solid waste and noise. No material environmental pollution incident affecting the Group has occurred during the Track Record Period.

Re-processing of surplus products

As the Group manufactures and cuts its white top linerboard and light-coated linerboard products according to customers' specifications, there will typically be some wastage as the paper machines produces products with pre-determined width measurements. Through Rainbow Packaging, the Group operates a packaging facility which uses such surplus products to make printed packaging boxes.

As of the 30 June 2007, none of the Group's customers had imposed environmental legal compliance as a contractual pre-condition to the placement of orders. The table below shows the discharge fees for the various polluting substances paid by the Group during the Track Record Period.

	<u>For the year ended 31 December</u>			<u>For the six months</u>
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>ended 30 June 2007</u>
	(RMB)	(RMB)	(RMB)	(RMB)
Discharge Fees paid	463,361	686,068	605,932	320,538
Polluting Standard/Substances	<ol style="list-style-type: none"> 1. COD 2. NH₃N (ammonia nitrogen) 3. SO₂ (sulphur dioxide) 4. Solid Waste 			<ol style="list-style-type: none"> 1. COD 2. NH₃N (ammonia nitrogen) 3. SO₂ (sulphur dioxide)

The Group plans to enhance its environmentally responsible practices and address potential future environmental risks in the following manner:

- optimize the Group's production process and reduce water consumption;
- improve the Group's water recycling processes and reduce the consumption of fresh water;
- enlarge its current emergency waste water storage area in line with the Group's increasing production capacity;
- install additional noise treatment measures; and
- improve material safety data sheet disclosures, which are designed to provide workers with the proper procedures for handling or working with hazardous chemicals.

INSURANCE

The Group's significant insurance policies for ongoing operations include all risks, comprehensive assets insurance, machinery damage and breakdown, insurance of its raw materials in transit from overseas against risk of loss and insurance of its products in delivery against risk of loss. Consistent with customary practice in China, the Group does not carry any business interruption insurance, third party liability insurance for personal injury or environmental

damage arising from accidents at its production facilities or relating to its operations or product liability insurance against claims or liabilities that may arise from products sold by it. To control its product liability risk, the Group places significant emphasis on quality control.

Most of the Group's operations-related insurance policies are renewed annually. The Directors believe that the Group's insurance coverage is appropriate given the nature of the Group's business and the risks that are faced by the Group, and is in line with standard industry practice in China.

LEGAL PROCEEDINGS

As at the Latest Practicable Date, Changle Sunshine was involved in the following litigation:

Pursuant to a statement of claim dated 3 November 2003, 山東昌樂礦山機械總廠有限責任公司 ("Changle Mining Machinery") claimed that Changle Sunshine owed it the balance of a trade debt (with an original amount of RMB850,000) originally due from Jinguang Paper Mill to Changle Mining Machinery, which amounted to RMB350,000, plus interest and legal costs. In the said statement of claim, Changle Mining Machinery alleged that, pursuant to a debt assignment agreement dated November 2001, Changle Sunshine has agreed to assume the payment obligations of Jinguang Paper Mill and to repay the outstanding debt to Changle Mining Machinery. As at the Latest Practicable Date, the court proceedings for this case had not yet been concluded, and the court had yet to deliver its judgment.

The Company's PRC legal advisers have confirmed that the maximum exposure of the Group in the above proceeding is RMB350,000 plus interest and legal cost and consider such claim would not have a material adverse impact on the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against the Company, that would have a material adverse effect on its results of operations or financial condition. Pursuant to a deed of indemnity dated 28 November 2007 entered into between members of the Controlling Shareholder Group and the Group, the Covenantors agreed to provide full indemnity in favour of the Group for any losses or penalties arising from the above proceedings.