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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Global Offering and the Capitalisation Issue and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme, our Company will be owned as to approximately 38.25%, 18.75%, 15% and 3% by Hu Zheng Investment, Hu Hancheng Investment, Hu Hanchao Investment and Hu Hanxiang Investment respectively. Hu Zheng Investment, Hu Hancheng Investment, Hu Hanchao Investment and Hu Hanxiang Investment are investment holding vehicles wholly owned by the Hu Brothers, i.e. Mr. Hu Zheng, Mr. Hu Hancheng, Mr. Hu Hanchao and Mr. Hu Hanxiang, respectively. As Hu Zheng Investment, Hu Hancheng Investment, Hu Hanchao Investment, Hu Hanxiang Investment, Mr. Hu Zheng, Mr. Hu Hancheng, Mr. Hu Hanchao and Mr. Hu Hanxiang are, directly or indirectly, individually or together with the others, entitled to exercise or control the exercise of 30% or more of the voting power at general meetings of our Company, each of Hu Zheng Investment, Hu Hancheng Investment, Hu Hanchao Investment, Hu Hanxiang Investment, Mr. Hu Zheng, Mr. Hu Hancheng, Mr. Hu Hanchao and Mr. Hu Hanxiang will be regarded as our Controlling Shareholder under the Listing Rules immediately following the Listing.

Mr. Hu Zheng, who is the Chairman of the Board, an executive Director and the ultimate largest Shareholder immediately prior to completion of the Global Offering and the Capitalisation Issue, was brought up in the PRC. Up to the Latest Practicable Date, except for his being a vice president of the China Packaging Federation, one of the national industry federations established with the approval by the State Council, and was working as a technician and an assistant engineer of a Stated-owned paper factory from 1983 to 1990, Mr. Hu Zheng had not been a full time government official of any country nor had he been a full time employee of any state or government-owned or operated entity for a substantial period of time.

### RETAINED BUSINESSES OF OUR CONTROLLING SHAREHOLDERS

Apart from our Group, the Hu Brothers own Zheng Ye Group and Zhong Fa Equipment, which were principally engaged in the premises leasing businesses and equipment leasing business respectively in the PRC as at the Latest Practicable Date. As at the Latest Practicable Date, Zheng Ye Group and Zhong Fa Equipment were owned by the Hu Brothers as follows:

<b>Zheng Ye Group</b>	
Mr. Hu Zheng	51%
Mr. Hu Hancheng	25%
Mr. Hu Hanchao	20%
Mr. Hu Hanxiang	4%

  

<b>Zhong Fa Equipment</b>	
Mr. Hu Hanchao	20%
Zheng Ye Group	80%

As at the Latest Practicable Date, the equipments leased by Zhong Fa Equipment comprised cars and trucks, all of which were leased to our Group.

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Our Directors are of the view that the equipment and premises leasing businesses of our Controlling Shareholders are distinctly different from, and do not compete, directly or indirectly, with those of our Group. Accordingly, the equipment and premises leasing businesses of our Controlling Shareholders were not injected into our Group as part of the Reorganisation.

Save as mentioned above, none of our Controlling Shareholders and our Directors or their respective associates are engaged in any business that, directly or indirectly, competes or may compete with the businesses of our Group.

### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors consider that our Group is capable of carrying on our business independent of our Controlling Shareholders and their respective associates following the Listing:

#### **Operational independence**

All of our operating subsidiaries hold all relevant licenses that are material in relation to our business operations in their own names. We have sufficient operation capacity in terms of capital, plants and machineries, equipments, facilities, premises and employees to operate our business independently. We maintain good business relationship with our suppliers for the supply of our principal raw materials and purchase a large proportion of our principal raw materials from our suppliers directly and we are not dependent on any of our Controlling Shareholders or their respective associates for the supply of our principal raw materials and access to our customers.

Our Group leased from Zheng Ye Group certain premises as its production sites and ancillary facilities as more particularly referred to under the paragraph headed “Our leasing of premises from Zheng Ye Group” in the section headed “Connected transactions” in this prospectus. As at 31 December 2007, 31 December 2008, 31 December 2009, 30 September 2010 and the Latest Practicable Date, approximately 25.6%, 24.4%, 24.4%, 24.4% and 21.6% respectively of our Group’s premises were leased from our Controlling Shareholders or their associates. Given that (a) the rents payable by our Group under these leases are consistent with the prevailing market rents for similar premises at similar locations; (b) our Group has the right to effect an early termination of these leases and to renew these leases at our option upon expiry of their respective original terms; and (c) there are similar premises available in the vicinity, our Directors do not consider that our Group place undue reliance on the Controlling Shareholders in this regard.

#### **Financial independence**

At present, our Company has established an internal control system and a financial department that operate independently. We have also set up an independent accounting and auditing system and a financial management system to make financial decisions independently. Our Company also has independent bank accounts and does not share any bank accounts or loan (or credit) facilities with any of our Controlling Shareholders or their respective associates. Our Company has a good record in obtaining banking or credit facilities and we believe we are capable of obtaining financing from third parties without reliance upon any of our Controlling Shareholders or their respective associates.

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As at 30 September 2010, our Group had available banking facilities for an aggregate principal amount of RMB494.1 million. These banking facilities were secured by, among others, guarantees of, and charges over properties owned by, certain of the Controlling Shareholders and their respective associates. Each of the relevant banks has given its consent in principle to release all these guarantees and charges upon the Listing. On that basis, the Directors are of the view that our Group does not place undue reliance on the Controlling Shareholders or any party by virtue of the provision of financial assistance.

### **Management independence**

Our Board comprises three executive Directors, one non-executive Director and three independent non-executive Directors. Although all of our executive Directors are also our Controlling Shareholders, our Directors are of the view that we have and can maintain management independence as:

- Our Group's management, operation and affairs are headed, managed and supervised independently by our Board and not by any individual Director. The decisions of our Board are made by our Directors as a collective body and objectively in the interests of our Shareholders. In view of the fiduciary duties imposed on each of our Directors as a director of our Company, which require, among other things, that he acts for the benefit and in the best interests of our Company and not for his personal interest, no individual Director can alone make any decision for and on behalf of our Board for his personal interest. Any view of a Director will be checked and balanced by the view of other members of our Board.
- Pursuant to the terms of the service contracts entered into with between our Company and our executive Directors, every executive Director is required to devote substantially the whole of his time, attention and abilities during normal business hours and such additional hours as may reasonably be requisite to our Group.
- In the event that there is a potential conflict of interest in or arising out of any transaction to be considered and approved by our Board, the interested Director(s) shall abstain from voting at the relevant meeting of our Board considering and approving such transaction and shall not be counted towards the quorum of such Board meeting unless this is otherwise permitted under the Bye-Laws and/or the Listing Rules.
- Under the Bye-Laws and the Listing Rules, our Directors must abstain from voting on any resolutions of our Board in respect of any contracts or arrangements in which they or any of their respective associates have a material interest and shall not be counted towards the quorum of the such Board meeting.
- We have three independent non-executive Directors, who are not associated with any of our Controlling Shareholders or their respective associates. Resolutions of our Board approving any matters in which any of our executive Directors has a potential conflict of interest and/or material interest will, for so long as all of our executive Directors are also our Controlling Shareholders and are brothers of the others, only be considered and approved by our independent non-executive Directors (as under the provision of our Bye-Laws and the Listing Rules, our executive Directors will then be prohibited from voting on the resolutions and will not be counted towards the quorum of the relevant Board meetings at which the relevant resolutions are

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approved). The independence of our Board's decisions in respect of any matters in which any of our executive Directors has a potential conflict of interest and/or material interest is and can be ensured.

- Although none of our independent non-executive Directors have previously been acting as or involved as directors or senior management of companies engaged in the paper packaging industry, they do have basic knowledge and understanding of the industry in which we are operating. In compliance with the Listing Rules, we have provided comprehensive formal and tailored induction to our independent non-executive Directors and will continue to provide them with such briefing as is necessary to ensure that they have a proper understanding of the operations and business of our Group for the purposes of discharging their duties as independent non-executive Directors as well as to vote on resolutions proposed by our Board in relation to matters on which all our executive Directors are required to abstain from voting whether under the Listing Rules or the Bye-Laws. On the bases of the comprehensive induction course that has been provided and continues to be provided to our independent non-executive Directors as is necessary and the access to professional advice of our independent non-executive Directors from time to time, our Directors and the Sole Sponsor are of the view that our Board can function properly in case all our executive Directors are required to abstain from voting on matters to be considered at meeting of our Board in which our executive Directors have potential conflict of interest and/or material interest.
- Our Board is assisted and supported by our senior management in the discharge of its role. Our senior management is responsible for the daily management and operations of our Group and the implementation of the business plan and strategy as laid down by our Board. The day-to-day management and operations of our Group are managed and operated independently from our Controlling Shareholders and their respective associates.