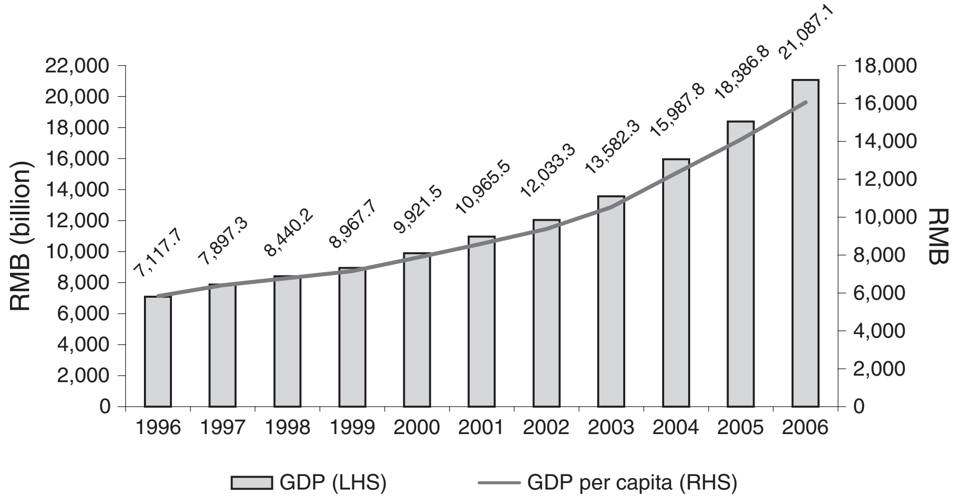
This section contains information and statistics relating to the PRC economy and the industry in which the Group operates. The Group has derived such information and data partly from publicly available official government publications. The information in such government official sources may not be consistent with the information complied elsewhere. The Directors and the Sponsor have taken reasonable care in the reproduction of information extracted from such official government publications. Neither the Company, the Sponsor, the Underwriters nor any other parties involved in the Global Offering has independently verified such information or made any representation as to the correctness or accuracy of such information and accordingly such information should not be unduly relied on.

The PRC Economy

The PRC economy has been one of the fastest growing economies in the world over the last 10 years. According to the National Bureau of Statistics in China, China's GDP growth represented a CAGR of approximately 11.5% from 1996 to 2006.

GDP and Per Capita GDP in China during 1996 – 2006



Source: China Statistical Yearbook 2007

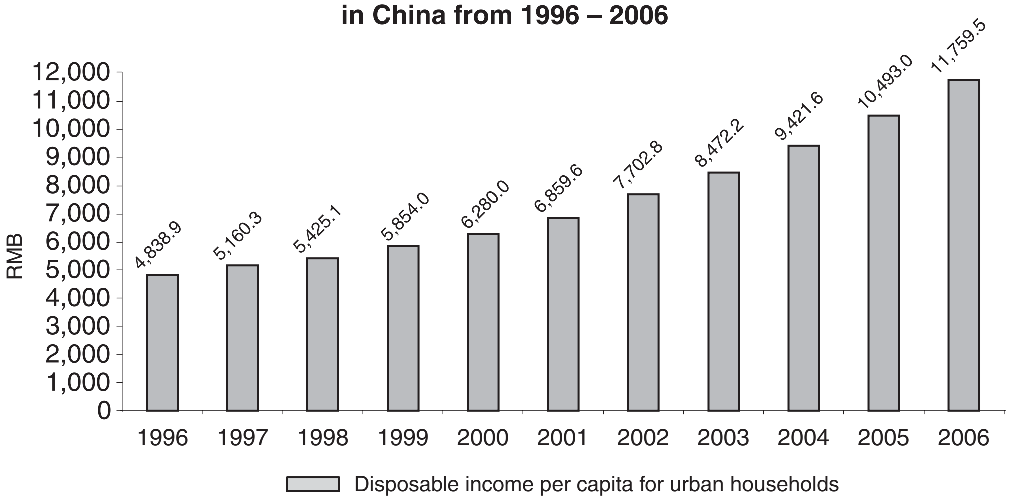
The PRC economy is expected to continue its rapid growth. The International Monetary Fund has estimated that the real GDP of China in 2007 and 2008 will grow at an annual rate of 10.0% and 9.5% respectively, which will outpace most of the other economies in the world. The table below illustrates the forecast growth rate of real GDP in some of the major economies in the world by the International Monetary Fund in 2007 and 2008:

	2007F	2008F
	(%)	(%)
The PRC	10.0	9.5
Emerging Asia	8.4	8.0
United States	2.2	2.8
Europe	2.3	2.3
Japan	2.3	1.9
Hong Kong	5.5	5.0
Singapore	5.5	5.7

Source: International Monetary Fund—World Economic Outlook, April 2007

With rapid economic growth and rising GDP per capita in China, the living standards and purchasing power of the population are improving, as average income levels have increased significantly. The annual disposable income per capita of urban households in China increased from RMB4,838.9 in 1996 to RMB11,759.5 in 2006, representing a CAGR of 9.3%.

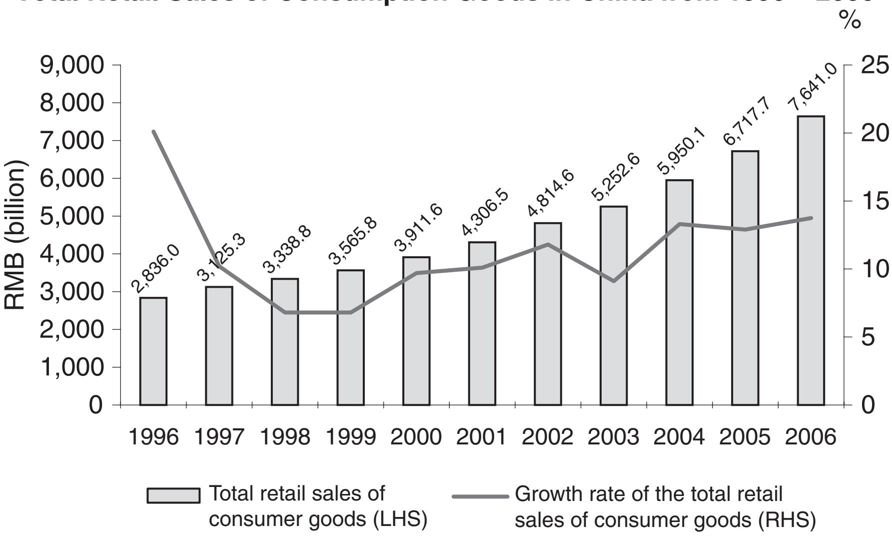
Per Capita Disposable Income for Urban Households in China from 1996 – 2006



Source: China Statistical Yearbook 2007

In addition, the per capita income level of China has been increasing together with the increase in China's population. According to the National Bureau of Statistics in China, the current population in China is over 1.3 billion. The increase in per capita income and the significant population base make China one of the largest domestic consumption markets in the world, with total retail sales of consumption goods in China growing at a CAGR of approximately 10.4% between 1996 and 2006.

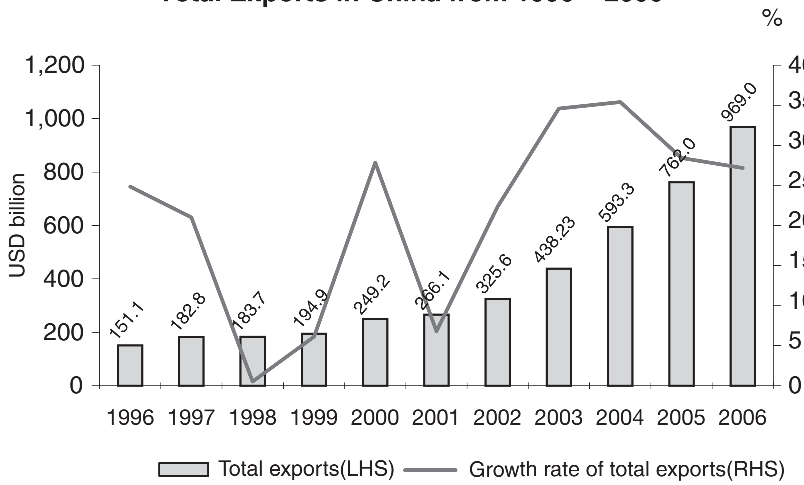
Total Retail Sales of Consumption Goods in China from 1996 – 2006



Source: China Statistical Yearbook 2007

China has continued to strengthen its position as the manufacturing and export centre of the world, with total exports growing at a CAGR of approximately 20.4% between 1996 and 2006.

Total Exports in China from 1996 – 2006



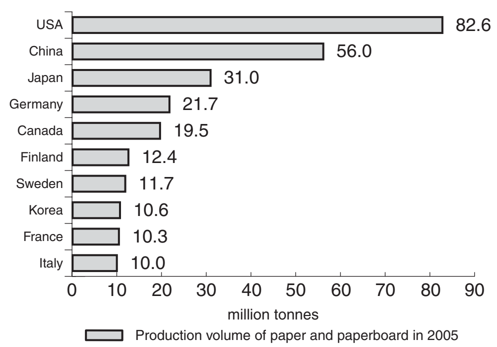
Source: China Statistical Yearbook 2007

The strong growth of retail sales of consumption goods and exports in China, and the continued growth of the PRC economy, will likely lead to the further expansion of China's packaging, paper and paperboard industry.

Overview of the Paper and Paperboard Industry in the PRC

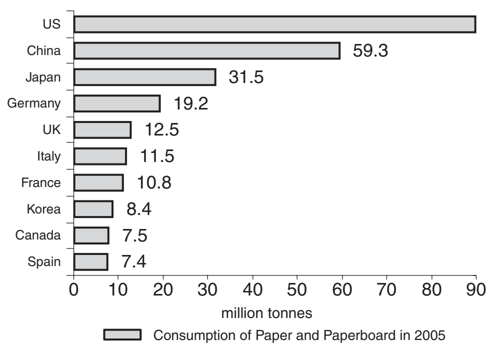
The production volume of the global paper manufacturing industry for paper and paperboard was 367.0 million tonnes in 2005, an increase of 13.3% as compared to 2000, representing an average annual growth rate of 2.5%. The main regions for global paper and paperboard production are Asia, Europe and North America. In 2005, the production volume of paper and paperboard in China was about 56 million tonnes, ranking China as the second largest market in terms of production volume.

Countries With the Top 10 Production Volume of Paper and Paperboard in 2005



Source: China Paper Association, June 2007

Top 10 Countries by Consumption of Paper and Paperboard in 2005



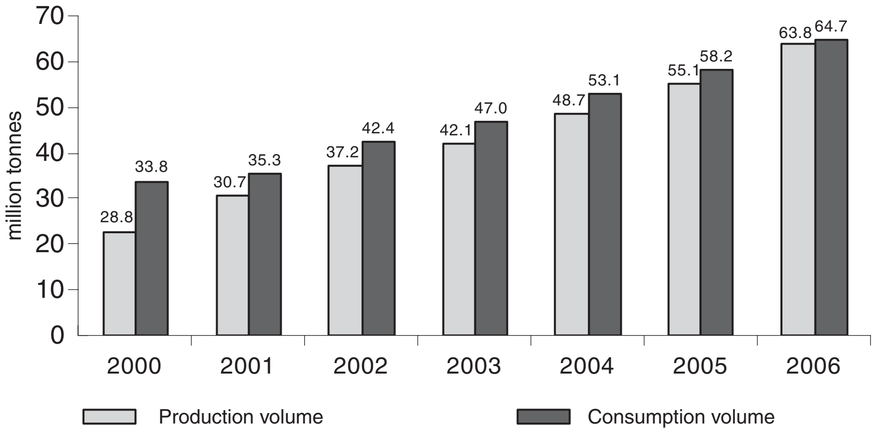
Source: China Paper Association, June 2007

The global consumption of paper and paperboard was 366.4 million tonnes in 2005, an increase of 12.9% as compared to 2000. The consumption of paper and paperboard in China in 2005 was about 59.3 million tonnes, which ranked second behind the USA in terms of paper and paperboard consumption, representing 16.2% of the total global consumption of paper and paperboard in that year.

Based on global economic development trends, the China Paper Association predicts that the overall demand of paper and paperboard will continue to display an upward trend in the next few years, with an average annual growth rate of 2.5% to 3.0%. The world demand for paper and paperboard is expected to increase from 366.4 million tonnes in 2005 to 415 million to 425 million tonnes in 2010, and the regions of increased production will mainly be in Asia, Latin America and Eastern Europe.

The paper and paperboard industry in China experienced a period of rapid growth during the five years from 2000 to 2006, maintaining an annual growth rate of approximately 14.2% for its production volume and approximately 11.4% for its consumption.

Production and Consumption Volume of Paper and Paperboard in China from 2000 - 2006

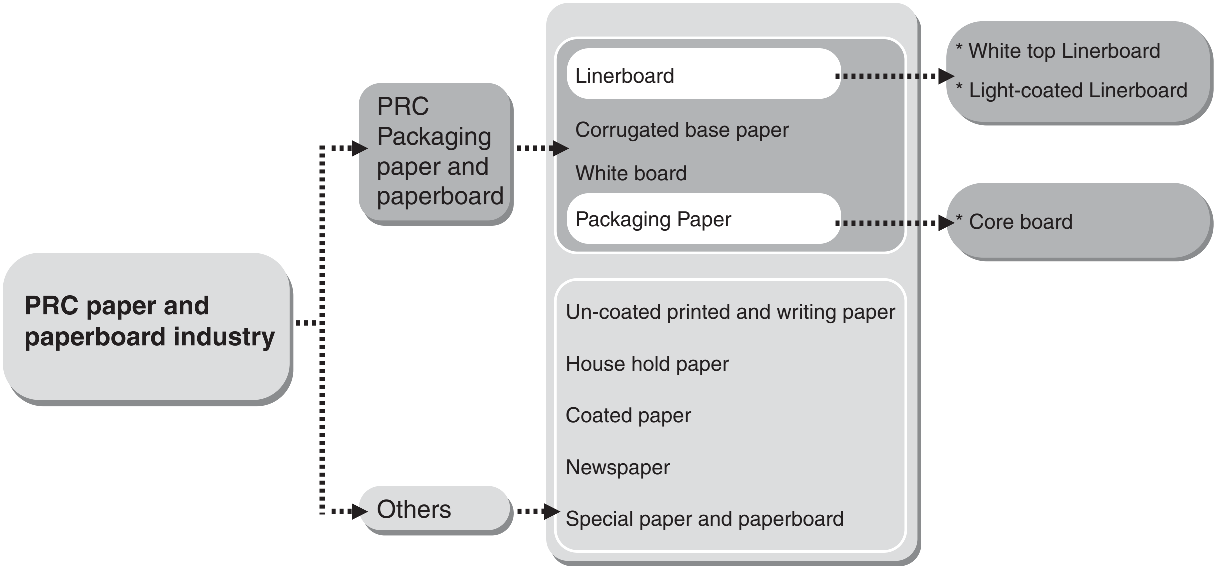


Source: China Paper Association, June 2007

Paper and paperboard imports to China were about 4.41 million tonnes in 2006, a decrease of 15.8% from about 5.24 million tonnes in the previous year and a decrease of about 1.6 million tonnes as compared to 2000. Paper and paperboard exports out of China were about 3.41 million tonnes in 2006, which was a historical record high for exports, an increase of 75.8% from about 1.94 million tonnes in 2005 and an increase of about 2.7 million tonnes as compared to 2000.

In 2006, there were approximately 3,500 paper and paperboard manufacturing enterprises in China, among which those which have a capacity of at least 100,000 tonnes per year accounted for approximately 30% of the number of these enterprises. The average production capacity of the Chinese enterprises was about 18,600 tonnes. There were 12 provinces (areas) with a production volume of paper and paperboard of above one million tonnes in 2006, which were Shandong, Zhejiang, Guangdong, Henan, Jiangsu, Hebei, Fujian, Hunan, Sichuan, Anhui, Guangxi and Hubei, where the aggregate production of paper and paperboard accounted for 89.8% of the total production of paper and paperboard in China. The eastern region of China is the major production area of the PRC paper manufacturing industry in terms of production volume of paper and paperboard.

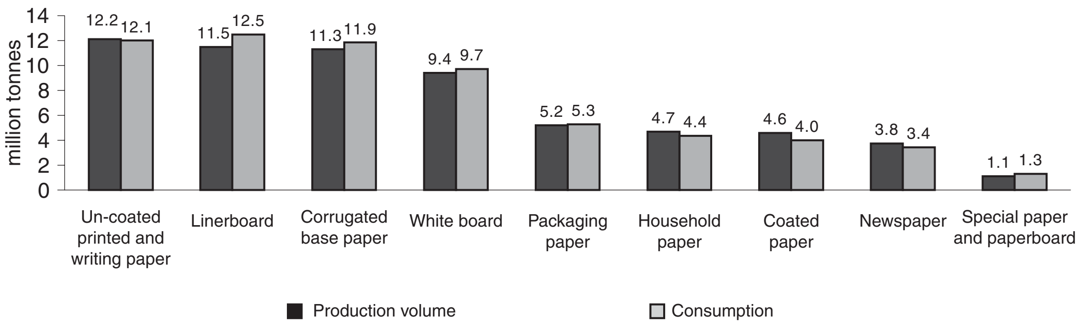
Within the PRC paper and paperboard industry products are mainly divided by function and production process into the following categories: newspapers, un-coated printed and writing paper, coated paper, household paper, white board, packaging paper, linerboard, corrugated base paper and special paper and paperboard, as follows:



Note*: The main products of the Group, being one of the sub-categories of the product category.

In 2006, both the production volume and consumption of un-coated printed writing paper, linerboard, corrugated base paper and white board each amounted to about 10 million tonnes, representing the largest paper and paperboard products group in the paper and paperboard industry in China.

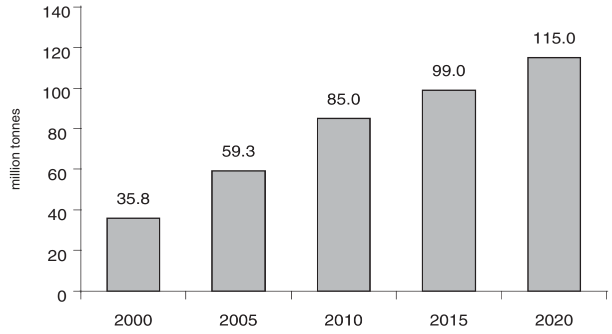
Production and Consumption Volume of the Major Paper and Paperboard Products in China in 2006



Source: China Paper Association, June 2007

In 2005, both the production volume and consumption of paper and paperboard in China were ranked second highest globally, behind the USA. However, due to China's large population base, the average consumption per person was only about 45 kilograms, in comparison to the world average consumption of about 56 kilograms. With further GDP growth in China, there is significant potential development for the paper and paperboard industry in China.

Anticipation of Demand for Paper and Paperboard in China from 2000-2020



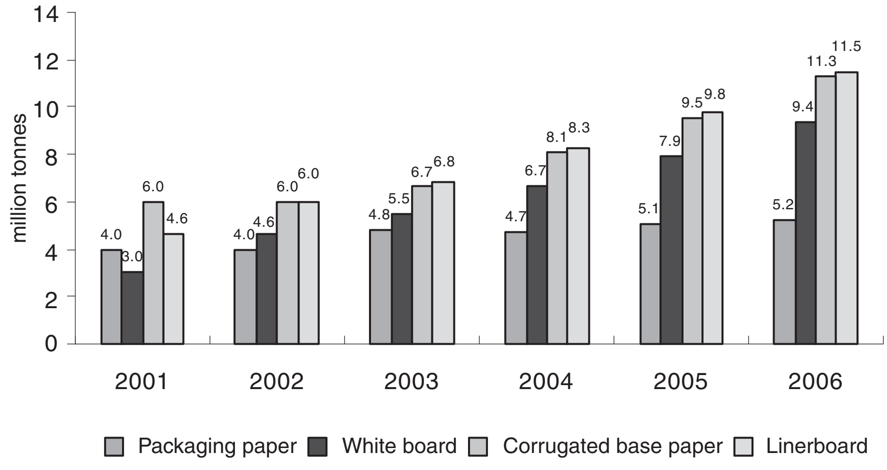
Source: China Paper Association, June 2007

The Packaging Paper and Paperboard Industry in the PRC

According to the China Paper Association, the four main types of packaging paper and paperboard products in China are packaging paper, white board, linerboard and corrugated base paper.

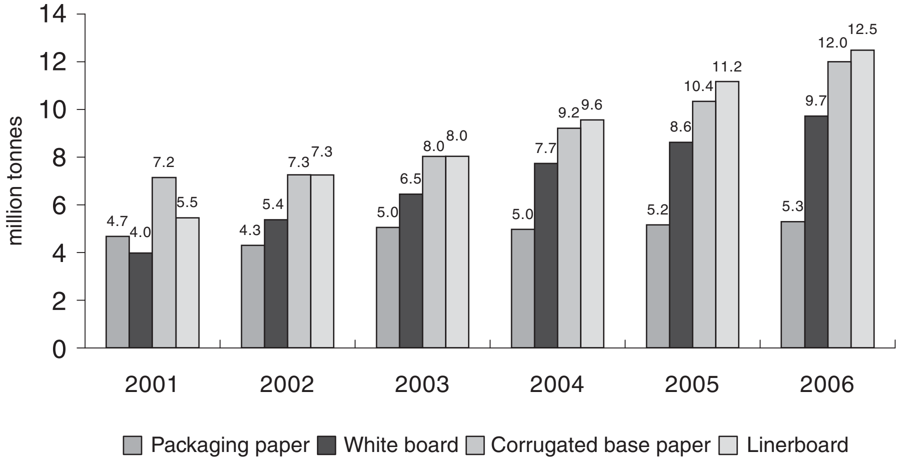
From 2001 to 2006, the packaging paper and paperboard industry in China developed at a rapid pace. In 2006, the production volume of packaging paper and paperboard reached about 37.4 million tonnes, an increase of 112.5% from 2001, while the consumption of packaging paper and paperboard reached about 39.5 million tonnes, an increase of 84.6% from 2001. In 2006, the production volume and consumption of packaging paper and paperboard in China represented 58.6% and 61.1% of the total production volume and total consumption in the paper and paperboard industry in China, respectively, making it an important contributor to the paper and paperboard industry in China.

Production Volume of the Major Products within the Packaging Paper and Paperboard Industry in China from 2001 – 2006



Source: China Paper Association, June 2007

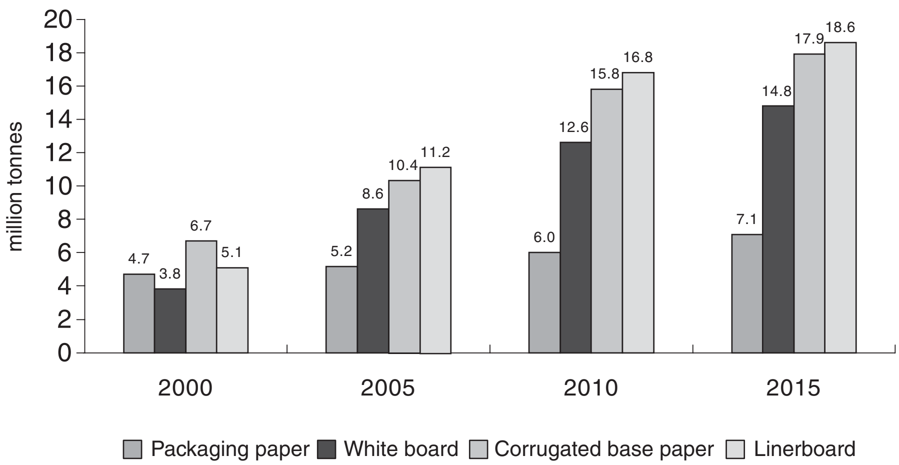
Consumption of the Major Products within the Packaging Paper and Paperboard Industry in China from 2001 – 2006



Source: China Paper Association, June 2007

The China Paper Association expects the packaging paper and paperboard industry in China to continue its rapid growth, and it anticipates the total demand for packaging paper products to reach 51.2 million tonnes by 2010, with a CAGR from 2005 to 2010 of 7.7%, and to reach 58.4 million tonnes by 2015, with a CAGR from 2005 to 2015 of 5.1%.

Anticipated Demand for Packaging Paper and Paperboard in China from 2000 – 2015



Source: China Paper Association, June 2007

Linerboard in the PRC

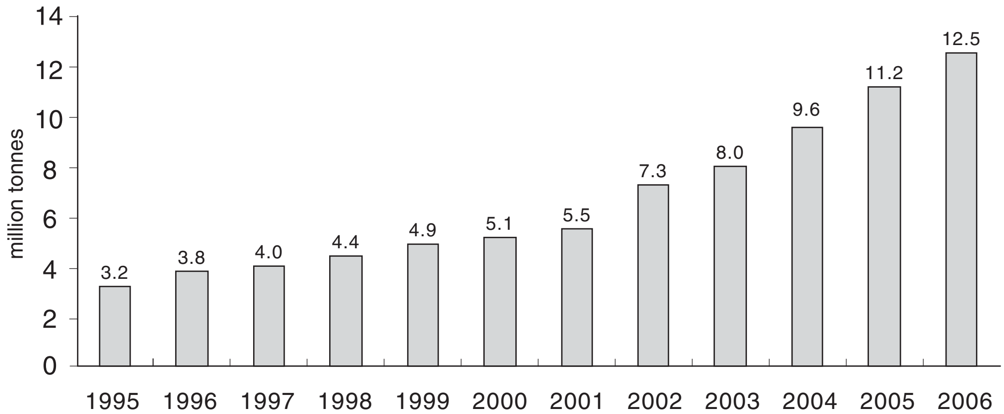
The high demand for linerboard in the packaging paper and paperboard industry is expected to continue, and is expected to reach about 16.8 million tonnes by 2010, with a CAGR from 2005 to 2010 of approximately 8.5%. The demand for linerboard is expected to surpass the demand for other kinds of packaging paper and paperboard. Linerboard is a type of paperboard made with unbleached sulfate wood pulp alone or using recycled paperboard as a raw material. Linerboard is mainly divided into the categories of general linerboard, kraft board kraft linerboard, white top linerboard and light-coated linerboard.

Linerboard is an important component of packaging materials, whose demand increases in line with economic development. The consumption in three regions, namely the Pearl River

Delta, the Yangtze River Delta and the Bohai Rim Region, represents about 70% of the total national consumption in 2006. The establishment of the consumption market for packaging products has also resulted in the three areas becoming the major production bases of linerboard in China.

Linerboard is one of the fastest growing products in terms of consumption in China, with the annual average growth rate reaching 17.8% since 2001. As a result of increasing market demand for high-quality products, the market for white top linerboard and light-coated linerboard will continue to expand, in line with the trend that certain high end products are moving towards high-end colour-printing packaging.

The consumption of linerboard in China during 1995-2006



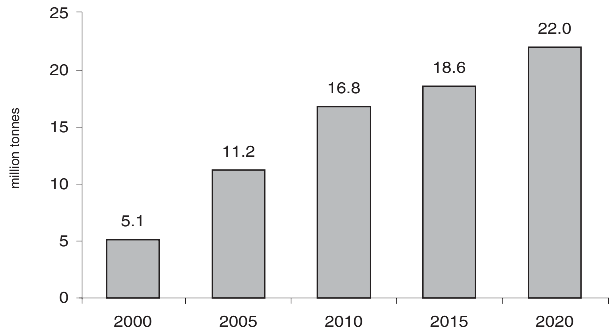
Source: China Paper Association, June 2007

In 2006, China imported a total of approximately 0.7 million tonnes of kraft board and exported only approximately 0.1 million tonnes of linerboard. Although the packaging paper and paperboard market in China is achieving rapid growth, the total production volume and quality of products do not satisfy the demands of the packaging market, in particular, the requirements of high quality products for export. It is estimated that approximately 25% of the packaging paper and paperboard for the consumption of the high quality export products are still satisfied by way of imports.

As the market system strengthens in China, an increasing amount of commercial products are being sold directly to end users in the consumer retail market, including items such as mobile phones, computers, cosmetics, chocolate, ice cream, beer, milk, shoes and hats, medical machines, electric tools, food, health care products, household electric appliances, equipment and instruments and toys. The packaging material of these commercial products have changed gradually from the traditional neutral-colored packages to light and neat paper boxes with high quality printed graphics and words. These packages use a great amount and a wide range of packaging paperboard, including white top linerboard and light-coated linerboard, which has resulted in the development of these new products.

Moreover, coloured boxes made with white top linerboard and light-coated linerboard are now able to replace the traditional neutral-colored packages, as these colored boxes are more printer-friendly and can be assembled and packed more efficiently, therefore generating lower costs. Consequently, the reduced weight and thickness of the paper used in the paperboard products, as well as the increased utilization of such products, have cut down on both transportation costs and storage space. More significantly, the combined two-in-one packaging for the transportation and sale of the coloured boxes has created a cost-effective solution by avoiding the need for a second form of packaging. Therefore, this type of product is now more economical to produce and is more environmentally-friendly as it consumes less resources.

Anticipated consumption in linerboard market



Source: China Paper Association, June 2007

- White top linerboard

White top linerboard is mainly manufactured from recycled paper and bleached wood pulp. Due to its durability, high printing quality and relatively low environmental impact, white top linerboard is widely used as the upper layer in the manufacture of corrugated paper and container board products.

- Light-coated linerboard

Light-coated linerboard is produced using recycled paper and bleached wood pulp, and is subsequently coated on one side with a coating medium. Light-coated linerboard has the stacking strength of linerboard and the superior printability of white board. These features represent recent trends in product packaging, hence making light-coated linerboard a highly attractive material for use in product packaging. Light-coated linerboard is also widely used as the upper layer in the manufacture of corrugated paper and container board products.

It is anticipated that the market demand for light-coated linerboard will increase at an annual rate of approximately 20.0% to 30.0% in the coming three to five years.

Packaging Paper in the PRC

Packaging paper is widely used in product packaging. There is a wide range of packaging paper products, which mainly include paper for making paper bags, kraft, sulfuric acid paper, oil-resistant paper, core board, cake paper, aluminum foil paper and rust-resistant paper.

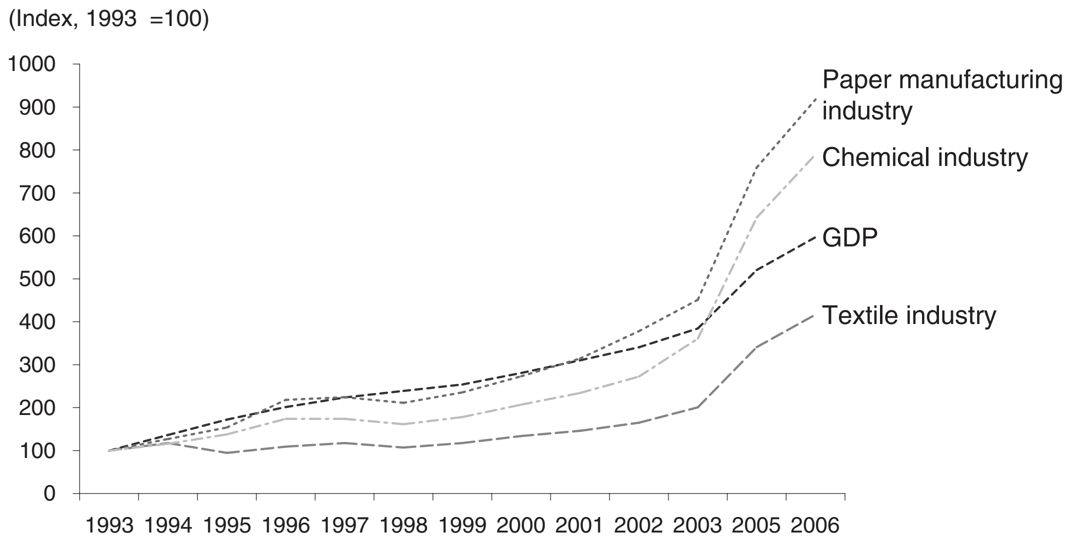
Since 2002, as the processing industry expanded rapidly, the packaging paper market also increased gradually; in particular, the increased demand for various types of core board has become the new growth catalyst for the consumption of packaging paper.

- Core Board

Core board is suitable for making all types of chemical fiber tubes, textile cores and paper cores. The pulp residue produced from the manufacturing processes of other packaging paper can also be used as the raw material for producing core board. In this respect, this not only lowers the production costs of core board, but also reduce industrial wastes through this recycling process, thereby maintaining an environmentally friendly process. The usage of core board has developed rapidly in recent years. According to a survey by the China Paper Association, the production volume of core board in China was approximately 525,000 tonnes in 2006, an increase of over 100.0% from approximately 235,000 tonnes in 2004.

In view of the robust economic growth in China, together with technological advances and industrial development, core board is increasingly being used in producing various chemical fiber tubes, textile cores, paper bobbin and paper cores as core board has high stacking strength which can withstand the high spinning speeds of industrial equipment without splitting under those conditions. With the continuous development of the textile, chemical fiber, packaging, construction material and paper manufacturing industries in the future, there is potential for the rapid development of the core board industry.

Relationship between the Textile, Paper Manufacturing, Chemical Industry and GDP in China



Note: * For comparison purpose, 1993 has been taken as base year.
** Data for 2004 was not available.

Source: China Statistical Yearbook 1994-2007

Competition

According to statistics collated by 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; and 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. 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

Ranking	Manufacturer (note)	Approximate production output (tonnes)
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

Ranking	Manufacturer (note)	Approximate production output (tonnes)
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.

Source: China Paper Association

According to the China Paper Association, Changle Sunshine had the largest production capacity for light-coated linerboard in China as at 30 June 2007.