
RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Global Offering, SSCP, together with its wholly-owned subsidiary SBHK, and its controlled entity, Humble Humanity, will collectively hold 14,035,000 Shares, representing approximately 70.51% of our issued share capital. Accordingly, SSCP, SBHK and Humble Humanity are our Controlling Shareholders.

SSCP is a company incorporated in Korea in 1973, whose shares have been listed on the KOSDAQ since October 2005.

It has been the SSCP Group's and our Group's development plan that each shall focus on its respective specialized and designated business sectors to avoid direct competition. The main focus of SSCP's principal business includes: manufacture and sales of information technology electronics; next generation light source products and other optical components; the development of its own IT material technology; magnesium casting and spray application; and production of saturated polyester resins. SSCP's principal businesses are distinctive from the coatings business carried out by our Group. On the other hand, our Group would take lead in managing and operating the coatings business independently from the SSCP Group.

To this end, as part of the Reorganisation, SSCP has injected its principal coatings businesses into our Group by transferring the PRC Subsidiaries and Schramm Thailand to us, with the exclusion of the SSCP Retained Business (as defined below) which in our opinion, does not pose a material threat to our business. The injection of the PRC Facilities and the Thailand Facilities into our Group has greatly expanded our global reach in support of our multinational customers. Through our reputable and well established brand name of "Schramm", we have developed our business in the coatings industry in the Asian market with our more advanced and environmentally friendly technologies (such as water-borne technology, powder coatings and coil coatings), particularly in the automotive industry.

After our acquisitions of the PRC Subsidiaries and Schramm Thailand, SSCP has only retained a minor portion of its coatings-related business, being the manufacture and sales of coatings products for applications on (i) mobile handsets and consumer electronics solely in Korea; and (ii) leather products (the "**SSCP Retained Business**"). Coatings products for applications on leather products are distinctive categories of products that our Group does not currently engage in. Our Group's major business focus in Korea is automotive coatings and we do not carry on any general industry coatings (comprising mobile handsets or consumer electronics) business in Korea. Therefore, we derived no revenue or profit from general industry coatings business in Korea during the Track Record Period. To the Directors' best knowledge and based on the unaudited management accounts of SSCP Group for the financial year ended 2008, the sales and operating income attributable to the mobile and consumer electronic coatings business of SSCP Group amounted to approximately KRW41,004 million (approximately HK\$241.92 million) and approximately KRW5,563 million (approximately HK\$32.82 million) respectively, representing approximately 21.2% and 39.6% to SSCP Group's total sales and operating income. Based on our Directors' estimate, for the financial year ended 2008, our sales and net income attributable to our global mobile and consumer electronic coating business amounted to approximately €16.5 million and approximately €1.8 million respectively, representing

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approximately 17.6% and 31% to our total sales and net income. To our Directors' best knowledge, SSCP currently only provides its coatings products to multinational mobile handset and consumer electronic set-makers located in Korea, and it does not export these coatings products outside of Korea.

Many of our Group's major customers in the mobile handset and consumer electronic coatings sectors are large multinational manufacturers which cross-produce and cross-market their products across different countries and markets. In view of their global presence, these multinational clients may demand for coating products in various regions where their central and regional production sites are located. Albeit that our Group's and SSCP Group's mobile handset and consumer electronic coating businesses are differentiated from each other and targeted at different regions, with SSCP Group serving only mobile handset builders in Korea and our Group targeting other customers in regions outside Korea, both our Group and the SSCP Group may end up providing coatings products to the same group of multinational manufacturers. The SSCP Group's business in coatings products for applications on mobile handsets and consumer electronics in Korea may therefore, to a certain extent, overlap with our Group's business of coating products for general industry in markets outside of Korea.

However, the potential competition in relation to the multinational customers is unlikely to have a material impact on our Group. Based on our Directors' estimate, the amount of revenue and net profit attributable to our Group's sales to these multinational manufacturers for the mobile and consumer electronic coating business for the financial year ended 2008 were €13.9 million and €1.4 million respectively, representing approximately 14.8% and 24.3% to our Group's total sales and net profit. Given that our Group and SSCP Group are focusing on different markets, we are not in direct competition with each other for the entire sales to the multinational manufacturers. We have set up various sales offices and production facilities geographically close to the production sites of the multinational customers in order to provide them ready access and to shorten production lead-time, whereas the SSCP Group only has its offices and facilities located in Korea. As an increasing number of our Group's customers and end-users (including its Korean customers) relocate their main productions to China and place orders directly with local production facilities which locate closely to their production base, our Group expects that orders placed directly with the PRC Facilities to increase following the relocation of such customers. Given the extensive production and sales networks our Group has established for our general industry coatings (including Europe, China, Thailand and Japan), our Directors do not expect the indirect competition brought by SSCP's mobile handsets or consumer electronics business in Korea to have a material impact on our Group's business. Furthermore, it is a mutual understanding between our Group and SSCP that other than the SSCP Retained Business, SSCP would not carry out other coatings businesses nor expand into other markets. Accordingly, SSCP Group has executed the Deed of Non-competition pursuant to which it has undertaken to confine its coatings business to its current operations, and not to expand into other markets in which our Group carries on business. On the other hand, there is no restriction on the part of our Group to carry on our coatings business in any part of the world.

The SSCP Retained Business (including the coatings production facilities of SSCP in Korea) were not transferred to our Group as part of the Reorganisation, as after taking into account the financial resources of our Group, our Directors consider that it may not be commercially reasonable for our Group to acquire the SSCP Retained Business prior to the Listing. Given that increasing

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numbers of multinational customers have relocated their main production plants to China, our Directors consider that the arrangement of retaining the Korean production facilities with SSCP allows our Group to focus on our PRC production bases and retain our financial resources for future business opportunities should and when they arise. SSCP, SBHK, Humble Humanity and Mr Oh have also granted us a right of first refusal in relation to the SSCP Retained Business. Please refer to the paragraph “Non-competition Undertaking” in this section. Given that the SSCP Retained Business can be clearly differentiated from our Group’s business, and our Directors do not consider the SSCP Retained Business poses a material competitive threat to our business, our Group has neither immediate needs nor imminent plans to acquire the Korean production facilities and the SSCP Retained Business.

NON-COMPETITION UNDERTAKING

SSCP, SBHK, Humble Humanity and Mr Oh (collectively the “**Covenantors**”) have entered into a Deed of Non-competition in favour of our Company, pursuant to which each of the Covenantors has undertaken to our Company (for ourselves and for the benefit of our subsidiaries) that (a) it shall not, and shall procure that its associates (other than our Group) shall not, during the restricted period set out below, directly or indirectly, either on its own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in any business or acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) business which is or may be in competition with the business (“**Business**”) of any member of our Group from time to time (the “**Restricted Activity**”) and (b) in the event that any of the Covenantors intends to transfer the whole or part of the SSCP Retained Business (including the coating production facilities of SSCP in Korea) to any third parties, we have the right of first refusal to acquire the same on terms and conditions no less favourable than those offered to the third party, provided that there shall be no restriction on any of them holding or being interested in shares or other securities in any company which conducts or is engaged in any Restricted Activity (the “**Subject Company**”) if:

- (i) such shares or securities are listed on a stock exchange and the aggregate number of shares held by the Covenantors and/or their associates does not exceed 5% of the issued share capital of the Subject Company and that there is a holder (together where appropriate, with its associates) holding a larger shareholding in the Subject Company than the aggregate shareholding held by such Covenantor and/or its associates at all times; and
- (ii) they shall not appoint directly or indirectly any executive director in the Subject Company.

The Deed of Non-competition does not prohibit SSCP and its relevant subsidiaries from carrying on the SSCP Retained Business being carried by the respective member of SSCP Group as at the date of the Deed of Non-competition.

The Covenantors further undertake that if any of the Covenantors and/or their respective associates receive any business investment or other business opportunities in relation to the Restricted Activity (the “**New Opportunities**”), they shall refer such New Opportunities to our Company first on a timely basis and shall give written notice to our Company of the New Opportunities identifying the

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target company (if relevant) and the nature of the New Opportunities and detailing all information reasonably necessary for our Company to consider whether to pursue the New Opportunities (including details of any investment or acquisition costs and the contact details of the third party offering, proposing or presenting the New Opportunities to it).

Our Company shall seek approval from our Management Board as to whether to pursue or decline the New Opportunities and will inform the Covenantors accordingly. If any member of our Management Board has an actual or potential material interest in the New Opportunities, the approval of our Management Board shall be subject to approval by our Independent Supervisors. If our Company declines to pursue the New Opportunities or fails to notify the Covenantors of our decision, the Covenantors shall be entitled to but shall not be obliged to pursue the New Opportunities.

The Deed of Non-competition also provides that:

- (i) our Independent Supervisors shall review, at least on an annual basis, the compliance with the Deed of Non-competition by the Covenantors and the right of first refusal in respect of the SSCP Retained Business and the New Opportunities provided by the Covenantors on their existing or future competing businesses;
- (ii) upon request, the Covenantors shall, and shall procure their respective associates to, provide all information necessary for the review by our Independent Supervisors and the enforcement of the Deed of Non-competition;
- (iii) our Company shall disclose decisions on matters reviewed by our Independent Supervisors relating to the compliance and enforcement of the Deed of Non-competition (including the exercise of the first right of refusal) through the annual report or by way of announcements to the public;
- (iv) the Covenantors shall make declaration(s) on compliance with the Deed of Non-competition in accordance with the requirements under appendix 14 (Code of Corporate Governance) and appendix 23 (Corporate Governance Report) to the Listing Rules; and
- (v) the Covenantors shall abstain from voting at any general meeting of our Company if there is any actual or potential conflict of interest.

The Deed of Non-competition will take effect upon Listing, and shall continue until such date on which:

- (i) the Shares cease to be listed on the Stock Exchange; and
- (ii) the Covenantors and their associates whether individually or, collectively, cease to be entitled to exercise or control the exercise of not less than 30% of the voting power at general meetings of our Company.

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APPROVAL OF SSCP REGARDING THE LISTING

We were advised by our Korean legal adviser that the Listing could be deemed a material event relating to SSCP's business management, which in turn would require an approval from SSCP's board of directors. Nonetheless, under the listing requirements of Korea Exchange, SSCP is not required to report the Listing with the securities authorities in Korea or to make any disclosure or announcement to the public in Korea regarding the Listing. There are no statutory or regulatory requirements under Korean securities laws and/or regulations of Korea Exchange applicable to SSCP that would affect the Listing or that would subject our Company to any disclosure requirements or shareholders' approval requirements in relation to the Listing.

We were advised by our Korean legal adviser that the execution of the Deed of Non-competition has been approved by the board of SSCP and the execution of the same does not require the approval of the shareholders of SSCP or any governmental authorities in Korea.

As advised by our Korean legal adviser, under the applicable KOSDAQ rules, SSCP's financial reporting is required to be prepared in accordance with Korean GAAP instead of IFRS. SSCP is subject to certain financial disclosure requirements under KOSDAQ rules, including annual reporting, interim reporting and quarterly reporting of its financial information. To ensure simultaneous release of our Group's confidential and financial information pursuant to Rule 13.09 of the Listing Rules, SSCP shall notify our Group prior to making any announcement or disclosure in respect of our Group's confidential information, and such information will be released in Hong Kong at the same time it is released in KOSDAQ. To the extent that our Group's quarterly financial results are required to be provided to and disclosed by SSCP pursuant to the applicable KOSDAQ rules, we will ensure that the same information will be announced simultaneously in Hong Kong.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

We believe our Group is capable of carrying on our business independently of our Controlling Shareholders following the Listing for the following reasons:

Management Independence

Our Management Board consists of three Directors who shall devote full time and capacity to our Group's business. All of them are independent from our Controlling Shareholder, SSCP and currently hold no interest or any position in SSCP.

Some of our Supervisors (other than the Independent Supervisors) may have certain connection with SSCP or Mr Oh. Mr Oh is the chief executive officer and a shareholder of SSCP holding approximately 15.45% of its interest. Mr Chang Suk Whan is a former chief executive officer of Qunno Metal Technology Inc., a company owned as to approximately 57% by Mr Oh, and is one of the suppliers of our Group. Mr Koo Jeong Ghi is the head of the electronic material business unit of SSCP, where he is responsible for overseeing the operations and development of its electronic material business unit. Under German laws, the roles of the supervisory board are to supervise and monitor the management board. The supervisory board supervises and advises the members of the management board on decisions of fundamental importance to the AG, but it does not actively take part in the

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management decisions of the AG. Furthermore, as set out in the section head “Supervisory Board and Independent Supervisors” in this prospectus, the principal duties and obligations specific to independent non-executive directors provided under the Listing Rules will be assumed by our Independent Supervisors. In this regard, our Directors consider that the relationship of Mr Oh, Mr Chang and Mr Koo (who are not Independent Supervisors) with SSCP will not significantly affect the management independence of our Company. Notwithstanding their connection with our Controlling Shareholders, each of our Supervisors is aware of his fiduciary duties as a Supervisor, which require, among other things, that he acts for the benefit and in the best interests of our Company, and does not allow any conflict between his duties as a Supervisor and his personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Supervisors or their respective associates, the interested Supervisors shall abstain from voting at the relevant Supervisory Board meetings in respect of such transactions and shall not be counted in the quorum. German law also requires supervisors to abstain from voting in such case of a conflict of interest. In specific circumstances, a supervisory board may pass a resolution to remove an interested member from the meeting. Pursuant to the internal rules of our Supervisory Board, our Supervisory Board may pass a resolution to require Supervisor with conflict of interest to be absent from the meeting.

In addition, we have an independent senior management team able to carry out the business decisions of our Group independently. Our organisational structure is made up of individual departments, each with specific areas of responsibility. Having considered the above factors, our Directors and Supervisors are satisfied that our management team is capable of managing our business independently from our Controlling Shareholders.

Operational Independence

Although our Controlling Shareholders will retain a controlling interest in our Company after the Global Offering, our Management Board has full rights to make all decisions on, and to carry out our own business operations independent from, our Controlling Shareholders. In order to benefit from SSCP’s expertise in the coatings industry, we have entered into (i) the toll manufacturing agreement for contracting SSCP to manufacture certain goods which are sold to our customers in Korea; (ii) the master purchase agreement for the purchase of certain raw materials, commodities and intermediary products from SSCP Group; (iii) the master sales agreement for the supply of certain raw materials, commodities, intermediary products and our coatings products to SSCP Group and the sale of our coatings products to Tianjin M&C, a wholly-owned subsidiary of SSCP; (iv) the SAP license agreements for the sub-license of user rights of SAP platform from SSCP; and (v) the lease for leasing of two office spaces in Korea from SSCP. For details of the connected transactions of our Group after the Listing, please refer to the section headed “Connected Transactions” in this prospectus. The connected transactions between SSCP Group and our Group were entered into in the ordinary course of business of our Group and on normal commercial terms, the basis of which was determined through arm’s length negotiations between the relevant parties.

The coating products supplied by the SSCP Group to our Group pursuant to the toll manufacturing arrangement for the financial year ended 2008 amounted to approximately €7,480,000. Given that our Group’s total sales in Korea only represented approximately 9.17% of our total sales for the financial year 2008, our Directors do not consider the business operations in Korea and the

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revenue and profit derived therefrom as significant to our operation. Furthermore, since the historical transaction amount for the purchase of coatings products from SSCP by our Group under the toll manufacturing arrangement represented only approximately 14.08% of our total cost of materials for the financial year 2008, our Directors do not consider there to be a significant level of operational reliance on SSCP taken into account our Group's global business presence. The proposed annual cap amounts of our toll manufacturing arrangement are comparable to the historical transactions amounts with an expected total increment of not more than 7% for three financial years (comparing the cap amount for 2011 to the transaction amount for 2008), our Directors consider that such proposed cap amounts are fair and reasonable, and our Group will continue to operate independently from SSCP Group notwithstanding the toll manufacturing arrangement. While SSCP was our largest supplier by value in 2008 primarily due to the toll manufacturing arrangement, as the purposes of entering into such connected transactions were mainly for administrative convenience and minimising our capital investment cost in construction of our own production facilities in Korea, our Directors do not foresee, in the event that any of the connected transactions with SSCP Group is terminated after Listing, any difficulties in entering into similar transactions with Independent Third Parties.

Each of our Controlling Shareholders, including SSCP, has entered into the Deed of Non-competition in favour of our Company to eliminate potential competing business between our Controlling Shareholders and our Group, and to ensure our Group retain business operational independence.

Moreover, we have independent access to our customers and suppliers who are Independent Third Parties. We have internal control procedures to facilitate the effective and independent operation of our business. For procuring new customers, we have established our own sales teams which are led by our senior management independent of our Controlling Shareholders and we have set up our own marketing and sales offices in key regions such as Shanghai, Huizhou, Taiwan and Korea, which are operated independently from our Controlling Shareholders.

Financial Independence

Our Group has our own accounting and finance department and independent financial system. We also employ our own financial management personnel who are independent from our Controlling Shareholders. We make our financial decisions independently according to our own business needs and there are established financial management rules addressed to financial matters of our members. All guarantees or financial assistance provided by our Controlling Shareholders to or for the benefit of our Group will be released before the Listing.