Prospective investors in the Offer Shares should consider carefully all the information set forth in this prospectus and, in particular, the following risks in connection with an investment in the Offer Shares. The information in this prospectus includes forward-looking statements relating to the Group's plans, objectives, expectations and intentions, which involve risks and uncertainties. The Group's actual results could differ materially from those anticipated in these forward-looking statements. Factors that could cause or contribute to such differences include those discussed below, as well as those discussed elsewhere in this prospectus.

RISKS RELATING TO THE GROUP

Price fluctuation of raw materials

Recovered paper, kraft pulp and chemicals are the principal raw materials for the production of the Group's products. In aggregate, they 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. As at 31 December 2004, 2005 and 2006 and 30 June 2007, the average purchase prices per tonne for (i) domestic recovered paper were approximately RMB1,291, RMB1,227, RMB1,301 and RMB1,407, respectively; (ii) overseas recovered paper were approximately RMB1,396, RMB1,406, RMB1,355 and RMB1,501, respectively; and (iii) kraft pulp were approximately RMB4,283, RMB3,989, RMB4,788 and RMB5,483, respectively.

During the Track Record Period, the cost of principal raw materials was volatile as a result of various factors including fluctuations in demand in China and globally, changes in generation and collection rates as well as environmental and conservation regulations. To the extent that the prices of recovered paper and kraft pulp increase and such increase is not offset by a corresponding increase in the sale prices of the Group's finished products or offset by cost management, the Group's profit margins could decrease and its business and profitability would be adversely affected.

Reliance on white top linerboard products

White top linerboard products are increasingly being used for packaging and shipping consumer and industrial products. Today, a significant amount of the world's consumer and industrial goods are shipped and protected by corrugated paper containers with a layer of white top linerboard. During the Track Record Period, the Group derived over 68.0% of its turnover from the sale of white top linerboard products. The business and profitability of the Group have therefore been materially dependent on the demand for white top linerboard products, especially in the PRC.

White top linerboard products may, however, be replaced by new products having comparable characteristics and qualities which may be used as direct substitutes for white top linerboard products. In the event that such potential substitutes are launched in the market with prices comparable to or lower than white top linerboard products sold by the Group, or in the event that the Group is unable to adjust its white top linerboard products to compete with these potential substitutes, the business and operations of the Group could be adversely affected.

The Group's business and operations require significant and continuous capital investment. Failure to raise sufficient capital in a timely manner may adversely affect its business and results of operations.

The paper industry is capital intensive and requires significant expenditure for machinery, utilities and supporting infrastructure, as well as significant working capital in order to manage the increased production capacity. For the three years ended 31 December 2006 and the six months ended 30 June 2007, the capital expenditures of the Group were approximately RMB90.3 million, RMB77.5 million, RMB229.4 million and RMB90.6 million, respectively. For details of the Group's planned expansion, please refer to the section headed "Business — Business Strategies" in this prospectus.

If the Group requires additional funds and cannot obtain them when required, it may not be able to fully fund the necessary capital expenditure needed to upgrade or purchase additional facilities and equipment, or to implement the Group's business strategies at all. Even if the Group is able to secure sufficient funding, it may not be able to obtain the funds under relatively commercially favourable terms, which would increase its financing costs.

Furthermore, an increased capital expenditure may result in a higher gearing ratio. If the Group is unable to satisfy its working capital needs or to repay its outstanding and future debt obligations as they become due, the Group may be subject to creditors' actions or be forced to adopt an alternative strategy that may include such actions as reducing production or delaying capital expenditure, selling assets, refinancing the Group's indebtedness or seeking equity capital.

Any of the above could impede the implementation of the Group's business strategies or prevent the Group from entering into transactions that would otherwise benefit its business on commercially reasonable terms or at all and could adversely affect its financial condition and results of operations.

The Group had net current liabilities during the Track Record Period

The Group had net current liabilities of RMB117.9 million, RMB66.4 million, RMB324.9 million and RMB441.1 million as at the end of the three years ended 31 December 2006 and the six months ended 30 June 2007, respectively. The Group's net current liability position was principally due to utilisation of shareholders' loan and/or short-term bank loans for financing the Group's capital expenditure in purchasing and upgrading production facilities and equipment. There can be no assurance that the Group will have sufficient cash or will be able to obtain timely additional financing in the future or on terms acceptable to the Group and, as a result, the Group's business and financial condition may be adversely affected.

The Group had an increasing level of bank borrowings, and rising interest rates could adversely affect the Group's financial performance

Primarily as a result of the capital intensive nature of the paper industry, the Company has incurred significant indebtedness to finance its operations. The Group had aggregate outstanding bank borrowings of approximately RMB228.8 million, RMB219.6 million, RMB323.3 million and RMB612.6 million as at the end of the three years ended 31 December 2006 and the six months ended 30 June 2007, respectively. As at 30 June 2007, approximately RMB528.5 million of the Group's assets were pledged to secure banking facilities granted to the Group, representing approximately 30.5% of the Group's total assets. In addition, the Group's loans contain restrictions on corporate actions including the granting of security over its material assets and material dispositions of its assets. For the three years ended 31 December 2006 and the six months ended 30 June 2007, the Group recorded finance costs of RMB7.2 million, RMB12.0 million, RMB12.6 million and RMB14.2 million, respectively. To the extent that the Group may require additional bank borrowings in the future, the finance cost of such new bank borrowings may increase significantly and the Group's profitability may be affected.

Additionally, the Company's ability to make principal and interest payments on its indebtedness will be dependent on future operations which may be affected by financial, economic and other factors beyond the control of the Company. There can be no assurance that the current level of operations will continue or that the Company will in the future be able to make principal and interest payments when due.

Reliance on key management personnel

The Group's future performance and success depends to a significant extent upon its ability to continue to attract, retain and motivate key personnel, including members of the Group's senior management team. If the Group loses the services of any of these key personnel, including Mr. Wang Dongxing, the chairman of the Group and Mr. Shi Weixin, an executive Director of the Group, without adequate replacement, such loss may limit its competitiveness, affect its production processes, reduce its manufacturing quality or cause customer dissatisfaction, any of which would adversely affect the Group's financial condition, results of operations and future prospects. Moreover, the Group does not maintain insurance for the loss of any key personnel.

The Group may face competition and lose its large market share in the light-coated linerboard market in the PRC if it cannot compete successfully

The Group commenced the production of light-coated linerboard in 2007. According to the China Paper Association, Changle Sunshine had the largest production capacity for light-coated linerboard in China as at 30 June 2007. However, there is no assurance that there will not be large-scale competitors offering similar production capacity and product quality as the Group in the future. In such event, the performance and profitability of the Group may be adversely affected.

Reliance on the PRC market

During the Track Record Period, the Group sold its products mainly to customers in the PRC. The Group has a large customer base in China, comprising over 1,000 customers of whom approximately 300 are relatively major customers. The Group's customers are mainly corrugators and paperboard and packaging companies, who manufacture their products for leading brand name end-users across various industries such as food and beverages, electronics and textiles. The business and profitability of the Group have therefore been materially dependent on the demand for white top linerboard and core board products in the PRC. In the event that there are major changes in the political or economic climate in the PRC and such changes directly or indirectly affect the demand for white top linerboard and core board products in the PRC markets, the Group's revenue and profitability could be adversely affected.

Reliance on major suppliers

For each of the three years ended 31 December 2006 and the six months ended 30 June 2007, the largest supplier of the Group accounted for approximately 8.5%, 6.9%, 11.5% and 9.2%, respectively, of the Group's purchases, while the five largest suppliers of the Group in aggregate accounted for approximately 24.7%, 22.4%, 24.4% and 22.1%, respectively, of the Group's purchases. The Group has established business relationships of at least two years with its top five suppliers for the Track Record Period. There is no guarantee that the Group's suppliers will continue to conduct business with the Group in the future. Should these major suppliers cease to conduct business with the Group and the Group fails to find new suppliers with no less favourable terms, the business and profitability of the Group could be adversely affected.

The Group relies on Shengshi Thermoelectricity for the supply of steam

The Group requires a considerable amount of steam for its daily operations. Shengshi Thermoelectricity has been supplying and will continue to supply all of the Group's steam requirements. However, other than the steam provided by Shengshi Thermoelectricity, there is no other alternative source of steam available to the Group. If the supply of steam is terminated or otherwise interrupted, the Group may not be able to obtain suitable substitutes in a timely manner, or at all. Any interruptions of, or declines in, the amount of the Group's steam supply could materially disrupt its production process and prevent the Group from operating its production facilities at full capacity, which will result in reduced production output and revenue, hence adversely affecting its business.

The Group may be exposed to risks associated with the operations of Shengshi Thermoelectricity

In June 2007, Changle Sunshine increased its equity interest in Shengshi Thermoelectricity, an electricity and steam generation plant, from 20% to a controlling stake of 80%. The Directors believe that, given the scale of the Group's operations, this acquisition will enable the Group to benefit from certain economies of scale and cost efficiencies in terms of electricity and steam costs.

Shengshi Thermoelectricity, as a coal-fired electricity and steam generation plant, discharges pollutants into the environment and is subject to central and local governmental environmental protection laws and regulations, which currently impose discharge fees for various polluting substances. The PRC government has recently been focused on environmental issues affecting the PRC and may promulgate and implement more stringent policies, which may affect the operation of electricity and steam generation plants. Compliance with any such new policies may increase the Group's operating costs and adversely affect the Group's profitability.

In addition, as Shengshi Thermoelectricity uses coal as its fuel, the Group is exposed to price fluctuation for coal. In the event that coal prices increase materially, the Group's operations and business may be adversely affected.

There is no assurance the Group will fulfil the 2007 Net Profit Guarantee and the Revised Profit Guarantee

Under the Investors' Rights Agreement, the Adjusted Audited Net Income of China Sunrise for the financial year ending 31 December 2007 shall be not less than RMB107,561,164 ("2007 Net Profit Guarantee"). Pursuant to the 2006 CB Supplemental Agreement II entered into between among others, China Sunshine, China Sunrise, SOF(I) Paper, Forebright, LC Fund III, DB and the Company, the parties agreed that, among other things, the profit guarantee for 2007 shall be adjusted to not less than RMB129,053,895 ("2007 Revised Profit Guarantee"). The 2007 Revised Profit Guarantee is a benchmark agreed between China Sunshine, SOF(I) Paper and LC Fund III for the purpose of the Price

Adjustment Mechanism (as detailed in the section headed "History and Development" of this prospectus), and will not affect the Group's actual profits for 2007. However, there is no assurance that the Group will fulfll the 2007 Net Profit Guarantee or the 2007 Revised Profit Guarantee.

The Group may not be able to implement its business strategies on schedule or within budget or at all

The Group may be unable to implement fully its business strategies or implement them on schedule or within budget or at all. Its strategies are subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond its control and could delay or increase the costs of implementation. Such potential events relating to its expansion plans include, but are not limited to: delays in the delivery and installation of manufacturing equipment; seasonal factors; labour disputes or civil unrest; design or construction costs or requirements related to compliance with environmental or other laws and regulations; delays in securing the necessary governmental approvals and land use rights; a downturn in the economy; and changes to plans for additional facilities necessitated by changes in market conditions. Delays in the expansion of the Group's production facilities could result in the loss or delayed receipt of revenues, an increase in financing costs, or a failure to meet profit and earnings projections, any of which would adversely affect its business and results of operations. The Group's ability to consummate and integrate effectively any future acquisitions or joint venture investment opportunities on terms that are favourable to it may be limited by the number of attractive acquisition targets, joint venture partners, internal demands on its resources and, to the extent necessary, its ability to obtain financing on satisfactory terms, if at all.

The Group may experience difficulties managing its growth

The Group has grown rapidly over the past few years and intends to further expand its production capacity in the future. The Group also plans to expand the coverage of its distribution network throughout the PRC. These expansion plans have presented, and continue to present, significant challenges for the Group's management and administrative systems and resources. The Group's planned expansion of its production capacity will require substantially increased supplies of raw materials and utilities and corresponding increases or expansion of supporting infrastructure, such as water treatment facilities, transportation infrastructure and staff. If the Group fails to develop and maintain management and administrative systems, resources and supporting infrastructure sufficient to keep pace with its planned growth or to handle the additional responsibilities of becoming a public company, it may experience difficulties managing its growth and its business and results of operations could be materially and adversely affected.

The Group may not be able to identify suitable acquisition targets or successfully integrate any future acquisitions into its business

As part of its strategy, the Group intends to pursue acquisition opportunities which would complement or create synergies for the Group's business. There can be no assurance, however, that the Group will be able to identify any suitable acquisition targets. Moreover, even if the Group is able to identify a suitable acquisition target, there can be no assurance that it will be able to successfully negotiate the terms or integrate the acquired business with its existing business should the acquisition be successful. Therefore, if the Group fails to properly evaluate or execute its acquisitions or investments, the Group may not achieve the anticipated benefits of the acquisition, and it may incur costs in excess of what it anticipates, which may adversely affect the Group's business, financial condition and results of operations.

A material disruption of the Group's operations could adversely affect its revenues and profits

The Group's operations are subject to uncertainties and contingencies beyond its control that could result in material disruptions and adversely affect its revenues and profit. These include industrial accidents, fires, floods, droughts, natural disasters and other catastrophes, equipment failures or other operational problems, strikes or other labor difficulties and disruptions of public infrastructure such as roads, ports or pipelines.

The Group's operations require significant and stable supplies of water, electricity and steam, which will further increase substantially as it expands its production capacity. Any of the events listed above, as well as power interruptions or rationing, could disrupt or restrict supply of such utilities.

Any such disruption of the Group's operations could cause it to disrupt, limit or delay its production, prevent it from meeting customer orders, increase its costs of production or require it to make unplanned capital expenditures, each of which could adversely affect its business and results of operations.

The Group may be subject to losses that may not be covered in whole or in part by its insurance coverage

The Group's business may be adversely affected due to the occurrence of typhoons, earthquakes, floods, droughts, fire or other natural disasters or similar events at its production facilities. Should an accident occur, it may cause significant property damage and personal injuries. Consistent with customary practice in the PRC, 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. In addition, there are certain types of losses, such as from war, acts of terrorism, earthquakes, typhoons, flooding and other natural disasters for which the Group cannot obtain insurance at a reasonable cost or at all. Should an uninsured loss or a loss in excess of insured limits occur, the Group could lose all or a portion of the capital invested in that property, as well as the anticipated future revenues derived from the manufacturing activities conducted at that property. Any material uninsured loss could materially and adversely affect the Group's business, financial condition and results of operations.

The Group's leases and use of certain properties may be adversely affected

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. For further details on the relevant properties, please refer to Appendix V to this prospectus.

In light of the opinion of the Company's PRC legal advisors that the non-registration of tenancies does not affect their validity and enforcement, and the fact that the nineteen properties are only sales representative offices which can be easily substituted, the Directors are of the view that the failure to register the leases will not have a material adverse effect on the Group's business.

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 elsewhere. This may lead to additional expenses to the Group.

The Group may be subject to liability in connection with industrial accidents at its production sites

The Group's operations involve the operation of heavy machinery, and industrial accidents resulting in employee injuries or deaths may occur. There is no assurance that other industrial accidents at the Group's production sites, whether due to malfunctions of machinery or other reasons, will not occur in the future. In such an event, the Group may be liable for loss of life and property, medical expenses, medical leave payments, fines or penalties for violation of applicable PRC laws and regulations as well as subject to business interruptions caused by equipment shutdowns for government investigation or implementation or imposition of safety measures as a result of the accident. Enhanced safety measures imposed by PRC government authorities could have a material adverse effect on the manner in which the Group conducts its operations, thereby adversely impacting its operations.

The Group's financial results may be adversely affected by the new PRC Income Tax Law

The new《中華人民共和國企業所得稅法》(Enterprise Income Tax Law of the People's Republic of China) (hereinafter referred to as "Income Tax Law") was promulgated by the National People's Congress on 16 March 2007 and will become effective on 1 January 2008. Upon the Income Tax Law taking effect, both domestic enterprises and enterprises with foreign investment will be subject to a unified tax rate of 25%.

Currently, under《中華人民共和國外商投資企業和外國企業所得稅法》(the PRC Foreign Invested Enterprise and Foreign Enterprise Income Tax Law) (hereinafter referred to as "FIE Tax Law"), Changle Sunshine and Kunshan Sunshine, both being foreign invested enterprises, are entitled to an enterprise income tax exemption for the first two years of profitability, and a 50% tax reduction for the following three consecutive years. Both companies have been approved by relevant authorities in the PRC to enjoy such preferential tax treatment, which will continue upon the Income Tax Law taking effect. The Group expects that upon expiry of the full exemption and reduction from enterprise income tax currently enjoyed by the two companies, the Group's tax payments will increase.

Under the Income Tax Law, enterprises established under the laws of foreign countries or regions whose "de facto management bodies" are located within the PRC territory are considered resident enterprises and will normally be subject to enterprise income tax at the rate of 25%. The Income Tax Law does not, however, define the term "de facto management bodies". Since essentially all of the Group's management is currently located in the PRC, if the management remains located in the PRC after the effective date of the Income Tax Law, the Group may be subject to the uniform tax rate of 25%. The Group cannot assure investors that overseas members of the Group will not be considered as "resident enterprises" under the Income Tax Law. If overseas members of the Group are determined to be "resident enterprises", the Group's results of operations and financial condition may be adversely affected.

In addition, the Income Tax Law provides that an income tax rate of 20% will be applicable to dividends payable to foreign investors and does not specifically exempt withholding tax on such dividends. Although the Income Tax Law provides for the possibility of withholding tax exemption or reduction for China-sourced income, no details have been published. The Group cannot assure investors that the withholding tax on the Group's dividends from Changle Sunshine or other subsidiaries will be exempted or reduced and if the withholding tax on the dividends from these entities is not exempted or reduced, the Group's results of operations and financial condition would be adversely affected.

The Group anticipates that as a result of this change, its Group-wide tax burden may increase after 1 January 2008, and consequently, its after tax profit may be negatively affected.

The Group may lose preferential tax treatment or tax incentives it currently enjoys in the future

Under the "Trial Implementation Measures on Tax Refund Administration for the Purchase of Domestic Equipment for Foreign-invested Projects" (外商投資項目採購國產設備退稅管理試行辦法), Changle Sunshine enjoys certain preferential tax treatment as a manufacturing enterprise with foreign investment as a result of its purchase of domestically manufactured equipment. In 2005, the Group obtained income tax rebates from the local tax authorities representing approximately RMB13.8 million in relation to its purchase of domestically manufactured equipment. There is no guarantee that the Group will continue to receive such tax rebates in the future.

There is no assurance that the Group will continue to receive government grants in the future

The Group has received government grants of approximately RMB2.2 million, RMB9.1 million, RMB1.0 million and RMB300,000 million, respectively, for the three years ended 31 December 2006 and the six months ended 30 June 2007 from the local authorities. Such grants were provided by the local authorities at their own discretion to encourage the development and advancement of the business of the Group. There is no assurance that the Group will continue to receive such government grants and if the local authorities change their policies regarding such government grants, the Group's financial results may be adversely affected.

If the Group fails to maintain effective internal controls, then its business, financial results and reputation could be materially and adversely affected

The Company will become a public company after Listing, and the Group's internal control system will be even more essential to the integrity of its business and financial results. Its public reporting obligations are expected to place a strain on the Group's management, operational and financial resources and systems in the foreseeable future. In preparation for the Listing, the Group has implemented measures to enhance its internal controls. During the Track Record Period, the Group has implemented the systems focusing on making plans for future operations by reference to the historical external business environment, early warning in respect of the financial performance of the Group and formulating solutions and implementing policies in response to any operational issues, to monitor the manufacturing and sales activities of the Group. In addition, the Group has adopted detailed guidelines for internal financial and audit procedures. Meetings of senior management of the Company and the Group's operating subsidiaries are also held for, among other matters, reporting the operation of the relevant operating subsidiaries, discussing coming production plans and market trends and evaluating implementation of policies. If the Group fails to maintain effective internal controls in the future, then the Group's business, financial results and reputation may be materially and adversely affected.

The Group's shareholders will be diluted in the event of the exercise of share options and its profitability may also be adversely affected as a result of share option grants

The Company has adopted the Post-IPO Share Option Scheme, particulars of which are summarised under the paragraph headed "J. Share Option Scheme" in Appendix VII to this Prospectus. The Company has also adopted the Pre-IPO Share Option Scheme, under which options entitling the holders thereof to subscribe for an aggregate of 14,400,000 Shares have been granted, representing approximately 3.6% of the Company's total issued share capital immediately following completion of the Global Offering. Any exercise of the options granted under the Pre-IPO Share Option Scheme or options to be granted under the Post-IPO Share Option Scheme will result in a dilution in the earnings per Share and net asset value per Share.

The appraised value of the options granted under the Pre-IPO Share Option Scheme is approximately HK$41.5 million. The costs associated with the Pre-IPO Share Option Scheme will be amortized on a straight line basis over the five year vesting period of the options. As a result, it is expected the Group will record a non-cash compensation expense of approximately HK$1.5 million, HK$15.0 million, HK$10.0 million, HK$8.2 million and HK$6.8 million for the financial years ending 31 December 2007, 2008, 2009, 2010 and 2011, respectively.

RISKS RELATING TO THE INDUSTRY

The markets for the Group's products are highly competitive

The markets for packaging paperboard products are highly competitive. The Group's packaging paperboard products compete on the basis of product quality, consistency, performance, product development, customer service, distribution capabilities and price. If the Group is unable to anticipate and respond to changing customer preferences or control its costs in connection with its planned expansion and purchase of raw materials and energy, it may not be able to compete effectively.

Under the PRC's foreign investment rules, foreign investment in paper manufacturing is permitted. A number of foreign companies have established packaging paperboard manufacturing enterprises in the PRC, and others may do so in the future, in which case the Group may face increasing competition from such enterprises, which may have greater access to financial resources, higher levels of vertical integration and longer operating histories. If the Group is unable to maintain its operating efficiency and economies of scale, it may not be able to compete effectively. In addition, as part of the PRC's obligation subsequent to its accession to the World Trade Organization, the PRC has reduced the import tariffs on certain paper products. As a consequence, the Group expects stronger competition in the PRC from foreign competitors, which could adversely affect its business, financial condition and results of operations. The Group also competes with producers of alternative forms of packaging, such as plastic containers, plastic film and containers made of other materials.

The demand and supply of packaging paperboard products are correlated to macro-economic market conditions

Although the demand for packaging paperboard products in the PRC has increased substantially compared to other countries in recent years as a result of the PRC's role as a global manufacturing and export center which generated demand for packaging paperboard products as packaging materials for both domestic and export sales, there is no assurance that such trend will continue in the future. If the PRC's economy experiences a slowdown or downturn thereby resulting in decreased demand or if industry participants add new capacity or increase capacity utilization rates thereby causing supply to exceed demand for the Group's products, the Group may experience downward price pressure or decreased sales volume of its products. These and other factors that may affect the average selling prices and sales volume of the Group's products are beyond its control, and the Group has little influence over the timing and extent of price changes resulting from overall macro-economic market conditions, which could adversely affect the Group's financial condition and results of operations.

The Group's operations are subject to comprehensive environmental regulations and involve significant expenditures for compliance with regulations

The Group's operations, which generate solid and liquid waste by-products, including waste water, sludge and gaseous emissions, are subject to a variety of national and local PRC environmental laws and regulations. These environmental laws and regulations impose stringent standards on the Group regarding water discharge, airborne emissions, the use, handling, discharge and disposal of solid waste and hazardous materials, noise pollution and remediation of environmental contamination.

The Group believes that its operations are in compliance with the applicable requirements of environmental laws and regulations. Notwithstanding the Group's efforts to comply with applicable environmental laws and regulations, there is no assurance that the Group will at all times be in full compliance with all of the environmental requirements that apply to its operations. Any failure, or any claim that the Group has failed, to comply with environmental laws and regulations could cause delays in the Group's production and capacity expansion and affect its public image, either of which could harm its business. In addition, any failure to comply with these laws and regulations or the occurrence of accidental leakage of waste water, airborne emissions, hazardous material or noise or other unanticipated environmental contamination could subject the Group to substantial fines, clean-up costs and other environmental liabilities or require the Group to suspend or modify its operations. Further, environmental laws and regulations may become more stringent in the future. The Group has made and expects to continue to make necessary capital and other expenditures for environmental compliance.

Seasonality of demand

Demand for the Group's products are subject to seasonal fluctuations in each year and are generally higher in the second half of the year, corresponding with the festive seasons in China, such as Mid-autumn Festival, National Day Golden Week and Chinese New Year. Although demand for the Group's products is subject to seasonality, the Group's turnover has not been significantly affected as the Group has increased its production capacity each year during the Track Record Period. However, in the event that the Group does not increase its production capacity, or increase its sales following any such increase in its production capacity, its turnover may be materially affected by seasonality in demand for its products.

RISKS RELATED TO THE GROUP'S OPERATIONS IN THE PRC

The Group's manufacturing operations are all located in China. Accordingly, the Group's results of operations and financial condition are subject to a significant degree to economic, political and legal developments in China, including the following risks:

Changes in China's political, economic and social conditions, laws, regulations and policies may have an adverse effect on the Group

The PRC economy differs from the economies of most developed countries in many respects, including:

- structure;
- level of government involvement;
- level of development;
- growth rate;
- control of foreign exchange; and
- allocation of resources.

The PRC economy has been transitioning from a planned economy to a more market-oriented economy. For the past two decades, the PRC government has implemented economic reform measures emphasizing utilisation of market forces in the development of the PRC economy. In addition, the PRC government continues to play a significant role in regulating industries by imposing industrial policies. Although the Directors believe these reforms will have a positive effect on its overall and long-term development, the Group cannot predict whether changes in China's political, economic and social conditions, laws, regulations and policies will have any adverse effect on its business, results of operations or financial condition in the future.

Currency conversion and exchange control

The Group uses foreign currencies in its purchase of paper machines and ancillary equipment as well as imported kraft pulp and recycled paper.

At present, RMB is not freely convertible to other currencies. Pursuant to《外匯管理條例》(Foreign Exchange Control Regulations) and《結滙、售滙及付滙管理規定》(Regulations on the Foreign Exchange Settlement, Sale and Payments) of the PRC, foreign investment enterprises are permitted to remit their net profit or dividends in foreign currencies out of the PRC or repatriate such profit or dividends after converting the same from RMB to foreign currencies through banks which are authorized to engage in foreign exchange business. Foreign investment enterprises are permitted to convert RMB to foreign currencies for items in the current account, including trade and service related to foreign exchange transactions and payment of dividends to foreign investors.

Additionally, foreign exchange transactions in the capital account, including the foreign currency capital in any foreign investment enterprise in the PRC, the repayment of the principal amount of foreign currency loans and the payment pursuant to foreign currency guarantees, continue to be subject to significant foreign exchange controls and require the prior approval of the SAFE.

Although the PRC government has stated publicly that it intends to make RMB freely convertible in the future, the Group cannot predict whether the PRC government will continue its existing foreign exchange policy and when the PRC government will allow free conversion of RMB to foreign currencies. There is also no assurance that the Group will obtain sufficient foreign exchange for payment of dividends or other settlements in foreign exchange.

Since 1994, the conversion of the Renminbi into foreign currencies, including Hong Kong and US dollars, has been based on rates set by the PBOC, which are set daily based on the previous business day's inter-bank foreign exchange market rates and current exchange rates in the world financial markets. On 21 July 2005, the PRC Government started to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by approximately 2% against the US dollar. The Group does not maintain any hedging policy with respect to exchange rate risks. The Group's profitability may be adversely affected in the event of any fluctuation in the exchange rate between the currencies in which the Group's purchases, expenditures and sales are respectively denominated.

It may be difficult to effect service of process upon the Company or the Directors who live in China or to enforce against it or them in China judgments obtained from non-PRC courts

All of the Directors, except one, are residents of China. All of the Company's assets and majority of the assets of those Directors who are residents of China are located within China. Therefore, it may not be possible for investors to effect service of process upon the Company or those persons inside China. China recognizes and enforces judgements of foreign courts based on the treaty on recognizing and enforcing each other's judgment or the reciprocal principle with foreign countries. Therefore, it may be difficult for investors to enforce against the Company or the Directors in China any judgments obtained from non-PRC courts of a country which has not executed such treaty with China or has not implemented the reciprocal principle.

An outbreak of the H5N1 strain of bird flu, or Avian Flu, or any other similar epidemic may, directly or indirectly, adversely affect the Group's results of operations and the price of the Shares

Recently, certain Asian countries, including China, have encountered incidents of the Avian Flu. This disease, which is spread through poultry populations, is capable in certain circumstances of being transmitted to humans and could be fatal. If any of the Group's employees are identified as a possible source of spreading the Avian Flu or any other similar epidemic, the Group may be required to quarantine the employees that have been suspected of being infected, as well as others that have come into contact with those employees. The Group may also be required to disinfect its affected premises, which could cause a temporary suspension of its manufacturing capacity, thus adversely affecting its operations. Even if the Group is not directly affected by the epidemic, an outbreak of the Avian Flu or other similar epidemic, whether inside or outside China, could slow down or disrupt exporting activities and/ or restrict the level of economic activity generally, which could in turn adversely affect the Group's results of operations and the price of the Shares.

The Group's corporate structure may restrict its ability to receive dividends from, and transfer funds to, its PRC operating subsidiaries, which could restrict the Company's ability to declare dividends to its shareholders

The Company is a Cayman Islands holding company and substantially all of its operations are conducted through its PRC operating subsidiaries. The ability of these subsidiaries to make dividend and other payments to the Company may be restricted by factors that include changes in applicable foreign exchange and other laws and regulations. In particular, under PRC law, those operating subsidiaries which are foreign-invested enterprises may only pay dividends after a certain amount of net profit has been set aside as reserve funds. In addition, the profit available for distribution from the Company's PRC operating subsidiaries is determined in accordance with generally accepted accounting principles in China. This calculation may differ from the one performed in accordance with IFRS. As a result, the Company may not have sufficient distributions from its PRC subsidiaries to enable necessary profit distributions to the Company or any payment of dividends to its shareholders in the future, which calculation would be based upon the Company's financial statements prepared under IFRS.

Distributions by the Company's PRC subsidiaries to it other than dividends may be subject to governmental approval and taxation. Any transfer of funds from the Company to its PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, is subject to registration or approval of PRC governmental authorities, including but not limited to the relevant foreign exchange and/or commerce regulatory authorities. In addition, it is not permitted under PRC law for the Company's PRC subsidiaries to directly lend money to each other. Therefore, it is difficult to change the Group's capital expenditure plans once the relevant funds have been remitted from the Company to its PRC subsidiaries.

The Group's operating cost may increase due to provision of staff benefits as required by the PRC government

The Group has made contribution to certain insurance plan, social security and having provident funds pursuant to the relevant PRC laws and regulations. Should the scope of these employee contribution plans expand or the rate of the Group's contribution increases, the Group's operating cost would increase, thereby affecting its competitiveness and profitability.

RISKS RELATING TO THE GLOBAL OFFERING

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

Prior to the Listing, there has been no public market for the Shares. The Offer Price for the Shares will be the result of negotiations between the Global Coordinator (on behalf of the Underwriters) and the Company, and may differ from the market prices for the Shares after the Listing. The Company has applied to the Stock Exchange for the listing of, and permission to deal in, the Shares. However, there is no assurance that the Listing will result in the development of an active and liquid public trading market for the Shares. The market price, liquidity and trading volume of the Shares may be volatile. There can be no assurance as to the ability of holders to sell their Shares or the price at which the Shares can be sold.

As a result, Shareholders may not be able to sell their Shares at prices equal to or greater than the price paid for their Shares under the Global Offering. Factors that may affect the volume and price at which the Shares will be traded include, among other things, variations in the Group's sales, earnings, cash flows and costs, announcements of new investments, and changes in laws and regulations in China. There is no assurance that these developments will not occur in the future. In addition, shares of other companies listed on the Stock Exchange with significant operations and assets in China have experienced price volatility in the past, and it is possible that the Shares may be subject to changes in price not directly related to the Group's performance.

Purchasers of the Shares will experience immediate dilution and may experience further dilution if the Company issues additional Shares in the future

The Offer Price of the Shares is higher than the net tangible assets value per Share immediately prior to the Global Offering. Therefore, there will be an immediate dilution in the pro forma combined net tangible assets value per Share as a result of the Global Offering. The Group may need to raise additional funds in the future to finance expansion of its operations or new acquisitions. If additional funds are raised through the issuance of new Shares or other securities that may be converted into the Shares or other equity-linked securities of the Company other than on a pro rata basis to existing Shareholders, the percentage ownership of the existing Shareholders may be reduced and Shareholders may experience subsequent dilution. In addition, such new securities may have preferred rights, options or pre-emptive rights that make them more valuable than or senior to the Shares.

Future sales by the Company's current shareholders of a substantial number of Shares in the public market could materially and adversely affect the prevailing market price of the Shares

Future sales of a substantial number of the Shares by the Company's current shareholders, or the possibility of such sales, could negatively impact the market price of the Shares and the Company's ability to raise equity capital in the future at a time and price that the Company deems appropriate. The shares held by the members of the Controlling Shareholder Group and/or the Financial Investors are subject to certain lock-up undertakings following the Listing Date, details of which are set out in the section headed "Underwriting" in this prospectus. While the Company is not aware of any intention of any member of the Controlling Shareholder Group and/or the Financial Investors to dispose of significant amounts of their Shares after the lock-up periods, there is no assurance that they will not dispose of any Shares they currently own or acquire in the future.

Investors may face difficulties in protecting their interests because the Company is incorporated under Cayman Islands law, which law may differ in some respects from the laws of Hong Kong and other jurisdictions

The Company's corporate affairs are governed by the Company's Memorandum and Articles and by the Companies Law and common law of the Cayman Islands. The law of the Cayman Islands relating to the protection of the interests of minority shareholders differs in some respects from that established under statutes and judicial precedents in Hong Kong and other jurisdictions. For example, the Cayman Islands does not have a statutory equivalent of section 168A of the Companies Ordinance which provides a remedy for shareholders who have been unfairly prejudiced by the conduct of the company's affairs, although a shareholder may complain to the court that the affairs of the company are being conducted in a manner which is oppressive or prejudicial to the shareholders and the court may wind up the company if it is of the opinion that it is "just and equitable" to do so. See "Summary of the Constitution of the Company and Cayman Islands Companies Law" in Appendix VI to this prospectus.

Certain facts and other statistics with respect to China, the PRC economy and the paper industry in this prospectus are derived from various official sources and may not be reliable

Certain facts and other statistics in this prospectus relating to China, the PRC economy and the PRC and paper industry and markets have been derived from various government publications. However, the Group cannot guarantee the quality or reliability of such source materials. They have not been prepared or independently verified by the Group, the Global Coordinator, the Sponsor, the Underwriters or any of their respective affiliates or advisors and, therefore, the Group makes no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside China. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies and should not be relied upon. Furthermore, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

The Group strongly cautions investors not to place any reliance on any information contained in press articles or other media regarding the Group and the Global Offering

Prior to the publication of this prospectus, there has been press and media coverage regarding the Group and the Global Offering in Apple Daily, Hong Kong Economic Journal and Oriental Daily on 20 November 2007, Sing Tao Daily, Hong Kong Commercial Daily and Hong Kong Economic Times on 21 November 2007; and Wen Wei Po on 22 November 2007, which included certain financial information, financial projections, valuations and other information about the Group that do not appear in this prospectus. The Group has not authorised the disclosure of any such information in the press or media. The Group does not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. The Group makes no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information appearing in publications other than this prospectus is inconsistent or conflicts with the information contained in this prospectus, the Group disclaims it. Accordingly, prospective investors should not rely on any such information. In making the decision as to whether to purchase the Offer Shares, investors should rely only on the financial, operational and other information included in this prospectus.