
CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS

During the Track Record Period, our Group had entered into a number of transactions with counterparties who will become connected persons (as defined in Chapter 14A of the Listing Rules) of our Company immediately upon the Listing. These transactions will continue after the Listing on a continuing or recurring basis and will therefore constitute continuing connected transactions for our Company under the Listing Rules.

Depending on the size of each individual transaction, these transactions will fall into either one of the following two categories immediately upon the Listing:

- (1) continuing connected transaction which is not subject to the reporting, announcement and independent shareholders' requirements under Chapter 14A of the Listing Rules; or
- (2) continuing connected transaction which is subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

These transactions have been conducted, and will be carried out in the ordinary and usual course of business of our Group, and on normal commercial terms which are fair and reasonable as the Shareholders are concerned. Details of these transactions are set out below.

NOT SUBJECT TO THE REPORTING, ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS UNDER CHAPTER 14A OF THE LISTING RULES

Our leasing of cars and trucks from Zhong Fa Equipment

Background, reason for the transaction and transaction terms

During the Track Record Period, certain cars and trucks used for our operation were leased from Zhong Fa Equipment as part of our trucks fleets for the purpose of delivering our goods and providing delivery services for our customers. These transactions will continue immediately after the Listing. The principal terms of the current car and trucks rental agreement dated 22 November 2010 made between Zhong Fa Equipment as lessor and Yong Fa Paper as lessee is for a term of three years commencing from 1 January 2011 to 31 December 2013 at the monthly rates of RMB1,000 per car and RMB1,500 per truck payable monthly. The car and trucks rental agreement can be termination by mutual agreement between the parties or by Yong Fa Paper giving not less than 30 days' written notice to Zhong Fa Equipment to that effect. Zhong Fa Equipment was principally engaged in the equipment leasing business in the PRC as at the Latest Practicable Date.

Historical transaction amounts

The rentals paid by us to Zhong Fa Equipment in respect of the car and trucks leasing during the Track Record Period are as follows:

	Year ended 31 December		
2008	2009	2010	
<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	
198,000	198,000	198,000	

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Listing Rules' implications

Zhong Fa Equipment is an 80% owned subsidiary of Zheng Ye Group, which is in turn beneficially owned by Mr. Hu Zheng, Mr. Hu Hancheng, Mr. Hu Hanchao and Mr. Hu Hanxiang, who are all our Directors, by 51%, 25%, 20% and 4% respectively. The remaining 20% interest in Zhong Fa Equipment is owned by Mr. Hu Hanchao. Zhong Fa Equipment is therefore our Connected Person according to Rules 1.01 and 14A.11 of the Listing Rules. The transactions contemplated under the car and trucks rental agreement will, immediately following the Listing, constitute our continuing connected transaction.

On the basis that each of the percentage ratios (other than the profits ratio) on an annual basis is less than 5% and the annual consideration is less than HK\$1,000,000, the transactions contemplated under the car and trucks rental agreement will not be subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

SUBJECT TO REPORTING AND ANNOUNCEMENT REQUIREMENTS UNDER CHAPTER 14A OF THE LISTING RULES

Our leasing of premises from Zheng Ye Group

Background, reason for the transaction and transaction terms

During the Track Record Period, we leased premises at Dongcheng Road, Dongsheng Town, Zhongshan City, Guangdong Province, the PRC from Zheng Ye Group as part of our production sites and ancillary facilities. These transactions will continue after the Listing for the purposes of providing us with premises as part of our production sites. Zheng Ye Group was principally engaged in the premises leasing business in the PRC as at the Latest Practicable Date.

The dates and the principal terms of the three tenancy agreements (the “**Tenancy Agreements**”) entered into between Zheng Ye Group as landlord and Zheng Ye Packaging (Zhongshan) as tenant in respect of the letting (the “**Premises Leasing**”) of the premises (the “**Premises**”) are as follows:

- Date and subject matter of each tenancy agreement:
 - Tenancy agreement dated 1 January 2010 (as supplemented by two tenancy supplemental agreements dated 30 June 2010 and 3 July 2010) (the “**First Tenancy Agreement**”) in relation to the letting of premises located at Dongcheng Road, Dongshen Town, Zhongshan City, Guangdong Province, the PRC for use as our production site with a total gross floor area of approximately 36,475 sq.m..
 - Tenancy agreement dated 28 September 2010 (the “**Second Tenancy Agreement**”) in relation to the letting of premises located at No. 126 Dongcheng Road, Dongshen Town, Zhongshan City, Guangdong Province, the PRC for use as our production site with a total gross floor area of approximately 7,824 sq.m..
 - Tenancy agreement dated 28 September 2010 (the “**Third Tenancy Agreement**”) in relation to the letting of premises located at Nos. 119 and 126 Dongcheng Road, Dongshen Town, Zhongshan City, Guangdong Province, the PRC for use as our workshop and canteen respective site with total gross floor areas of approximately 2,622 sq.m. and 304 sq.m. respectively.

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- Period:
 - The First Tenancy Agreement: for an original term of one year from 1 January 2010 to 31 December 2010 which was extended for a further period of three years from the expiry of the original term to 31 December 2013 with a revised rental amount pursuant to the supplemental agreement dated 30 June 2010, with an option on the part of Zheng Ye Packaging (Zhongshan) to renew for a further term of three years by serving not less than 30 days' written notice on Zheng Ye Group at the then market rent.
 - The Second Tenancy Agreement: for a term of three years from 1 October 2010 to 30 September 2013 with an option on the part of Zheng Ye Packaging (Zhongshan) to renew for a further term of three years by serving not less than 30 days' written notice on Zheng Ye Group at the then market rent.
 - The Third Tenancy Agreement: for a term of three years from 1 October 2010 to 30 September 2013 with an option on the part of Zheng Ye Packaging (Zhongshan) to renew for a further term of three years by serving not less than 30 days' written notice on Zheng Ye Group at the then market rent.
- Monthly rental payable:
 - The First Tenancy Agreement: RMB287,000.
 - The Second Tenancy Agreement: RMB63,000.
 - The Third Tenancy Agreement: RMB12,000.
 - The monthly rent payable for the renewal term under each of the Tenancy Agreements will be the then market rent provided that any upward adjustment to the monthly rent will be subject to a cap of not more than 10% of the monthly rent payable immediately prior to the expiration of the original term.
- Rental deposit paid:
 - The First Tenancy Agreement: RMB300,000.
 - The Second Tenancy Agreement: RMB100,000.
 - The Third Tenancy Agreement: RMB50,000.

Historical transaction amounts

The rentals paid by us to Zheng Ye Group in respect of the Premises Leasing during the Track Record Period are as follows:

	Year ended 31 December		
2008	2009	2010	
<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	
3,552,000	3,552,000	3,669,000	

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Annual Caps

Our Directors expect that the annual rentals payable by our Group in respect of the Premises Leasing will not exceed the following annual caps:

	Year ended 31 December		
	2011	2012	2013
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	4,344,000	4,344,000	4,119,000

The proposed annual caps are determined by our Directors by reference to the monthly rental as is payable under the Premises Leasing, which monthly rental was determined by reference to the market rent of the Premises.

CB Richard Ellis Limited, an independent valuer, confirmed that the annual rental payable under the Tenancy Agreements reflects the current prevailing per square meter market rent and is fair and reasonable. Market rental is intended to mean the estimated amount for which a property, or space within a property, should lease on the date of valuation between a willing lessor and a willing lessee on appropriate lease terms in an arm's-length transaction after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion.

View of the Directors and the Sole Sponsor on the Premises Leasing

Our Directors (including our independent non-executive Directors) and the Sole Sponsor are of the view that the Premises Leasing forms part of the ordinary and usual course of business of our Group, and the terms of the Premises Leasing are on normal commercial terms which are fair and reasonable and in the interests of the Shareholders as a whole. As the proposed annual caps are based on the monthly rental as is payable under the Premises Leasing, which monthly rental is itself determined by reference to the market rent of the Premises as appraised by CB Richard Ellis Limited, an independent valuer, our Directors (including our independent non-executive Directors) and the Sole Sponsor are also of the view that the proposed annual caps are fair and reasonable and in the interests of the Shareholders as a whole.

Listing Rules' implications

Zheng Ye Group is owned by Mr. Hu Zheng, Mr. Hu Hancheng, Mr. Hu Hanchao and Mr. Hu Hanxiang, who are all our Directors, by 51%, 25%, 20% and 4% respectively. Zheng Ye Group is therefore our Connected Person according to Rules 1.01 and 14A.11. The Premises Leasing will, following Listing, constitute our continuing connected transaction.

Using the proposed annual caps of the Premises Leasing as the numerators for the purpose of calculating the percentage ratios, the relevant percentage ratios for the purpose of Chapter 14A of the Listing Rules in respect of the Premises Leasing will be more than 0.1% but less than 5%, the Premises Leasing will therefore be subject to the reporting and announcement requirements but not the independent shareholders' approval requirement under Chapter 14A of the Listing Rules by virtue of Rule 14A.34(1).

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Waiver from the Stock Exchange

The Premises Leasing will continue on a recurring basis, our Directors consider that strict compliance with the announcement requirement for the Premises Leasing under Chapter 14A of the Listing Rules would be impractical and would add unnecessary administrative costs to our Company on each occasion they arise following the Listing. Accordingly, our Company has applied to the Stock Exchange, and the Stock Exchange had granted, a waiver to our Company from strict compliance with the announcement requirement set out in Rule 14A.47 of the Listing Rules in respect of the Premises Leasing, subject to the conditions that in respect of the Premises Leasing:

- the annual transaction amounts for 2011, 2012 and 2013 are not to exceed the relevant proposed annual caps; and
- the other applicable requirements of Chapter 14A of the Listing Rules are complied with.