

NON-COMPETITION UNDERTAKINGS GIVEN BY OUR CONTROLLING SHAREHOLDERS

Non-Competition Undertakings

Each of our Controlling Shareholders has confirmed that, none of them is engaged in, or interested in any business which, directly or indirectly, competes or may compete with our business. In accordance with the non-competition undertakings ("**Non-Competition Undertakings**") set out in the deed of non-competition dated 8 September 2007, each of our Controlling Shareholders has undertaken, jointly and severally, that during the period in which any of them and their respective associates, individually or taken as a whole, remains as a controlling shareholder (as defined under the Listing Rules) of our Company:–

- if there is any project or new business opportunity that relates to the business activities engaged by us from time to time, it or he or she shall refer such project or new business opportunity to us for consideration;
- it or he or she will not invest or participate in any project or business opportunity that competes or may compete, directly or indirectly, with the business activities engaged by us from time to time; and
- it or he or she will procure its or his or her associates (excluding our Group) not to invest or participate in any project or business opportunity mentioned above, unless such project or business opportunity shall have been rejected by us in board meeting(s) with participation of the independent non-executive Directors without the attendance by any Directors with beneficial interest in such project or business opportunity, in which resolutions have been duly passed by the majority of the independent non-executive Directors that our Company or relevant member of our Group has rejected such project or business opportunity and that the relevant associate(s) of the Controlling Shareholder(s) (excluding our Group) shall be entitled to accept or engage in such opportunities.

This deed is conditional on (i) the Listing Committee granting listing of, and permission to deal in, all the Shares in issue and the New Shares to be issued under the Share Offer and the Shares which may be issued upon the exercise of the Over-allotment Option and options that may be granted under the Share Option Scheme; and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant as a result of the waiver of any condition(s) by the Underwriters) and that the Underwriting Agreements not being terminated in accordance with their terms or otherwise. The Non-Competition Undertakings will cease to have effect on the earlier of the date on which: (a) the Controlling Shareholders and their respective associates (individually or taken as a whole) cease to own 30% or more of the then issued share capital of our Company directly or indirectly or cease to be deemed as controlling shareholder of our Company (within the meaning defined in the Listing Rules from time to time) and do not have power to control the Board and there is at least one other independent Shareholder holding more Shares than the Controlling Shareholders and their associates taken together; or (b) the Shares cease to be listed on the Stock Exchange.

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In addition, each of the Controlling Shareholders has undertaken under the Non-Competition Undertakings that he or she or it shall provide to our Company and/or the Directors (including the independent non-executive Directors) from time to time all information necessary for annual review by the independent non-executive Directors with regard to compliance of the terms of the Non-Competition Undertakings. Each of the Controlling Shareholders has also undertaken to make annual declaration on compliance with the terms of the Non-Competition Undertaking in the annual reports of our Company.

Concerning the Non-Competition Undertakings,

- (i) the independent non-executive Directors would review, at least on an annual basis, the compliance with and enforcement of the terms of the Non-Competition Undertakings by the Controlling Shareholders, and if any, the options, pre-emptive rights or first rights of refusals provided by the Controlling Shareholders and/or their respective associates on its existing or future competing businesses;
- (ii) our Company shall disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the Non-Competition Undertakings either through annual report, or by way of announcement; and
- (iii) our Company shall disclose in the corporate governance report of its annual reports on how the terms of the Non-Competition Undertakings are complied with and enforced.

In addition, each Director confirms that he does not have any competing business with our Group and has, pursuant to his service agreement or engagement letter, covenanted with and undertaken to our Company that during the term of his service or appointment, he shall not, and shall procure that none of his associates shall, directly or indirectly, be engaged in or concerned with or interested in any business which is or may be in any respect in competition with the business carried on from time to time by our Group or any of the companies within our Group. However, the aforesaid restriction does not prohibit the holding (directly or through nominees) by a Director of any securities listed on any stock exchanges as long as not more than 5% of the total voting rights attaching to the securities of the same class shall be so held and shall not restrict the holding of any securities of our Company. Subject to the exceptions as aforesaid, for a period of one (1) year after the expiry or the termination of his service or appointment, a Director shall not, and shall procure that none of his associates will, directly or indirectly, engage or be engaged in Hong Kong or those regions and markets within the PRC or elsewhere in which any member of our Group operates or has operated any part of its business from time to time, whether directly or indirectly, in any business which is or may be in competition with the business carried on from time to time by our Group or any of the companies within our Group.

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Corporate governance

Our Directors recognise the importance of incorporating elements of good corporate governance in management conducive to the protection of the interests of our Shareholders. In particular, the following corporate governance measures in relation to managing potential conflict of interests between our Group and our Controlling Shareholders, the compliance and enforcement of the Non-Competition Undertakings are taken:

- (a) our independent non-executive Directors will be responsible for deciding and given authority to decide, without attendance by any Directors with beneficial interests in the new business opportunity, whether or not to take up a new business opportunity which relates to the business activities engaged by us from time to time and is referred to us by the Controlling Shareholders or any other matter arising under the terms of the Non-Competition Undertakings. For this purpose, our independent non-executive Directors will meet regularly on a quarterly basis and from time to time as required;
- (b) our independent non-executive Directors may, from time to time, engage external professional advisers as they may consider necessary to advise them on the issues which relate to matters set out in the above paragraph;
- (c) any transaction between (or proposed to be made between) our Group and Connected Persons will be required to comply with Chapter 14A of the Listing Rules, including, where applicable, the announcement, reporting and independent shareholders' approval requirements and with those conditions imposed by the Stock Exchange for the granting of waiver from strict compliance with the relevant requirements under the Listing Rules (including those connected transactions as set out in the section headed "Connected transactions" in this prospectus);
- (d) in the event that there are conflict of interest in the operations of our Group and our Controlling Shareholders and their respective associates, and in respect of any proposed contract or arrangement between our Group and our Controlling Shareholders and their respective associates, given that each of Mr. Zhu, Mr. Zhu Mo Qun and Mrs. Zhu is a Director and is also a Controlling Shareholder, and that each of them is considered to be interested in a particular matter or the subject matter, he/she shall disclose his/her interests to the Board and where, pursuant to the applicable provisions in the Articles, he/she has a material interest in the matter, he/she may not vote on the resolutions of the Board approving the same and shall not be counted in the quorum for the voting as required under the Listing Rules. A relevant board meeting attended by disinterested Directors who have no material interest in the matter shall be held to deliberate on the matters;

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- (e) under the agreements governing the non-exempt continuing connected transactions as referred to in the paragraph headed “Continuing connected transactions subject to the reporting and announcement requirements in respect of which a waiver has been granted by the Stock Exchange” in the section headed “Connected transactions” in this prospectus, the counterparties to these agreements have undertaken to our Group to allow our Group’s auditors sufficient access to their records for reporting on the transactions involved; and
- (f) under the Non-Competition Undertakings to be given by the Controlling Shareholders as referred to in the paragraph headed “Non-Competition Undertakings” in the section headed “Non-Competition Undertakings given by our Controlling Shareholders” in this prospectus, the Controlling Shareholders have jointly and severally undertaken to our Group to allow our Directors, their respective representatives and the auditors to have sufficient access to the records of the Controlling Shareholders and their respective associates to ensure its compliance with the terms and conditions under the Non-Competition Undertakings.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between the Controlling Shareholders and their respective associates and our Group and to protect the interests of the Shareholders, in particular, the minority Shareholders.

Independence from the Controlling Shareholders and their associates

Our Directors confirm that our Group is capable of carrying on its business independently of the Controlling Shareholders and their associates after Listing based on the following particulars:

Management independence

Mr. Zhu has ceased to be general manager of SD Changxing and Guang Hua and Mr. Sun Zhen Shui has also resigned from his position of financial controller with SD Changxing. Each of them is committed to devote all his time to our Group. Mr Zhu Mo Qun has not been the management of SD Changxing or Guang Hua

Despite the resignations of Mr. Zhu and Mr. Sun Zhen Shui, both of SD Changxing and Guang Hua have independent management team to manage their respective operations.

Mrs. Zhu is a director of both SD Changxing and Guang Hua and is a non-executive Director of our Company. Our Directors are of the view that our management team and that of our Controlling Shareholders or their respective associates is and will be independent from each other.

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Our Directors further confirm that save as disclosed above, there is no management overlapping of directors or senior management members between the Group and that of its Controlling Shareholders or their respective associates.

Products and business independence

SD Changxing, an associate of the Controlling Shareholders, is principally engaged in the production and sale of vacuum rollers (which are machinery parts of industrial machines including paper making machines, steel manufacturing machines and enamel vacuum tanks in chemical production process) and Guang Hua, another associate of the Controlling Shareholders, is principally engaged in the production and sale of veneer, a type of laminated board, which businesses are entirely different from that of the Group.

Save for the leasing of certain premises from SD Changxing and Guang Hua as disclosed in the paragraph headed “Exempted continuing connected transactions” under the section headed “Connected transactions” in this prospectus, the Group did not share any customers, suppliers or facilities with SD Changxing or Guang Hua during the Track Record Period, nor will it share any of the foregoing with SD Changxing or Guang Hua in the foreseeable future. Our Directors further confirm that the Group has independent access to its customers and/or suppliers.

Our Directors are of the view that the Controlling Shareholders and their associates do not pose any competition to the Group as the businesses of the Controlling Shareholders and their associates are entirely different.

During the Track Record Period, the Group sold decorative base paper products to Guang Hua. By the Master Supply Agreement, the Group has agreed to supply such products to Guang Hua in the three financial years ending 31 December 2009. Please refer to the subsection headed “Continuing connected transactions subject to the reporting and announcement requirements, in respect of which a waiver has been granted by the Stock Exchange” under the section headed “Connected transactions” in this prospectus for details of this transaction.

Save as disclosed in this prospectus, the Group does not engage in or enter into other transactions with the Controlling Shareholders or their respective associates.

Our Directors believe the Group does not have to rely on the Controlling Shareholders and their associates to carry on its business given that the sales of decorative base paper products to Guang Hua for each of the three financial years ended 31 December 2006 and the four months ended 30 April 2007 accounted for approximately 1.7%, 1.3%, 0.6% and 0.7% respectively of the Group’s turnover for the relevant periods and that our Directors expect that the sales of such products to Guang Hua for the next three financial years ending 31 December 2009 will not exceed 1.0% of the total turnover of the Group for each financial year. In addition, transactions with Guang Hua were conducted on arm’s length basis and on normal commercial terms which were comparable to that with Independent Third Parties.

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Financial independence

During the Track Record Period, non-trade receivables from Controlling Shareholders or their respective associates to our Group amounted to approximately RMB26,000, RMB47,000, RMB198,000 and RMB296,000 as at 31 December 2004, 31 December 2005 and 31 December 2006 and 30 April 2007 respectively, while non-trade payables to Controlling Shareholders or their respective associates from our Group amounted to approximately RMB120.0 million, nil, RMB194.5 million and RMB5.4 million as at 31 December 2004, 31 December 2005, 31 December 2006 and 30 April 2007, respectively.

Certain bank loans of our Group amounting to approximately RMB127.2 million, RMB250.2 million, RMB145.0 million and RMB70.0 million as at 31 December 2004, 31 December 2005 and 31 December 2006 and 30 April 2007 respectively were guaranteed by SD Changxing.

The above non-trade balances and guarantees between our Group and its Controlling Shareholders or their respective associates had been settled or released in full before the Latest Practicable Date.

Our Directors confirm that our Group has the ability to operate independently from the Controlling Shareholders and their associates from the financial perspective. As at the Latest Practicable Date, certain of the bank borrowings of our Group which were secured by corporate guarantee given by SD Changxing were fully repaid.

Administrative independence

All essential administrative functions have been and will be carried out by our Group without requiring the support of the Controlling Shareholders or their associates. Our Group has its own capabilities and personnel to perform all essential administrative functions, including financial and accounting management, research and development and general and administration.

Guang Hua and SD Changxing are not included in our Group because our Directors consider that the business and operation of Guang Hua and SD Changxing are entirely different from and independent of that of our Group and we are able to carry on our business independently on the basis set out above. Moreover, our Directors consider that the business targets of both Guang Hua and SD Changxing are different from our Group's and the 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 veneer has not been and will not be part of our business. In this light, our Directors believe that no actual or potential competition exists between the Controlling Shareholders and our Group and it is in the best interest of our Group to exclude Guang Hua and SD Changxing from our Group for the Listing such that we can focus on our core business of sale and manufacture of decorative base paper products and printing paper product.