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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER AND CONTINUING CONNECTED TRANSACTIONS

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### RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

#### I. Information on our Controlling Shareholder

Mr. Liu is our founder and controlling shareholder. Mr. Liu, through various members of the Controlling Shareholder Group, is interested in different businesses (other than those of our Group) (the “Non-Group Businesses”), certain of which entered into on-going transactions in their ordinary course of business with our Group during the Track Record Period. Certain of these transactions (as set out below) will continue after the Listing (the “Continuing Connected Transactions”).

During the Track Record Period, the aggregate amount of purchases made by our Group to the Controlling Shareholder Group as mentioned in this section amounted to approximately RMB133.2 million, RMB226.8 million and RMB117.5 million, respectively, representing approximately 2.7%, 3.8% and 1.4%, respectively, of our Group’s total cost of sales during such periods. During the Track Record Period, the aggregate amount of sales from our Group to the Controlling Shareholder Group as mentioned in this section amounted to approximately RMB9.3 million, RMB19.9 million and RMB0.4 million, respectively, representing approximately 0.2%, 0.3% and 0.004%, respectively, of our Group’s total revenue during such periods.

Set out below is a brief summary of certain of the businesses of the Controlling Shareholder Group.

#### 1. *Pengli Dies*

Pengli Dies is indirectly owned by Mr. Liu as to 51% of its equity, with the balance held by an Independent Third Party. Both Mr. Liu and his wife, Wang Zhijie (“Mrs. Liu”), do not occupy any position in Pengli Dies. There are no common directors or senior management members between our Group and Pengli Dies. Pengli Dies is principally engaged in the manufacture and sale of dies used in the production of products made from the extrusion process, including aluminum extrusion products and PVC products. For the two years ended December 31, 2007 and the period from January 1, 2008 to March 31, 2008, Pengli Dies supplied dies to our Group for use in the production of aluminum extrusions products, and our Group’s purchases of such dies amounted to approximately RMB99.8 million, RMB143.9 million and RMB33.2 million, respectively, representing approximately 2.0%, 2.4% and 0.4%, respectively, of our Group’s total cost of sales during the Track Record Period. The consideration charged by Pengli Dies to our Group was determined based on market prices. For the two years ended December 31, 2007 and the period from January 1, 2008 up to the purchase of the equipment by the Group from Pengli Dies as mentioned below, Pengli Dies only supplied dies used for the production of aluminum extrusion products to our Group and Pengli Dies was the sole supplier of the dies used by our Group. Pengli Dies also supplied dies used for the production of PVC products to Hong Cheng as well as to Independent Third Parties.

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On March 26, 2008, Zhongwang PRC entered into an agreement with Pengli Dies pursuant to which Zhongwang PRC agreed to acquire all the equipment necessary for the manufacture of dies used in the forming aluminum extrusion products from Pengli Dies for a consideration of RMB18.9 million based on the book value of such equipment. As our Group has acquired the equipment necessary for the manufacture of dies used in the production of our products, accordingly, our Group has ceased to purchase dies from Pengli Dies as from April 1, 2008. Our Group commenced production of dies on April 1, 2008. The dies produced by our Group are for our exclusive use only and we have no intention to sell dies produced by our Group to any third party.

### **2. Cheng Cheng**

Cheng Cheng is indirectly wholly-owned by Mr. Liu. Cheng Cheng is principally engaged in the manufacture and sale of woven bags for packaging use. Both Mr. Liu and Mrs. Liu do not occupy any position in Cheng Cheng. There are no common directors or senior management members between our Group and Cheng Cheng. Cheng Cheng also manufactures plastic film, which is made from some of the raw materials used in the production of woven bags. Although Cheng Cheng sells its principal products to Independent Third Parties, during the Track Record Period, Cheng Cheng also supplied plastic film to our Group for use as packaging material. Cheng Cheng has been the sole supplier of the plastic film used by our Group. For the three years ended December 31, 2008, our Group's purchases of such plastic film amounted to approximately RMB6.8 million, RMB5.7 million and RMB6.4 million, respectively, representing approximately 0.1%, 0.1% and 0.1%, respectively, of our Group's total cost of sales during such periods.

### **3. Futian Chemical**

Futian Chemical is indirectly owned by Mr. Liu as to 40% of its equity and by Mr. Liu's wife as to 60% of its equity. Both Mr. Liu and Mrs. Liu do not occupy any position in Futian Chemical. There are no common directors or senior management members between our Group and Futian Chemical. Futian Chemical is principally engaged in the manufacture and sale of coating powder for metallic surfaces. For the three years ended December 31, 2008, Futian Chemical supplied such coating powder to our Group for the surface processing of our products as well as to Independent Third Parties. For the three years ended December 31, 2008, our Group's purchases of such coating powder amounted to approximately RMB26.6 million, RMB71.1 million and RMB77.9 million, respectively, representing approximately 0.5%, 1.2% and 1.0%, respectively, of our Group's total cost of sales during such periods. Futian Chemical has been the sole supplier of the coating powder used by our Group since January 1, 2008.

### **4. Hong Cheng**

Hong Cheng is indirectly owned by Mr. Liu as to 40% of its equity and by Mr. Liu's wife as to 60% of its equity. Both Mr. Liu and Mrs. Liu do not occupy any position in Hong Cheng. There are no common directors or senior management members between our Group and Hong Cheng. Hong Cheng is principally engaged in the manufacture and sale of PVC products, which are principally used in the manufacture of window frames and door frames. Hong Cheng markets and sells its products under the Zhongwang brand, but there was no sale and purchase of products between Hong Cheng and our Group during the Track Record Period. The products of Hong Cheng and our Group have not been and will not be sold together in the form of bundle-sales.

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Historically, prior to the commencement of and during the Track Record Period, Hong Cheng and our Group were both owned by the Controlling Shareholder Group and both our Group and Hong Cheng have contributed to the development of the Zhongwang brand in the PRC. The products of Hong Cheng were marketed and sold under the Zhongwang brand, and no trademark fees were charged by our Group to Hong Cheng for the use of the Zhongwang trademark prior to 2008. Hong Cheng will continue to market and sell its products under the Zhongwang trademark after the Listing, and a fee is being charged by our Group to Hong Cheng for the use of the Zhongwang trademark from the year 2008. Upon the Listing, Hong Cheng will establish its own brand and will be allowed to continue using the Zhongwang trademark for marketing and sale of its products for three years from the Listing Date so that Hong Cheng may establish its own brand during such transitional period. We will not allow Hong Cheng to use the Zhongwang trademark upon the expiry of the said three-year period from the Listing Date. We will take appropriate actions, including the institution of legal proceedings, to prevent any infringement or abuse of the Zhongwang trademark by any third party (including Hong Cheng).

The products of Hong Cheng and our Group have been and will continue to be manufactured and sold separately and independently. While Hong Cheng's PVC profiles are designed to supply the lower-end building construction market, our Group's aluminum extrusion products are targeted at the higher-end building construction market. Higher-end and lower-end building materials may be distinguished by reference to their anti-corrosion, weather resistance, ultraviolet ray resistance and humidity resistance. Since higher-end building materials have better resistance to corrosion, weather, ultraviolet ray and humidity than lower-end building materials, their selling prices are higher than lower-end building materials. There is consistent pricing differential between aluminum extrusion products and PVC profiles. For the three years ended December 31, 2008, the average selling price of our Group's aluminum extrusion products for the construction industry was approximately RMB21,000 per ton, RMB22,000 per ton and RMB22,000 per ton, respectively, while the average selling price of Hong Cheng's PVC profiles was approximately RMB9,200 per ton, RMB8,800 per ton and RMB8,677 per ton, respectively. Given the different building materials used for the different sub-markets, the products of Hong Cheng and our Group are distinguishable, and the Directors are of the view that Hong Cheng's PVC profiles are lower-end building materials and are not equivalent substitutes for the Group's aluminum extrusion products for sale in the higher-end building construction market at the current stage. Although Hong Cheng will continue to market its PVC products under the Zhongwang trademark for a limited period of time, the above different features, characteristics and pricing differentials between our Group's aluminum extrusion products and Hong Cheng's PVC profiles, which our customers and those of Hong Cheng, being users in these industries, can easily identify, coupled with the different physical appearances of and attributes to aluminum and PVC products, make our products very distinguishable to the customers. Furthermore, our Group has no intention to broaden its scope of business activity to include the sale of lower-end building materials. Our Group has its own teams of sales and marketing staff, which are separate from and independent of those of Hong Cheng. Our Group negotiates and concludes sales contracts independently from Hong Cheng. However, of the 1,485 customers of our Group for the year ended December 31, 2008, there are 135 common customers between our Group and Hong Cheng in the building construction market as our customers in the building construction market may sell both aluminum and PVC window frames and/or door frames for use in higher-end and lower-end property construction projects, respectively. In spite of that, in a property construction project,

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it is the property developer, not our distributors or customers, who decides whether to use aluminum or PVC window frames and/or door frames, and whose decision is dependent on whether the property is a lower-end or higher-end project. We understand from Hong Cheng that it does not intend to expand its business to higher-end building construction market that our Group is currently focusing on.

Our Group's industrial aluminum extrusion products are also used in the manufacture of certain products used in various transportation sectors, such as railway cargo and passenger carriages, metropolitan rails (subways and light rails), light trucks, automobiles, aircraft, vessels and power transmitters, while PVC extrusions cannot be used for such purposes. Accordingly, our aluminum extrusion products for building construction use and the PVC products of Hong Cheng are principally targeted at different sub-markets of the building construction market, and, for the aforesaid reasons, the Directors are of the view that the business of Hong Cheng does not pose competition to our principal business. Notwithstanding this, the Controlling Shareholder has provided a non-competition undertaking in favor of us, details of which are set out under "IV. Non-competition undertaking" below.

### **5. GL Chemicals**

GL Chemicals is indirectly owned by Mr. Liu as to 100% of its equity. Both Mr. Liu and Mrs. Liu do not occupy any position in GL Chemicals. There are no common directors or senior management members between our Group and GL Chemicals. GL Chemicals is principally engaged in the manufacture and sale of chemicals. For the year ended December 31, 2006, GL Chemicals supplied small quantities of certain chemicals used in the surface processing stage of the manufacture of aluminum extrusions to our Group and GL Chemicals also supplied its products to Independent Third Parties at the same time. Our Group's purchases of such chemicals amounted to approximately RMB0.1 million, and they represented approximately 0.003% of our Group's total cost of sales during such periods. The consideration charged by GL Chemicals to our Group was determined based on market prices. As from 2007, our Group has purchased such chemicals from other suppliers and has stopped purchasing any chemicals from GL Chemicals.

### **6. Lu Su Decoration**

From the beginning of the Track Record Period to November 24, 2006, Lu Su Decoration was indirectly wholly-owned by Mr. Liu. On November 25, 2006, two agreements were entered into for the disposal of 100% of Mr. Liu's indirect interest in Lu Su Decoration to two Independent Third Parties, and the procedures for the transfer of 60% of such equity have since been completed. Both Mr. Liu and Mrs. Liu do not occupy any position in Lu Su Decoration. There are no common directors or senior management members between our Group and Lu Su Decoration. Lu Su Decoration was principally engaged in the manufacture and sale of decoration and other building related products, the production of certain of which required aluminum profiles. Insofar as the Directors are aware, Lu Su Decoration has ceased carrying on its principal business and has commenced the procedure for cessation of business with the relevant local authorities.

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For the renovation of certain of our premises in 2007, our Group purchased certain products from Lu Su Decoration in the amount of approximately RMB6.0 million in 2007, which amount represented approximately 0.1% of our Group's total cost of sales for 2007. The consideration charged by Lu Su Decoration to our Group was determined based on market prices. Our Group did not make any other purchase from Lu Su Decoration during the Track Record Period.

For the two years ended December 31, 2007, our Group supplied aluminum profiles to Lu Su Decoration in the amount of approximately RMB6.0 million and RMB18.1 million, respectively, representing approximately 0.1% and 0.2%, respectively, of our Group's total revenue over such periods. The consideration charged by our Group to Lu Su Decoration was determined based on market prices. As from 2008, Lu Su Decoration has ceased to purchase aluminum profiles from our Group and our Group has stopped supplying aluminum profiles to Lu Su Decoration.

### **7. Kong Lung**

Kong Lung is a trading company and is wholly-owned by Mr. Liu. Save for Mr. Liu who is the chairman of the board of Kong Lung, there are no common directors or senior management members between our Group and Kong Lung. Mrs. Liu is a director of Kong Lung. For the two years ended December 31, 2007, Kong Lung purchased small quantities of aluminum extrusion products from our Group for the amount of approximately RMB1.9 million and RMB0.6 million, respectively, and they represented approximately 0.03% and 0.01%, respectively, of our Group's total revenue over such periods. From 2008, Kong Lung has stopped purchasing aluminum extrusion products from our Group.

### **8. CC Plastics**

CC Plastics is wholly-owned by Mr. Liu Zhongsuo. Mr. Liu Zhongsuo is a vice president of our Group and the brother of Mr. Liu. Both Mr. Liu and Mrs. Liu do not occupy any position in CC Plastics. Save for Mr. Liu Zhongsuo, there are no common directors or senior management members between our Group and CC Plastics. CC Plastics is principally engaged in the trading of PVC products. For the three years ended December 31, 2008, CC Plastics purchased small quantities of aluminum extrusion products from our Group in the amount of approximately RMB1.4 million, RMB1.2 million and RMB0.4 million, respectively, and they represented approximately 0.02%, 0.02% and 0.004%, respectively, of our Group's total revenue over such periods. CC Plastics purchased such aluminum extrusion products for the manufacture of certain of their PVC products. CC Plastics has stopped purchasing aluminum extrusion products from our Group. In the event that CC Plastics will need to source aluminum extrusion products from our Group in the future, our Company will comply with the applicable requirements of the Hong Kong Listing Rules.

The Group's primary business focus and strategy is the manufacture and sale of aluminum extrusion products, which is different from the Non-Group Businesses. As such, the Non-Group Businesses operated by the Controlling Shareholder Group have not been included in our Group. The Controlling Shareholder Group has no current intention to inject any of the Non-Group Businesses into our Group.

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### II. Continuing connected transactions

After the Listing, the following on-going transactions entered into in our Group's ordinary course of business will constitute our Continuing Connected Transactions under the Hong Kong Listing Rules.

#### 1. *Non-exempt continuing connected transactions*

##### (i) *Sale of plastic film by Cheng Cheng to our Group*

Cheng Cheng is our connected person. During the Track Record Period, Cheng Cheng supplied plastic film to our Group for use as packaging material, and our Group's purchases of such plastic film amounted to approximately RMB6.8 million, RMB5.7 million and RMB6.4 million, respectively, representing approximately 0.1%, 0.1% and 0.1%, respectively, of our Group's total cost of sales during such periods. Such consideration was determined based on market prices.

Pursuant to the supply agreement dated April 15, 2009 and entered into between Zhongwang PRC and Cheng Cheng, for a period of three years with effect from January 1, 2009, Cheng Cheng has agreed that the consideration for its supply of plastic film to our Group will be determined by reference to the then prevailing market price. The term of payment of the consideration and the terms of delivery of the plastic film will be set out in the relevant purchase contracts. Zhongwang PRC and Cheng Cheng may agree to settle the consideration in the following manners: (i) payment by Zhongwang PRC to Cheng Cheng within one month from the delivery of the plastic film; (ii) prepayment by Zhongwang PRC to Cheng Cheng to be made more than one month prior to the delivery of the plastic film; or (iii) payment by Zhongwang PRC assigning the debts owed to it from a third party to Cheng Cheng. Except for payment by way of assignment of debts, the consideration shall be settled through bank remittance.

Cheng Cheng has agreed that the consideration for the supply of plastic film to any member of our Group will not be higher than the consideration paid to Cheng Cheng by any Independent Third Party for the same products (if any) during the relevant annual period.

It is expected that the total consideration payable by our Group for the purchase of plastic film from Cheng Cheng for the three years ending December 31, 2011 will not exceed RMB12.8 million, RMB15.2 million and RMB15.3 million, respectively, and such amounts have accordingly been set as the caps for these Continuing Connected Transactions. The above caps have been prepared by us primarily based on our estimated production volume of aluminum extrusion products (which in turn have been estimated by reference in part to the compound annual growth rate of our sales volume over the Track Record Period, our estimation of our sales volume growth rate for the three years ending December 31, 2011 and the amount of plastic film required for the relevant packaging purpose) and our estimation of the average unit prices of the plastic film to be purchased by our Group (which has been prepared by reference to the compound annual growth rate of the unit price of plastic film over 2006, 2007 and 2008). We understand from Cheng Cheng that it does not place significant reliance on the Continuing Connected Transactions with our Group.



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(ii) *Trademark fees payable by Hong Cheng to our Group*

Hong Cheng is our connected person. Hong Cheng is principally engaged in the manufacture and sale of PVC profiles.

Hong Cheng was established in 1995 and has since been selling its products under the Zhongwang trademark. During the Track Record Period, the amount of the advertising and other related expenses incurred in connection with the promotion and maintenance of the Zhongwang trademark ("Trademark Expenses") was approximately RMB51.0 million, RMB54.2 million and RMB95.4 million, respectively. Zhongwang PRC did not charge Hong Cheng for its share on the Trademark Expenses for the use of the Zhongwang brand prior to January 1, 2008. Assuming that Zhongwang PRC had charged Hong Cheng for Trademark Expenses in 2006 and 2007, the amount of Trademark Expenses that would have been payable by Hong Cheng to Zhongwang PRC for the two years ended December 31, 2007 would have been approximately RMB14.8 million and RMB14.3 million, respectively.

Pursuant to an agreement for the use of trademark dated April 15, 2009 between Zhongwang PRC and Hong Cheng, Zhongwang PRC has agreed to grant Hong Cheng the right, on a non-exclusive basis, to use the Zhongwang trademark referred to therein (i) for a period of three years as from January 1, 2009, (ii) for use solely in respect of PVC profiles for building construction use, and (iii) for use in the PRC. All promotion and maintenance activities in relation to the Zhongwang trademark shall be carried out by our Group, and Hong Cheng shall pay Zhongwang PRC each year an amount equal to its share of all the Trademark Expenses, which will be determined by reference to the revenue of Hong Cheng for that year relative to the consolidated revenue of our Group and Hong Cheng for the same year. Prior to January 10 of each year, Zhongwang PRC and Hong Cheng shall confirm the Trademark Expenses payable by Hong Cheng for the previous year. Hong Cheng shall pay the relevant Trademark Expenses on the day at which both parties confirm such Trademark Expenses. The Trademark Expenses paid by Hong Cheng to Zhongwang PRC for the year ended December 31, 2008 was approximately RMB19.8 million.

It is expected that the Trademark Expenses payable by Hong Cheng to Zhongwang PRC for the three years ending December 31, 2011 will not exceed RMB21.8 million, RMB24.4 million and RMB26.8 million, respectively, and such amounts have accordingly been set as the caps for these Continuing Connected Transactions. The above caps have been prepared by us primarily based on our estimate of our total revenue for each of those periods (which in turn have been estimated by reference in part to the compound annual growth rate of our revenue over the Track Record Period and in part to our estimation of our revenue growth rate for the three years ending December 31, 2011) and our estimate of the total amount of the Trademark Expenses to be incurred (which has been prepared based on the compound annual growth rate of our Trademark Expenses over the Track Record Period) and Hong Cheng's estimate of its total revenue for each of those periods (which is based on the compound annual growth rate of Hong Cheng's revenue over the Track Record Period). Since the products of Hong Cheng have been marketed and sold under the Zhongwang brand, Hong Cheng placed significant reliance on the aforementioned transactions with our Group during the Track Record Period. However, as Hong Cheng will establish its own brand upon the Listing, such reliance will gradually decrease.

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(iii) *Sale of coating powder by Futian Chemical to our Group*

Futian Chemical is our connected person. Futian Chemical is principally engaged in the manufacture and sale of coating powder for metallic surfaces.

During the Track Record Period, Futian Chemical supplied coating powder to our Group for use in the surface processing of our aluminum extrusion products, and our Group's purchases of such coating powder amounted to approximately RMB26.6 million, RMB71.1 million and RMB77.9 million, respectively, representing approximately 0.5%, 1.2% and 1.0%, respectively, of our Group's total cost of sales during such periods. Such consideration was determined based on the relevant market prices charged by Futian Chemical to its Independent Third Party purchasers.

Pursuant to a supply agreement dated April 15, 2009 and entered into between Zhongwang PRC and Futian Chemical, Futian Chemical has agreed that, for a period of three years with effect from January 1, 2009, with respect to any supply of coating powder by Futian Chemical to any member of our Group, such supply will be made at a consideration determined by reference to the then prevailing market price. The term of payment of the consideration and the terms of delivery of the coating powder will be set out in the relevant purchase contracts. Zhongwang PRC and Futian Chemical may agree to settle the consideration in the following manners: (i) payment by Zhongwang PRC to Futian Chemical within one month from the delivery of the coating powder; (ii) prepayment by Zhongwang PRC to Futian Chemical to be made more than one month prior to the delivery of the coating powder; or (iii) payment by Zhongwang PRC assigning the debts owed to it from a third party to Futian Chemical. Except for payment by way of assignment of debts, the consideration shall be settled through bank remittance.

Futian Chemical has agreed that the consideration for the supply of coating powder to any member of our Group will not be higher than the consideration paid to Futian Chemical by any Independent Third Party for the same products during the relevant annual period.

The increase in the purchase of coating powder by our Group from Futian Chemical during the Track Record Period resulted from the increase in the layers of coating on certain of our aluminum extrusion products, especially our aluminum extrusion products for the building construction market which are targeted at the higher-end building construction market, which was the market trend, and we expect that such market trend will continue. For the three years ended December 31, 2008, our aluminum extrusion products that required more than one layer of coating represented approximately 7.0%, 53.0% and 53.0%, respectively, of our total production volume of aluminum extrusion products which required coating powder for surface processing. In view of the significant increase in the production volume of such aluminum extrusion products, we expect that our requirement for coating powder will continue to increase. It is expected that the total consideration payable by our Group for coating powder from Futian Chemical for the three years ending December 31, 2011 will not exceed RMB114.8 million, RMB120.8 million and RMB122.2 million, respectively, and such amounts have accordingly been set as the caps for these Continuing Connected Transactions. The above caps have been prepared by us primarily based on our estimated sale volume of the aluminum extrusion



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products that require surface processing (which in turn have been estimated by reference in part to the compound annual growth rate of the sale volume of such products over the Track Record Period, our estimation of the growth rate of the sale volume for such products over the three years ending December 31, 2011, and in part to our increased sales of aluminum products for the higher-end building construction market which require surface processing and the increase in the layers of the coating on the relevant products) and our estimation of the average unit prices of the coating powder to be purchased by our Group (which has been prepared by reference to the compound annual growth rate of the unit price of coating powder over the Track Record Period). We understand from Futian Chemical that it does not place significant reliance on the Continuing Connected Transactions with our Group.

### **2. Application for waiver**

Based on the consolidated revenue of our Company for the year ended December 31, 2008 and total assets of our Company as of December 31, 2008, and the market capitalization of our Company based on the low-end of the Offer Price range and assuming that the Over-allotment Option will not be exercised, none of the Pre-IPO Share Options will be exercised and no options will be granted under the Share Option Scheme and that no further Shares will be issued or repurchased by our Company, the applicable percentage ratio of each of the transactions referred to in (i) and (ii) under the paragraph headed “Non-exempt continuing connected transactions” above calculated by reference to Rule 14.07 of the Hong Kong Listing Rules will be, on an annual basis, less than 2.5%, and is thus only subject to the reporting and announcement requirements set out in Rule 14A.34(1) of the Hong Kong Listing Rules and the transactions referred to in (iii) under the paragraph headed “Non-exempt continuing connected transactions” above are subject to reporting, announcement and the independent shareholders’ approval requirements set out in Rules 14A.35(3) and (4) of the Hong Kong Listing Rules following the Listing.

The Directors have confirmed that the said non-exempt Continuing Connected Transactions have been, and will continue to be, conducted in the ordinary and usual course of business of our Group on normal commercial terms and on an arm’s length basis in accordance with the pricing arrangements as set out in the relevant written agreements between the connected persons.

With respect to the said non-exempt Continuing Connected Transactions, we have, pursuant to Rule 14A.42(3) of the Hong Kong Listing Rules, applied for and the Hong Kong Stock Exchange has agreed to grant a waiver from strict compliance with the announcement requirement under Rule 14A.47 of the Hong Kong Listing Rules and the independent shareholders’ approval requirement under Rule 14A.48 of the Hong Kong Listing Rules (where applicable).

Apart from the announcement and/or independent shareholders’ approved requirements in respect of which a waiver has been sought, our Company will comply with the provisions in Chapter 14A of the Hong Kong Listing Rules governing continuing connected transaction from time to time.

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### **3. *Opinion of our Directors***

Our Directors (including our independent non-executive Directors) confirm that all the above-mentioned connected transactions have been entered into and are in the ordinary and usual course of business on normal commercial terms, and are fair and reasonable to our Group and are in the interests of our Shareholders as a whole, and the proposed annual caps for the transactions referred to in the paragraph headed “Non-exempt continuing connected transactions” above are fair and reasonable and in the interests of the shareholders of our Company as a whole.

### **4. *Confirmation from the Joint Sponsors***

The Joint Sponsors consider that:

- (i) the above non-exempt Continuing Connected Transactions for which waivers are sought have been entered into and are in the ordinary course of business of our Group on normal commercial terms and are fair and reasonable and in the interest of our Shareholders as a whole; and
- (ii) the proposed annual caps for the above non-exempt continuing connected transactions are fair and reasonable.

### **III. *Independence from our Controlling Shareholder***

Our Group is capable of carrying on our business independently of the Non-Group Businesses. We are engaged in the manufacture and sale of aluminum extrusion products, which is completely different from the Non-Group Businesses. Furthermore, for the reasons set out below, our Directors also consider that we are not reliant on the Non-Group Businesses.

#### **1. *Management team***

All of our executive Directors and senior management are full time officers and employees of our Group, and their expertise (other than the positions of the head of audit, financial and accounting management and capital investment and management) lies in the aluminum extrusion products industry. Each of the executive Directors has also entered into a service contract with our Company for a term of three years.

Our Board comprises ten Directors, of whom five are executive Directors, one is a non-executive Director and four are independent non-executive Directors. The four independent non-executive Directors have extensive experience in different areas or professions and have been appointed pursuant to the requirements under the Hong Kong Listing Rules to ensure that the decisions of the Board are made only after due consideration of independent and impartial opinions.

Our Directors believe that the fact that our Directors have different backgrounds provides a balance of opinion among them. Furthermore, the Board acts collectively by an at least majority decision in accordance with the Articles of Association, and no single Director is allowed to enter into any agreement or transaction or decide on any matters on behalf of the Company unless authorized by the Board or in accordance with the Articles of Association. Save for Mr. Liu who is the chairman of the board of Kong Lung, and Mr. Liu Zhongsuo, a vice president of our Group, who is a director of CC Plastics, there are no other common directors or senior

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management members between the Group and the Non-Group Businesses. Mr. Liu Zhongsuo is the brother of Mr. Liu and was an executive Director from April 3, 2008 to August 1, 2008. Mr. Liu is primarily responsible for our Group's overall strategic planning and policies as well as the overall business management, and Mr. Liu Zhongsuo is responsible for the formulation and execution of our Group's overall sales and marketing. Mr. Liu and Mr. Liu Zhongsuo only participate in the board meetings of Kong Lung and CC Plastics, respectively, and do not actively participate in the day-to-day management and operation of the relevant company.

Under the Articles, Mr. Liu shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or any other proposal in which he or any of his associates has a material interest. He shall also excuse himself from the relevant Board meeting or part of any meeting of the Board and shall not participate in any discussion in respect of any resolution where any contract or arrangement or other proposal in which he or any of his associates has a material interest is discussed or resolved, unless his participation at such meeting of the Board is specifically required by the remaining Directors or as otherwise provided in the Articles. As there are ten members in our Board, even if Mr. Liu is in conflict with respect to any resolution, the remaining Directors, including the four executive Directors who are responsible for the daily operations of our Group, can still attend to and consider the relevant proposal(s) and the operation of our Group will not be affected. Based on the above circumstances and reasons, our Directors are of the view that our Directors and senior management are able to function independently of the Non-Group Businesses.

### **2. Procurement and sales**

Our Group has its own team of procurement staff, which is separate from and independent of those of the Non-Group Businesses. Our Group negotiates and concludes supply contracts independently of the Non-Group Businesses.

As stated in the paragraph headed "II. Continuing connected transactions" above, during the Track Record Period, our purchase of plastic film from Cheng Cheng merely accounted for approximately 0.1%, 0.1% and 0.1% of our Group's total cost of sales during the respective periods, and our purchase of coating powder from Futian Chemical merely accounted for approximately 0.5%, 1.2% and 1.0% of our Group's total cost of sales during the respective periods.

Our Group has its own teams of sales and marketing staff, which are separate from and independent of those of the Non-Group Businesses. Our Group has also appointed our own distributors for the sale of our products. Our Group negotiates and concludes sales contracts independently from the Non-Group Businesses.

As such, we are not reliant on the Non-Group Businesses in the procurement of our raw materials and/or the sale of our products.

### **3. Production facilities**

As we are engaged in the manufacture and sale of aluminum extrusion products, which is completely different from the Non-Group Businesses, our production facilities and our management and staff involved in the manufacture of aluminum extrusion products are separate from and independent of those of the Non-Group Businesses.

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### **4. Financial resources**

As at the end of each of the periods within the Track Record Period, the amount of bank borrowings of the Group which were secured by the assets of and/or guaranteed by the Non-Group Businesses was approximately RMB1,017.0 million, RMB1,046.3 million and nil, respectively. As of the Latest Practicable Date, all amounts due from/to related parties (other than those which are of trading nature) had been fully settled. Our Directors have confirmed that the amounts due from/to related parties which are of trading nature will be settled in accordance with the relevant credit terms, which are no more favorable than those granted to Independent Third Parties. Our Directors have also confirmed that all the guarantees and/or security to/from our Group by/to our Controlling Shareholder Group or any related parties have been released.

### **IV. Non-competition undertaking**

On April 17, 2009, Mr. Liu entered into a non-competition deed with our Company under which Mr. Liu has undertaken (for itself and as trustee for the benefit of its subsidiaries from time to time) that he will not, and will procure that his associates (other than members of our Group) will not:

- (a) directly or indirectly whether as principal or agent or through any person, firm, company or organization carry on, participate or be interested or engaged in any business in any form or manner that is, directly or indirectly, in competition with or is likely to be in competition with the business of any member of our Group in the PRC, Hong Kong or any part of the world in which any member of our Group may from time to time operate;
- (b) directly or indirectly, solicit, interfere with or entice away from any member of our Group any person, firm, company or organization who, to Mr. Liu's knowledge, as at the date of the deed, was or had been or would after the date of the deed be, a customer, supplier, distributor or management, technical staff or employees (of managerial grade or above) of any member of our Group; and
- (c) will not exploit his or its knowledge or information obtained from our Group to compete, directly or indirectly, with the business carried on by our Group from time to time.

The above undertakings are subject to the following exceptions:

- (i) Mr. Liu and/or his associates are entitled to invest, participate and be engaged in any activity as mentioned in paragraphs (a) to (c) above ("Restricted Activity"), regardless of value, which has first been offered or made available to our Group, provided always that (i) information about the principal terms thereof has been disclosed to our Company and our Company has, after review and based on the opinion of the independent non-executive Directors, confirmed that it does not wish to be involved or engaged, or to participate, in the relevant Restricted Activity and such decision is publicly announced by our Company setting out the reasons for not taking up the business opportunity, and (ii) the principal terms on which Mr. Liu and/or his associate(s) invest, participate or engage in the Restricted Activities are substantially the same as or not more favorable than those disclosed to our Company. Subject to the aforesaid, if Mr. Liu and/or his associate(s) (as the case may be) decide to be involved, engaged, or participate in the relevant Restricted Activity, whether directly or indirectly, the terms of such involvement, engagement or participation must be disclosed to our Company as soon as practicable but in any event before any binding commitment is entered into by Mr. Liu and/or his associate(s) (as the case may be); and

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- (ii) the above undertakings do not apply to the holding of or interests in shares or other securities in any company which conducts or is engaged in any Restricted Activity, provided that, in the case of such shares, they are listed on a stock exchange and either:
  - (a) the relevant Restricted Activity and assets relating thereto account for less than 10% of the relevant company's consolidated turnover and consolidated assets, respectively, as shown in that company's latest audited consolidated accounts; or
  - (b) the total number of shares held by Mr. Liu and his associates (as the case may be) or in which they are together interested does not amount to more than 10% of the issued shares of the company in question, provided that Mr. Liu and his associates, whether acting singly or jointly, are not entitled to appoint a majority of the directors of that company and that at all times there is a holder of such shares holding (together, where appropriate, with its associates) a larger percentage of the shares in question than Mr. Liu and his associates together hold.

Mr. Liu has also undertaken to provide an annual confirmation to the Company confirming that he and his associates have not breached the terms of the non-competition undertaking and to provide all information necessary for the annual review by the independent non-executive Directors (if they so require) for the enforcement of the non-competition deed.

In addition to the non-competition deed, the following measures will be adopted by our Company in respect of the enforceability of the non-competition deed:

- (i) the independent non-executive Directors will review, on a semi-annual basis, the compliance of the non-competition deed; and
- (ii) the Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the non-competition deed in interim and annual reports of the Company.

Further, any transaction that is proposed between the Group and the Controlling Shareholder Group will be required to comply with the requirements of the Hong Kong Listing Rules, including, where applicable, the announcement, reporting and independent shareholders' approval requirements.

Additionally, our Company will adopt the following measures to handle potential competition and conflict of interests (if any) arising from the businesses of and connected transactions with the Controlling Shareholder and his associates:

- (i) to review products of our Group against those of the Controlling Shareholder Group every six months by the independent non-executive Directors in order to consider whether the products of our Group and the Controlling Shareholder Group during the relevant period are of a similar nature;
- (ii) to hold regular meetings between the independent non-executive Directors and the Controlling Shareholder Group to review our Group's business and the Controlling Shareholder Group's businesses in order to prevent potential competition;
- (iii) to provide reports concerning the continuing connected transactions by our internal audit department to our corporate governance committee for review every six months;

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- (iv) in the event that the corporate governance committee becomes aware of and reports any event relating to potential competition or conflict of interests arising from the businesses of and continuing connected transactions with the Controlling Shareholder and his associates, the Board will hold a management meeting to review and evaluate the implications and risk exposures of such event and the compliance of the Hong Kong Listing Rules in order to monitor any irregular business activities and alert the Board, including the independent non-executive Directors, to take any precautionary actions, including the enforcement of the non-competition deed, if necessary; and
- (v) in the event that there is any conflict of interest from the businesses of and continuing connected transactions with the Controlling Shareholder and his associates, the interested Directors would, according to our Articles of Association, be required to declare his/her interest and if necessary, to abstain from participating in the relevant board meeting and voting on the transaction, details of which are set out in the paragraph headed "Corporate Governance Measures" in this section below.

### CORPORATE GOVERNANCE MEASURES

Our Directors believe that there are adequate corporate governance measures in place to manage existing and potential competition and conflicts of interest (if any) between our Group, the Controlling Shareholder and our Directors including:

- (i) Our Articles of Association provide that, unless otherwise provided therein, a Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or any other proposal in which he/she or any of his/her associates has a material interest as stipulated under the Hong Kong Listing Rules. In addition, our Articles of Association also provide that, except otherwise provided therein, any such Director shall excuse himself/herself from any meeting or part of any meeting of the Board and shall not participate in any discussion in respect of any resolution where any contract or arrangement or other proposal in which he/she or any of his/her associates has a material interest is discussed or resolved, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by the remaining Directors.
- (ii) The board composition of our Company is well balanced with five executive Directors and five non-executive Directors (including four independent non-executive Directors) so that there is a strong element on the Board which can effectively exercise independent judgement and decision making. All the non-executive and independent non-executive Directors have extensive experience in their respective professional/business fields and, with the assistance of the executive Directors, who are responsible for the daily management of our Company, have the ability and necessary expertise to consider and form independent judgement in the event of conflicts of interest between our Group and the Controlling Shareholder.
- (iii) Our Group operates independently from the Non-Group Businesses. We have our own company secretary, authorized representatives and administrative personnel.
- (iv) Specific corporate governance measures have been put in place in respect of enforcement of the non-competition undertaking given by Mr. Liu above and the potential competition with the Controlling Shareholder Group.