

CONNECTED TRANSACTIONS

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Upon Listing, the transactions set forth below will constitute continuing connected transactions (as such term is defined under the Listing Rules) for our Company.

RELATIONSHIP BETWEEN OUR GROUP AND OUR CONNECTED PERSONS

Mr. Zhu, Mrs. Zhu and Mr. Zhu Mo Qun are our Directors and the Controlling Shareholders and are therefore Connected Persons of our Company under the Listing Rules.

SD Changxing is owned by Mr. Zhu, Mr. Zhu Mo Qun and Mrs. Zhu (all being Directors and the Controlling Shareholders) as to 55%, 30% and 15%, respectively. SD Changxing is an associate of Mr. Zhu, Mr. Zhu Mo Qun and Mrs. Zhu and is therefore a Connected Person of our Company under the Listing Rules. SD Changxing is located in the southern side of Changxing Road, Chang Shan Town, Zhouping county, Binzhou City, Shandong Province, the PRC and is principally engaged in the production and sale of vacuum rollers (which are mainly used as machinery parts of production machines in heavy industry, such as paper making machines, steel manufacturing machines and enamel container for chemical production process), and its revenue for the financial year ended 31 December 2006 and net asset value as at 31 December 2006 amounted to approximately RMB503 million and RMB235 million, respectively.

Guang Hua is owned by Mr. Zhu, Mr. Zhu Mo Qun and Mrs. Zhu (all being Directors and the Controlling Shareholders) as to approximately 50%, 33% and 17%, respectively. Guang Hua is an associate of Mr. Zhu, Mr. Zhu Mo Qun and Mrs. Zhu and is therefore a Connected Person of our Company under the Listing Rules. Guang Hua is located in proximity area to our production base in San Li He, Chang Shan Town, Zhouping County, Binzhou City, Shandong Province, the PRC and is principally engaged in the production and sale of veneer, a type of laminated board, and its revenue for the financial year ended 31 December 2006 and net asset value as at 31 December 2006 amounted to approximately RMB503 million and RMB285 million, respectively.

Save for the transactions with SD Changxing and Guang Hua as disclosed below, we did not share any customers, suppliers or facilities with SD Changxing or Guang Hua during the Track Record Period, nor will we share any customers, suppliers or facilities with SD Changxing or Guang Hua in the foreseeable future.

Under the Listing Rules, for so long as each of SD Changxing and Guang Hua remains as a Connected Person of our Company, the following transactions between us and each of them would constitute connected transactions upon Listing.

(A) Exempted continuing connected transactions

The following connected transactions under this paragraph (A) will constitute exempt connected transactions for our Company under Rule 14A.33(3) of the Listing Rules and will be exempted from the reporting, announcement and independent Shareholders'

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approval requirements stipulated under the Listing Rules because they are conducted on normal commercial terms where each of the percentage ratios (other than the profits ratio) of the following transactions is on an annual basis less than 0.1% or each of the percentage ratios (other than the profits ratio) of the following transactions is on an annual basis equal to or more than 0.1% but less than 2.5% and the annual consideration of each of following transactions is less than HK\$1,000,000.

Tenancy agreement with SD Changxing

SD Changxing is the holder of a building with a gross floor area of approximately 12,158 sq.m. situate at the southern side of Changxing Road, Chang Shan Town, Zouping County, Binzhou City, Shandong Province, the PRC, SD Changxing has also obtained the land use right certificate (《國有土地使用證》(鄒國用(2003)第020148號)) in respect of the land on which the warehouse is located.

By a tenancy agreement dated 10 May 2007 and a supplemental tenancy agreement dated 11 May 2007, both made between SD Changxing (as lessor) and Shandong Qunxing (as lessee) which superseded the tenancy agreement between the parties dated 1 January 2006, Shandong Qunxing leased from SD Changxing such property for warehouse purpose for a term of 1 year from 10 May 2007 to 10 May 2008 at an annual rental of RMB400,000 (equivalent to approximately HK\$412,000). The tenancy agreement was entered into in our ordinary course of business and it contains normal commercial terms made by parties on arm's length basis.

The warehouse situated on the site which was rented from SD Changxing has been used by our Group for storage purpose. The annual tenancy rental payable by Shandong Qunxing to SD Changxing during the Track Record Period (i.e. for the financial year ended 31 December 2006 and for the four months ended 30 April 2007, as the tenancy started in January 2006) was approximately RMB400,000 and RMB133,000, respectively.

Such warehouse was a newly added facility of our Group which enhances our storage capacity to accommodate the increasing production volume of our Group. The site and the warehouse were not used by our Group before January 2006 and no activity was conducted by our Group on the site prior to the entering into of the tenancy agreement with SD Changxing.

Tenancy agreement with Guang Hua

Guang Hua is the holder of certain land use rights of a parcel of land situate at San Li He, Chang Shan Town, Zouping County, Binzhou City, Shandong Province, the PRC. The parcel has a site area of approximately 10,070.6 sq.m. and has one single storey workshop building and a single storey supporting workshop erected thereon with a total gross floor area of approximately 5,916 sq.m.

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By a tenancy agreement dated 1 April 2007 and made between Guang Hua (as lessor) and Shandong Qunxing (as lessee), Shandong Qunxing leased from Guang Hua such property for a term of 20 years from 1 April 2007 to 31 March 2027 at an annual rental of RMB160,000 (equivalent to approximately HK\$164,800). The tenancy agreement has been duly registered with the State Administration of Land of Zouping. Shandong Qunxing has obtained the land other rights certificate (《土地他項權利證明書》(鄒他項(2007)字第18094號)). A new workshop for our production line no. 7 is now being constructed on such property and the scheduled completion date of the construction is early 2008. The tenancy agreement was entered into in the ordinary course of business of our Group and it contains normal commercial terms made by parties on arm's length basis.

The parcel of land which was rented from Guang Hua is now being used for construction of the workshop for production line no. 7. The site was not used by our Group before April 2007 and no activity was conducted by our Group on the site prior to the entering into of the tenancy agreement with Guang Hua.

According to the view of LCH (Asia-Pacific) Surveyors Limited, an independent property valuer, the annual rentals under both the tenancy agreements with SD Changxing and Guang Hua respectively are at market rates.

(B) Continuing connected transactions subject to the reporting and announcement requirements, in respect of which a waiver has been granted by the Stock Exchange

The continuing connected transactions (being of the nature of supply of decorative base paper products) as described under this paragraph (B) below were and will be entered into by our Group in the ordinary course of business and on normal commercial terms. They are subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47, and 14A.55 and 14A.56 of the Listing Rules. A waiver application from strict compliance with the relevant announcement requirement under the Listing Rules has been submitted to the Stock Exchange, subject to the conditions set forth under "Waiver from compliance with announcement requirement" below.

Supply of decorative base paper products

Nature of the transactions and historical figures

Guang Hua has been sourcing decorative base paper products from Shandong Qunxing during the Track Record Period. During each of the three financial years ended 31 December 2006 and the four months period ended 30 April 2007, the sales of the decorative base paper products by Shandong Qunxing to Guang Hua amounted to approximately RMB7.8 million, RMB9.0 million, RMB6.2 million and RMB2.3 million, respectively (equivalent to approximately HK\$8.0 million, HK\$9.3 million, HK\$6.4 million and HK\$2.4 million, respectively).

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The sales volumes by Shandong Qunxing to Guang Hua during the Track Record Period are as follows:

	Year ended 31 December			Four months ended
	2004	2005	2006	30 April
	(tonnes)	(tonnes)	(tonnes)	2007 (tonnes)
Sales volume by Shandong				
Qunxing to Guang Hua	704	710	471 ^(Note)	176
Total sales volume of our Group	44,675	62,504	91,625	35,659
% to total sales	1.6%	1.1%	0.5%	0.5%

Note: Our Directors confirmed the decrease in the sales volume by Shandong Qunxing to Guang Hua in 2006 was mainly due to the fact that Guang Hua has changed its product mix during the year and it focused on producing certain laminated board products which do not require the use of our decorative base paper products in plain colours as much. Instead, Guang Hua had sourced the relevant materials from third parties to satisfy its production need.

Principal terms of the transactions

During the Track Record Period, no written master agreement has been entered into between our Group and Guang Hua for the supply of the decorative base paper products. The selling prices thereof have been agreed between Shandong Qunxing and Guang Hua with reference to the terms offered by Shandong Qunxing to Independent Third Parties and at the prevailing market prices of decorative base paper products. Our Directors confirmed that the historical transactions were conducted at arm's length basis and at market prices.

By entering into the Master Supply Agreement, we agreed to supply decorative base paper products to Guang Hua at prices to be determined from time to time by Shandong Qunxing and Guang Hua at the prevailing market prices of decorative base paper products and on such other standard terms of sale and purchase applicable from time to time which include procedures to place purchase orders, quality of products, mode of delivery and inspection of products and payment terms, provided that such terms are on normal and usual commercial terms and are no more favourable than those applicable to the sale of the same type and quality of decorative base paper products for comparable quantity by our Group to Independent Third Parties. The Master Supply Agreement commenced on 3 September 2007 and will expire on 31 December 2009, unless terminated earlier by three months' prior written notice by either party as of contractual right of either party, or immediately upon written notice being served by either party if the other party is in material breach (or continued material breach after written warning) of the terms of the Master Supply Agreement or if the other party goes into liquidation or analogous proceedings.

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Annual monetary caps for the three financial years ending 31 December 2009

It is expected that the aggregate sales of the decorative base paper products by Shandong Qunxing to Guang Hua under the Master Supply Agreement for each of the three financial years ending 31 December 2009 will be more than 2.5% but less than 25% of each of the percentage ratios (other than the profits ratio) on an annual basis calculated with reference to Rule 14.07 of the Listing Rules, but will not exceed the annual monetary caps (“**Annual Caps**”) of RMB7.3 million, RMB7.5 million and RMB7.8 million, respectively (equivalent to approximately HK\$7.5 million, HK\$7.7 million and HK\$8.0 million, respectively).

The Annual Caps were determined by our Directors after taking into consideration the following factors:

- i) based on the actual sales volumes of the decorative base paper products sold by Shandong Qunxing to Guang Hua during the four months ended 30 April 2007 which amounted to approximately 176 tonnes, our Directors expect that the annualised aggregate sales volumes for the year ending 31 December 2007 will amount to approximately 529 tonnes;
- ii) our Directors expect that the estimated sales volumes of the decorative base paper products by Shandong Qunxing to Guang Hua will be at a similar level for the three financial years ending 31 December 2009;
- iii) the average selling price for the decorative base paper products sold by Shandong Qunxing to Guang Hua during the year ended 31 December 2006 was approximately RMB13,110 per tonne; and
- iv) with reference to the historical growth rate of the average selling price for the decorative base paper products sold to Guang Hua during the Track Record Period, our Directors expect that the average selling price for the respective decorative base paper products will be increased by 4% annually during the three financial years ending 31 December 2009.

Waiver from compliance with announcement requirement

Based on the respective Annual Caps for the transactions under the Master Supply Agreement, it is expected that each of the percentage ratios (other than the profits ratio), where applicable, calculated with reference to Rule 14.07 of the Listing Rules, in respect of the transactions under the Master Supply Agreement will exceed the threshold under Rule 14A.33(3) of the Listing Rules but will not exceed the threshold under Rule 14A.34 of the Listing Rules. Therefore, these transactions are subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules. We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver pursuant to Rule 14A.42(3) of the Listing Rules to exempt the transactions under the Master Supply Agreement from compliance with the announcement requirements under Rule 14A.47 of the Listing Rules.

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We will comply with Rules 14A.35(1) and (2), 14A.36 to 14A.40 and 14A.45 to 14A.46 of the Listing Rules in relation to transactions under the Master Supply Agreement.

Upon expiry of the waiver granted for the period ending 31 December 2009, we will comply with the relevant requirements under Chapter 14A of the Listing Rules.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable provisions under Chapter 14A of the Listing Rules as at the date of this prospectus relating to continuing connected transactions, we will take immediate steps to ensure compliance with such requirements within a reasonable period.

Confirmation from our Directors

Our Directors, including the independent non-executive Directors, confirm that the transactions under the Master Supply Agreement were entered into on normal commercial terms, in the ordinary and usual course of business and are fair and reasonable to our Group on the basis that the terms of the Master Supply Agreement are no less favorable to our Group than terms offered by Independent Third Parties, and therefore are in the interests of the Shareholders and our Group as a whole.

Our Directors, including the independent non-executive Directors, are of the view that the respective Annual Caps are fair and reasonable and in the interests of the Shareholders and our Group as a whole.

Confirmation from the Joint Sponsors

The Joint Sponsors are of the opinion that the transactions under the Master Supply Agreement are in the ordinary and usual course of business of our Group, on normal commercial terms, are fair and reasonable and in the interests of the Shareholders and our Group as a whole, and that the respective Annual Caps are fair and reasonable and in the interests of the Shareholders and our Group as a whole.