
SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Shares. There are risks associated with any investment. Some of the particular risks in investing in the Shares are set forth in the section headed “Risk Factors” of this prospectus. You should read that section carefully before you decide to invest in the Shares.

OVERVIEW

We are the first German joint stock company to become listed on the Hong Kong Stock Exchange.

With nearly 200 years of history, our Group has developed and established ourselves as an innovative global manufacturer and supplier of a range of technical coatings solutions, to manufacturers of a range of goods marketed by many household brands and other international leaders in their respective fields. We adopt a defined strategy to focus both our technological development and product range to target specific niches within selected application areas that we believe to be profitable and high-growth. The selected “specialty” sectors where we currently focus on for their profitability and growth potential are respectively:

- automotive and general industry coatings;
- coil coatings (for pre-coated metals); and
- electrical insulation paints and varnishes.

Just as our Group aspires to further consolidate our market reputation of innovation, technologically-advanced product range, consistency of quality and reliability, and comprehensive customer services, we are equally committed to our environmental responsibilities. This enables us to capture new business and serve customers who themselves are becoming increasingly aware of the value of eco-friendly business and products, and who demand the same standards as we do in our products. We believe that this selective, innovative and responsible approach has led us to become one of Europe’s market leaders in the specialty coating industry and has given us a growing presence in other markets around the world. For example, in the market for coatings materials used in shock absorbers, we are a supplier to three of the world’s market leaders in the shock absorber industry, each of which ranks amongst the top three in terms of market shares in Europe and North America. In the market for pigmented insulating resins used for lighting ballasts, our aggregate supplies to customers in Europe approximated 1,700 and 1,350 tonnes in 2007 and 2008, respectively, representing approximately 85% and 68%, respectively, of total demand for this product in Europe in those years (based on a total estimated annual demand in Europe of about 2,000 tonnes). We are also steadily expanding our sales to China, India, South America and Australia.

During the Track Record Period, our sales for the years ended 31 December 2006, 2007 and 2008 was €60.2 million, €70.5 million and €93.6 million, respectively, representing a CAGR of approximately 24.7%, while profit attributable to equity holders for the same periods was €3.0 million, €2.9 million and €5.8 million, respectively, representing a CAGR of approximately 39.5%. Our sales and profit attributable to equity holders for the six months ended 30 June 2009 were €37.5 million and €0.5 million, respectively.

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COMPETITIVE STRENGTHS

- Customisation of innovative production technology.
- Strong product research and development capability.
- Design driven integration of workflows with customers.
- Global reach and strategic presences.
- High quality products.
- Experienced, dedicated and innovative management team with a track record of delivering growth and profitability.
- Diversified base of long-established customer relationships.
- Competitive and low cost structure.

BUSINESS STRATEGIES

- Technology and product transfer from Germany to Asia.
- Leveraging our “Schramm” brand name, customer base and environmentally responsible systems.
- Globalisation to further enhance and support service to our multinational customers.
- Product diversification to develop new markets and expand customer base.

RISK FACTORS

There are certain risks relating to an investment in the Offer Shares. These risks can be categorised into (i) risks associated with the business of our Group; (ii) risks associated with the industry; (iii) risks associated with the country of our Company’s incorporation and our Group’s business operation (iv) risks associated with conducting operations in the PRC; (v) risks associated with the Global Offering. These risks are further described in the section headed “Risk Factors” and are listed below:

Risks associated with the business of our Group

- Our success depends on the continuing efforts of our senior management team and key members of our research and development team and our business may be harmed if we lose their services.

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- Our competitive edge relies on us being able to protect our technical know-how and trade secrets.
- We rely on one production site in Germany to manufacture our in-house resin and to manufacture over 50% of our Group's products.
- Our operations rely on the supply of raw materials from a few major suppliers.
- Our turnover relies on a few major customers.
- We may be obligated to pay significant compensation to our chief executive officer, if his employment is terminated under certain circumstances.
- Our turnover is substantially derived from the automotive and general industry segment.
- Our Group's investment in the development of new technologies may not equate to commercial success.
- Our international operations may expose us to fluctuations in foreign currency rates.
- We are subject to existing and changing environmental laws and regulations. Potential liability for environmental problems could result in substantial costs.
- We have not yet obtained the relevant approval for occupational disease prevention project for our production facilities at Huizhou and Tianjin.
- We are subject to European Union REACH obligations.
- Our products may fail to perform as expected or may contain defects, and these failures or defects, and any negative publicity resulting from them, could result in reduced sales and could subject us to claims from purchasers or users of our products.
- Our insurance coverage may prove inadequate to cover potential claims in full.
- We may be subject to intellectual property claims.
- We may not be able to adapt to our customers' varying requirements and demand, which could affect our relationship with customers.
- We must keep up with technological changes in the market in order to remain competitive.
- Our Controlling Shareholder is able to exercise significant influence over our corporate policies and direct the outcome of corporate actions.
- A substantial portion of our Group's sales to its customers is made on a credit basis.

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- We do not have a full track record period for our production facilities other than in Germany and our results of operations during the Track Record Period may not be indicative of our future performance due to the significant changes we have made to our Group structure.
- Our expansion strategy may not be achieved.
- Any restriction on the ability of our subsidiaries to pay dividends to us would adversely affect our cash flows.
- We rely on advances and short-term bank loans and state-bank granted loans, among other cash resources, for our working capital needs.
- Risks associated with credit agreements for our business in Germany.
- We are subject to credit risks and counterparty risks in respect of our derivative transactions.
- We may be unable to obtain financing on favourable terms, or at all, to fund our continuing operations, existing and future capital expenditure requirements, acquisition and investment plans and other funding requirements.
- Our business operation results may experience significant fluctuations.
- We have not obtained legal titles to some of the properties we occupy and certain of our leased properties may be subject to title encumbrances.
- Any business disruptions we experience as a result of acts of God, acts of war, epidemics, including the recent outbreak of swine influenza, and other factors outside of our control could affect our business and might result in substantial costs.

Risks associated with the industry

- Our profitability is affected by price fluctuation of raw materials.
- The mobile electronics, home appliances and consumer electronics industries are cyclical and may result in fluctuations.
- Our Group's business and operations may be adversely affected by the current global economic crisis.
- The demand for our products is subject to seasonal fluctuations.
- Alternative technologies and products could render some of our products uncompetitive.

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Risks associated with the country of our Company's incorporation and our Group's business operations

- Our Company is incorporated in Germany and the laws of Germany for certain matters may be different from those under the laws of Hong Kong.
- You may experience difficulties in enforcing your shareholder rights because our Company is incorporated in Germany.
- Our Company is generally subject to more stringent labour standards in Germany than under the laws of Hong Kong and other jurisdictions in which investors may be located.
- We are subject to certain risks as our German production facilities are unionised.
- We apply short time work arrangement for some of our employees in Germany.
- We are subject to German environmental laws and regulations, which may impose stringent remedial requirements upon us in the event of contamination irrespective of whether we caused the contamination.
- German and European competition laws and regulations may restrict our business dealings or subject us to liabilities.
- Complex and changing tax laws in Germany could have an adverse effect on our Company's tax burden.
- Dividends payable by us and any gains on the sale of our Shares may be subject to tax under German tax laws.
- Investment in our Company may be subject to examination, restriction or approval under German foreign investment laws.

Risks associated with conducting operations in the PRC

- Political, economic and legal developments, as well as PRC government policies, could materially and adversely affect our business and results of operations.
- The PRC Anti-Monopoly Law may restrict our business dealings, force us to divest our shares in certain assets or subject us to liabilities.
- Fluctuations in the exchange rate of Renminbi and changes in foreign exchange regulations in the PRC may materially and adversely affect the value in other currencies of our net assets, earnings and declared dividends or results of operations and financial results.
- The PRC legal system has inherent uncertainties that could affect our business.

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- The treatment of our PRC Subsidiaries for PRC corporate income tax purposes may change.
- The implementation of the new employment contract law and the expected increase in labour costs in the PRC may adversely affect our business and profitability.
- It may be difficult to effect service of process upon or enforce judgements against us, our Directors or senior officers in the PRC.

Risks associated with the Global Offering

- There has been no prior public market for our Shares, the liquidity and market price of our Shares may be volatile, and the Offer Price may not be indicative of prices that will prevail in the trading market.
- Future sales of securities by our Group or Shareholders may decrease the value of an investment.
- We cannot guarantee the accuracy of certain facts and statistics with respect to the countries and industries in which we operate contained in this prospectus.
- The current market conditions may not be reflected in the statistical information provided in this prospectus.
- You should read the entire prospectus and should not rely on any information contained in press coverage or other media in relation to the Global Offering, our business operations or our Group in connection with the decision to invest in the Shares.

BUSINESS MODEL

We supply our coatings globally, to manufacturers of a range of goods marketed by many household brands and other international leaders in their respective fields. In addition, for a number of years, our designers and research teams have been working with our clients in the development of numerous technologically-advanced products, continually providing them with tailor-made coating solutions.

We adopt a defined strategy to focus both our technological development and product range to target to specific niches within selected application areas that we believe to be profitable and high-growth, where high levels of product performance, sophistication and customisation are required, and which commodity products cannot satisfy. The selected “specialty” sectors where we currently focus specifically on for their profitability and growth potential are respectively:

- automotive and general industry coatings;
- coil coatings (for pre-coated metals); and
- electrical insulation paints and varnishes.

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Our Group's major customers, particularly those in the automotive, mobile electronics, home appliances and consumer electronics sectors, can generally be categorised into three tiers from upstream to downstream in the supply chain - (i) the branding / design level; (ii) the tier-supplier level; and (iii) the applicator level. Generally speaking, although we work closely with the branding / design level makers in the areas of product design, development and marketing, we do not directly enter into supply contracts with these makers. It is usually their tier suppliers and applicators with whom our Group directly enters into supply contracts.

RECENT STRATEGIC ACQUISITIONS

In order to expand our global reach and to better enhance the synergies of our Group, we acquired four subsidiaries from SSCP, namely Schramm Huizhou, Schramm Shanghai, Schramm Tianjin and Schramm Thailand in 2008 and 2009. For further details on these acquisitions, please refer to the section headed "History and Corporate Structure — Reorganisation and Acquisitions — Acquisitions of Schramm Huizhou, Schramm Shanghai, Schramm Tianjin and Schramm Thailand" in this prospectus.

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following table sets forth our Company's selected consolidated income statement and other financial information for the periods presented, as derived from the accountant's report of our Company set forth in Appendix IA to this prospectus.

The results of Schramm Shanghai, Schramm Huizhou, Schramm Spain and Schramm Korea were consolidated into our Group since 17 November 2007 under merger accounting. Schramm Tianjin and Schramm Thailand were both acquired after the Track Record Period and accordingly, their results were not consolidated into our Group during the Track Record Period. The financial information of Schramm Tianjin and Schramm Thailand during the Track Record Period is set out in Appendix IB and IC to this prospectus respectively.

As the acquisitions of Schramm Tianjin and Schramm Thailand by our Group are considered as business combinations under common control, the acquisitions are accounted for using merger accounting and accordingly, the full year results of Schramm Tianjin and Schramm Thailand for the year ending 31 December 2009 are consolidated in the profit forecast of our Group for the year ending 31 December 2009 on the basis of merger accounting for the purpose of the profit forecast.

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CONSOLIDATED INCOME STATEMENTS

| | Year ended 31 December | | | Six months ended 30 June | |
|--|------------------------|------------------|------------------|-----------------------------|----------------|
| | 2006 | 2007 | 2008 | 2008 | 2009 |
| | € '000 | € '000 | € '000 | € '000 | € '000 |
| | <i>(unaudited)</i> | | | | |
| Sales | 60,211 | 70,510 | 93,605 | 49,234 | 37,507 |
| Other operating income | 1,721 | 1,153 | 480 | 584 | 351 |
| Changes in inventories of finished goods and work in progress | 829 | 555 | (350) | 221 | (1,776) |
| Cost of materials | (33,593) | (39,369) | (51,427) | (26,850) | (18,269) |
| Employee benefit expenses | (12,881) | (13,637) | (17,047) | (8,601) | (8,521) |
| Depreciation, amortisation and impairment charges | (1,725) | (1,938) | (2,638) | (1,224) | 1,444 |
| Other operating expenses | (9,707) | (11,892) | (14,787) | (7,387) | (5,958) |
| Other (losses)/gains, net | <u>(19)</u> | <u>118</u> | <u>1,304</u> | <u>289</u> | <u>(157)</u> |
| Operating profit | 4,836 | 5,500 | 9,140 | 6,266 | 1,733 |
| Finance income | 3 | 45 | 37 | 7 | 73 |
| Finance costs | (1,091) | (1,288) | (1,404) | (607) | (709) |
| Share of profit from jointly controlled entities | <u>215</u> | <u>185</u> | <u>42</u> | <u>32</u> | <u>—</u> |
| Profit before income tax | 3,963 | 4,442 | 7,815 | 5,698 | 1,097 |
| Income tax expense | <u>(996)</u> | <u>(1,538)</u> | <u>(2,043)</u> | <u>(1,312)</u> | <u>579</u> |
| Profit attributable to equity holders of our Company | <u>2,967</u> | <u>2,904</u> | <u>5,772</u> | <u>4,386</u> | <u>518</u> |
| Profit distributions | <u>2,827</u> | <u>2,549</u> | <u>—</u> | <u>—</u> | <u>—</u> |

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SELECTED CONSOLIDATED BALANCE SHEET DATA

| | As at 31 December | | | As at 30 June |
|--|-------------------|--------|--------|------------------|
| | 2006 | 2007 | 2008 | 2009 |
| | € '000 | € '000 | € '000 | € '000 |
| ASSETS | | | | |
| Non-current assets | | | | |
| Intangible assets | 16 | 945 | 2,147 | 2,510 |
| Property, plant and equipment | 17,607 | 22,666 | 22,787 | 21,914 |
| Investments in jointly controlled entities | 362 | 508 | — | — |
| Other receivables and prepayments | 1 | 254 | 265 | 255 |
| Deferred income tax assets | 605 | 799 | 792 | 808 |
| | 18,591 | 25,172 | 25,991 | 25,487 |
| | 18,591 | 25,172 | 25,991 | 25,487 |
| Current assets | | | | |
| Inventories | 10,895 | 15,000 | 18,735 | 14,176 |
| Trade and bill receivables | 8,689 | 19,468 | 18,206 | 21,031 |
| Other receivables and prepayments | 247 | 795 | 2,356 | 2,153 |
| Income tax recoverable | 2 | — | 585 | — |
| Cash and cash equivalents | 16 | 1,131 | 1,432 | 2,523 |
| | 19,849 | 36,394 | 41,314 | 39,883 |
| | 19,849 | 36,394 | 41,314 | 39,883 |
| Total assets | 38,440 | 61,566 | 67,305 | 65,370 |

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2009

Forecast consolidated profit attributable to
equity holders of our Company^{(1) & (2)} Not less than €4.3 million
(HK\$50.0 million)

Forecast earnings per Share

- Pro forma fully diluted⁽³⁾ Not less than €0.23 (HK\$2.72)
- Weighted average⁽⁴⁾ Not less than €0.32 (HK\$3.72)

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Since the outbreak of the global financial crisis in October 2008, our Group's business has been adversely affected. The results in the fourth quarter of 2008 and the first half of 2009 have dropped to the lowest during the Track Record Period. The global market has started to recover steadily since the second quarter of 2009; our Group has also been picking up from its trough. Significant improvement in sales were seen in the third quarter of 2009 which is reflected in the actual results (based on unaudited management accounts) for the four months ended 31 October 2009. The results for the two months ending 31 December 2009 are forecasted to be better than the corresponding period in 2008 when our Group started to suffer the slow-down of customer demands brought by the global financial crisis.

Nevertheless, as the above factors are expected to continue to adversely affect market demand and accordingly result in decreased sales by our Group, leading to decreased operating profit and profit attributable to our equity holders, we forecast (incorporating the full year results for Schramm Tianjin and Schramm Thailand on the basis of merger accounting) that profit attributable to our equity holders for the year ending 31 December 2009 will not be less than €4.3 million, compared with approximately €5.5 million for the year ended 31 December 2008 (incorporating the full year results for Schramm Tianjin and Schramm Thailand on the basis of merger accounting).

Notes:

- (1) The bases and assumptions on which the above profit forecast for the year ending 31 December 2009 have been prepared are set out in the section headed "Bases and Assumptions" in Appendix III in this prospectus.
- (2) The forecast consolidated profit attributable to equity holders of our Company for the financial year ending 31 December 2009 prepared by our Directors is based on, in the absence of unforeseen circumstances, the audited consolidated results of our Group for the six months ended 30 June 2009, the unaudited management accounts of our Group for the four months ended 31 October 2009 and a forecast of the consolidated results of our Group for the two months ending 31 December 2009. The profit forecast has been prepared on the basis of the accounting policies being consistent in all material respects with those currently adopted by our Group as set out in note 2 "Summary of significant accounting policies" under section II of the accountant's report of our Company set out in Appendix IA to this prospectus.
- (3) The calculation of the pro forma forecast earnings per Share on a fully diluted basis is based on the forecast consolidated profit attributable to equity holders of our Company for the year ending 31 December 2009, assuming that the Global Offering was completed on 1 January 2009 and a total of 18,394,726 Shares were issued and outstanding during the entire year.
- (4) The calculation of forecast earnings per Share on a weighted average basis is based on the forecast consolidated profit attributable to equity holders of our Company for the year ending 31 December 2009 and a weighted average number of 13,435,822 Shares expected to be in issue during the year, assuming that the Shares issued pursuant to the Global Offering will be issued on 29 December 2009.
- (5) For illustrative purpose, forecast consolidated profit attributable to equity holders of our Company for the year ending 31 December 2009 and forecast earnings per Share are converted into Hong Kong dollars at the exchange rate of €1.00 to HK\$11.61.

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GLOBAL OFFERING STATISTICS

| | Based on an Offer Price of HK\$29.00 per Share | Based on an Offer Price of HK\$45.00 per Share |
|--|---|---|
| Market capitalisation of our Shares ⁽¹⁾ | HK\$577 million | HK\$896 million |
| Prospective price/earnings multiple: | | |
| • Pro forma fully diluted ⁽²⁾ | 10.7 times | 16.6 times |
| • Weighted average ⁽³⁾ | 7.8 times | 12.1 times |
| Unaudited pro forma adjusted net tangible assets per Share ⁽⁴⁾ | HK\$21.97 | HK\$26.23 |

Notes:

- (1) The calculation of market capitalisation is based on 19,905,000 Shares expected to be in issue following completion of the Global Offering.
- (2) The calculation of the prospective pro forma price/earnings multiple is based on the pro forma forecast earnings per Share at the respective Offer Price of HK\$29.00 and HK\$45.00 per Share.
- (3) The calculation of the prospective price/earnings multiple on a weighted average basis is based on the forecast earnings per Share on a weighted average basis assuming the Global Offering is completed on 29 December 2009, at the respective Offer Price of HK\$29.00 and HK\$45.00.
- (4) The unaudited pro forma adjusted net tangible assets per Share is calculated after making the adjustments referred to in the section headed “Unaudited Pro Forma Adjusted Net Tangible Assets” in Appendix II in this prospectus and on the basis that 18,155,000 Shares are issued and outstanding during the entire year, but without taking into account the Shares issued subsequent to 30 June 2009 and before the Global Offering, at an Offer Price of HK\$29.00 and HK\$45.00 respectively.

DIVIDENDS

In a German stock corporation (Aktiengesellschaft, AG), resolutions concerning the distribution of dividends for a given financial year, and the amount and payment date thereof, are adopted by the general meeting of the subsequent financial year upon a joint proposal by the management board and the supervisory board.

Taking into account our present financial position, we currently intend to distribute to our Shareholders not less than 25% of our Group’s annual consolidated IFRS net income in respect of the financial year ending 31 December 2010 and each financial year thereafter. However, such intention does not amount to any guarantee or representation or indication that our Company must or will declare and pay dividends in such manner or declare or pay dividends at all. We cannot assure you that dividends will be paid in the future or as to the timing of any dividends that may be paid in the future.

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Dividends may therefore only be distributed from the distributable profit of our Company calculated pursuant to the German Commercial Code (Handelsgesetzbuch, HGB) based on our Company's net income, adjusted for profit/loss carry forwards from the prior year and release of or allocations to reserves. Certain reserves are required to be set up by law and must be deducted when calculating the profit available for distribution. The management board must prepare the financial statements (balance sheet, income statement and notes to the financial statements) and the management report for the previous financial year by the statutory deadline, and present these to the supervisory board and the auditors immediately after preparation.

Our Group had not paid any dividends during the Track Record Period. However, pursuant to the relevant profit and loss transfer agreement entered into between Grebe and SSCP, we made profit distributions representing the amounts respectively made to Grebe in 2006 and SSCP in 2007 for the period before and after the acquisitions on 17 November 2007. This profit and loss transfer agreement was one of the provisions in the sale and purchase agreement between, inter alia, Grebe and SSCP in respect of SSCP's takeover of our Group in November 2007, which provided that SSCP was entitled to our Group's profits arising from the entire year ended 31 December 2007 as well as any undistributed profits from previous periods.

For subsequent years, subject to the factors described above, and in the absence of any circumstances which might reduce the amount of available distributable reserves, whether by losses or otherwise, our Directors and Supervisors may recommend dividends, if any, after taking into account, among other things, our results of operations, cash flows and financial condition, operating and capital requirements, the amount of distributable profits based on German GAAP and IFRS, applicable laws and regulations and other factors that our Directors and Supervisors deem relevant.

The distribution of dividends for any financial year shall be subject to Shareholders' approval. Particulars of the dividend policy to be adopted by our Group following the Listing are set out in "Financial information — Dividends" of this prospectus. The dividend policy is subject to review by our Directors at any time.

USE OF PROCEEDS

We estimate that the aggregate net proceeds we receive from the Global Offering, assuming an Offer Price of approximately HK\$37.00 per Share, being the mid-point of the indicative range of the Offer Price of HK\$29.00 to HK\$45.00 per Share, will be approximately HK\$157.0 million (after deducting underwriting fees and estimated expenses payable but not yet paid by us in connection with the Global Offering).

We intend to use the net proceeds we receive from the Global Offering as follows:

- approximately 10.5% will be invested in our Germany Facility to expand its liquid coatings production capacity to approximately 13,000 tonnes per year;

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- approximately 18.8% will be invested in the development of support (non-production) facilities on the Phase 3 land at our Tianjin Facility (or at another suitable site in the PRC) incorporating R&D functions, a Materials & Design Centre for showcasing product samples and related functions, quality control and testing equipment and a coatings application simulation line;
- approximately 15.5% will be invested in the construction of a resin production plant in the PRC to enhance our regional resin supply capability;
- approximately 5.2% will be invested in other production and testing equipment, as well as other construction, improvement or renovation works at our Shanghai Facility, Huizhou Facility and Phases 1 and 2 of our Tianjin Facility;
- approximately 2.5% will be invested in production and testing equipment in our PRC Facilities for coil, electrical, and powder coatings as part of our strategy of technology and product transfer from our European operations to our PRC operations;
- approximately 20% will be used for the integration and consolidation by way of mergers and acquisitions of targets which would provide us with either access to technologies which enable us to expand into new, suitable product types, and/or a foothold in suitable regions to facilitate our expansion into new geographical markets. As at the Latest Practicable Date, our Group has not identified any specific targets for such mergers and acquisitions;
- approximately 17.5% for the repayment of part of our existing bank loans. Such bank loans were used to finance our growing working capital needs and the expansion of our business; and
- approximately 10% will be used for our general working capital.

To the extent that the net proceeds of the Global Offering we receive are not immediately required for the above purposes, we presently intend that such proceeds be placed on short-term deposits with licensed banks or financial institutions, deposited into our short term revolving credit facilities to minimise interest expense and/or invested into money market instruments.

In the event that the Offer Price is finally determined at the highest end of the indicative Offer Price range, being HK\$45.00 per Offer Share, our net proceeds from the Global Offering will increase to approximately HK\$195.6 million, as compared with the above computation which is based on the mid-point of the indicative Offer Price range. Our Directors intend to apply such additional net proceeds in the same proportions as set out above.

In the event that the Offer Price is finally determined at the lowest end of the indicative Offer Price range, being HK\$29.00 per Offer Share, our net proceeds from the Global Offering will decrease to approximately HK\$118.4 million, as compared with the above computation which is based on the mid-point of the indicative Offer Price range. Our Directors intend to apply the reduced net proceeds in the same proportions as set out above, including in respect of repayment of bank loans and general working capital.

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OBLIGATIONS AND LIABILITIES TO WHICH A SHAREHOLDER OF OUR COMPANY MAY BE SUBJECT UNDER GERMAN LAW

The following contains a summary of certain obligations and duties of shareholders of a German AG under German applicable law. This summary does not purport to be a comprehensive or exhaustive description of all obligations and duties of shareholders of our Company, or the legal and tax provisions applicable to our Company or our shareholders. It is important to note that the legal situation may change, possibly with retroactive effect.

The information presented in this summary is not a substitute for legal and/or tax advice. If you are in any doubt about your investments in our Company, including without limitation to the legal and tax requirements and implications on the purchase, holding and sale or free transfer of any Shares, you should consult your stockbroker, bank manager, solicitor, professional accountants or other professional advisers.

Under German laws, each shareholder of a German AG has, among others and without limitation, the following obligations and liabilities. For further details please refer to the other sections of this prospectus, in particular to the sections headed “Risk Factors — Risks Associated with the country of our Company’s incorporation and our groups’ business operations”, “Summary of German Legal and Regulatory Provisions” in Appendix V to this prospectus, as well as “Taxation in Germany” in Appendix VI to this prospectus.

1 Disclosure obligations of shareholders in an AG

1.1 *Shareholding levels triggering disclosure requirements*

According to § 20 of the AktG, there are certain prescribed shareholding thresholds in an AG that trigger obligations for disclosure. They are: (a) a shareholder holding more than 25% of the shares in a company (§ 20 para. 1 AktG); (b) a shareholder which is a stock corporation, a company with limited liability or a partnership limited by shares (“KGaA”) with its registered office in Germany holding more than 25% of the shares in the company (which is calculated differently than the 25% threshold under (a), see below) (§ 20 para. 3 AktG); (c) a shareholder holding a majority (i.e. more than 50%) of shares or votes in the company (§ 20 para. 4 AktG); and (d) a shareholding and/or the number of votes held by a shareholder have fallen below the thresholds set out under (a), (b) and (c) above (§ 20 para. 5 AktG). If a shareholder reaches several thresholds at once with one acquisition or subsequently with several acquisitions, a separate disclosure should be made with regard to each threshold.

Pursuant to § 328 AktG, if a German stock corporation or a KGaA with registered office in Germany and another stock corporation, a company with limited liability or another KGaA, with registered office in Germany, hold more than 25% of the shares in each other, respectively, (“cross-shareholdings”), then the following rules shall apply:

- (a) Rights arising from the shares which are held by any such company in another company may not be exercised with respect to more than one-fourth of all shares of such other company as from the date on which such other company has received knowledge of the

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existence of such cross-shareholding or the other company has given due notice to such company pursuant to § 20 para. 3 or § 21 para. 1 AktG (§ 21 AktG determines the obligation of the company to notify another stock corporation, a company with limited liability or another KGaA with registered office in Germany if it holds more than 25% of the shares or a majority of shares or votes in such company). Shares are deemed to be held by the shareholders when (a) the shares are held by a controlled enterprise of the shareholder; or (b) the shares are held by a third party for the account of the shareholder or a controlled enterprise of the shareholder.

- (b) The restriction as described in (a) above shall not apply if such company has given notice to the other company pursuant to § 20 para. 3 AktG or § 21 para. 1 AktG prior to receiving such notice from the other company and prior to having received knowledge of the cross-shareholding.
- (c) In the general meeting of a listed company, a company aware of a cross-shareholding as described in (a) above may not exercise its voting rights to elect members of the supervisory board.
- (d) The companies have to notify each other immediately in writing about the extent of their participation in the other company and any changes thereto. The law, however, does not provide for any sanctions if they do not comply with this disclosure obligation.

1.2 *Applicability of disclosure obligations*

The described disclosure obligations apply to (a) all companies, including companies having their registered office abroad; (b) public authorities; and (c) any individuals if such individuals have relevant commercial interests other than their participation in the company.

With regard to the term “relevant commercial interests” referred to in (c), any individual shareholder is bound by such disclosure obligations if he has relevant commercial interests other than his participation in the company. In this context other relevant commercial interests of the shareholder are those which may lead to the risk that the shareholder pursues his other commercial interests to the detriment of the company. Any individual shareholder is generally bound by such disclosure obligations if he acts commercially, i.e. operates a commercial enterprise or is self-employed or holds another relevant participation in another company. The shareholder holds a relevant participation if he holds a majority in another company or if he, although he does not hold a majority, is anyhow practically in the position to exercise significant influence on the composition of the boards or the profit distribution.

These disclosure obligations apply to such companies, public authorities and individuals as referred to under (a), (b) or (c), respectively.

SUMMARY

1.3 *Failure to disclose*

Failure to comply with the disclosure requirement will result in shareholders' rights of the relevant shareholder being suspended until the disclosure has been duly made, i.e. that until appropriate disclosure is made to our Company, the relevant shareholder will not be entitled to participate and vote in general meetings, and will in general not have the right to information, the right to contest resolutions passed in the general meeting and subscription rights in case of a capital increase against contributions as well as rights to dividends and liquidation proceeds until the disclosure obligations is fully complied with. Rights to dividends and to liquidation proceeds may be retrospectively restored but only if the disclosure has been duly made later and the relevant shareholder would have to prove that the violation of the disclosure obligation was not intentional.

Apart from the consequences set out above, damage claims might be possible if the relevant disclosure obligations are not met. It is also possible to make a notice by way of precaution.

The aforesaid disclosure obligation is applicable to the Shareholders who hold the shares of our Company in Hong Kong through CCASS.

2 **Payment of tax on capital gains and dividend income**

As there is no Double Taxation Treaty in place between Germany and Hong Kong and the Double Taxation Treaty between Germany and China is not applicable to Hong Kong, an exemption or refund of taxes should generally not be applicable to shareholders resident in Hong Kong.

Under certain circumstances, holders of our Shares may be subject to taxation in Germany as a result of holding or dealing in our Shares. In particular, withholding tax (at the rate of 25% plus 5.5% solidarity surcharge thereon, i.e., a total rate of 26.375%) and/or income taxation (depending on the circumstances either at a flat rate of 25% plus 5.5% solidarity surcharge thereon, at the holder's individual tax rate or at the corporate income tax rate of 15% plus 5.5% solidarity surcharge thereon) and/or trade tax at a rate of approximately 15%, if any, on any dividend income and/or capital gains from the sale of our Shares may apply.

Generally, our Company must withhold and remit to the German tax authorities a withholding tax in the amount of 25% on dividends it distributes plus solidarity surcharge of 5.5% on the amount of the withholding tax (a total of 26.375%).

Capital gains realised by non-resident Shareholders who do not hold the shares through a permanent establishment or a fixed base in Germany or as part of business assets for which a permanent representative in Germany has been appointed are taxable in Germany only if the seller or, in the case of a gratuitous transfer, any of the seller's legal predecessors held, directly or indirectly, at least 1% of our Company's registered share capital at any time during the five years preceding the sale. If in this case, the shareholder is a corporation, only 5% of the gains are subject to corporate income tax plus 5.5% solidarity surcharge thereon as well as trade tax, if the Shares are held in a permanent establishment/fixed base in Germany. If the shareholder is an individual, 60% of the capital gains are taxable at the Shareholder's individual income tax rate.

SUMMARY

3 Duties of shareholders, in particular fiduciary duties

Under German laws, each shareholder of a German AG has, among others and without limitation, in particular the following duties and obligations:

- (a) to comply with the Articles;
- (b) to pay consideration for the shares he or she has subscribed; and
- (c) to comply with their fiduciary duties towards the AG and other shareholders.

In exercising their membership rights arising from the company's interests, the shareholders are obliged to take such actions promoting the purpose of the company and to avoid such actions that are detrimental to the company's purpose. When exercising self-serving membership rights, the limits arising from the prohibition of an arbitrary or unreasonable exercise of rights have to be observed. The voting right is, among others, one of the shareholders' right the exercise of which may be limited by such fiduciary duty under German Law. The legal consequences for failure to discharge fiduciary duties include, but are not limited to, liability for damages of the shareholder in breach of his fiduciary duties.

Fiduciary duties apply to all shareholders of an AG, including all shareholders resident in Hong Kong.

The legal consequences for failure to discharge fiduciary duties are as follows:

- (a) In the case of a certain act or omission resulting from a shareholder's failure to comply with the fiduciary duty, the beneficiary has the right to enforce his claim for fulfilment.
- (b) If shareholders violate their fiduciary duty when casting votes in a shareholders' meeting, the votes given in breach of such duty shall not be counted. In practice, this principle will only be applied in case of clearly obvious breach of the fiduciary duty.
- (c) Breach of fiduciary duty of any kinds by any shareholder may lead to liability for damages if the breach was an act of wilful intent.

4 Distribution of dividends

Dividends either in cash or in kind may be distributed only from the balance sheet profit and only to the extent that the distribution of the profit to the shareholders has not been excluded pursuant to the Articles or by resolution of the general meeting. In addition, the undistributable reserves may not be distributed as profit to the shareholders.

SUMMARY

5 Registration of new shareholders in the share register

Each new owner of a registered share has to be entered into the share register of the AG. In general, only registered shareholders in the share register are entitled to exercise their shareholder rights, including dividend rights and rights to liquidation proceeds, the right to participate and vote in the general meeting, the right to information and the right to contest resolutions passed in the general meeting as well as minority rights. At the same time, only registered shareholders are obliged to fulfil shareholder obligations including the obligation to pay outstanding contributions on shares. The entry in the share register, however, does not have any effect on the legal ownership of the shares. There are, however, certain exceptions, such as if a shareholder holds a dividend certificate, he normally has a claim to dividends from this certificate. Also only rights and obligations between the AG and the shareholder outside the shareholder rights, such as rights and obligations based on contracts, are not affected.

SHAREHOLDERS' APPROVAL MATTERS

Our Company is incorporated in Germany under the German Stock Corporation Act (AktG) and governed by German laws and regulations. Certain differences exist under the German legal system and the Hong Kong legal system with respect to matters requiring shareholders' approval. Under the German three-tier corporate structure, the distribution of duties or competencies of the management board, supervisory board and general meeting are strictly separated. Based on the established principle, the competencies of the general meeting are exclusively those enumerated in the AktG and other laws applicable to a German AG, as well as certain very limited transactions which are of fundamental importance to the AG pursuant to the rulings of the German Federal Court of Justice. The Listing Rules require that a listed issuer shall obtain prior shareholders' approval for certain matters or transactions, including without limitation, certain notifiable transactions and connected transactions under the Listing Rules. Some of the matters requiring shareholders' approval under the Listing Rules may be referred to the general meeting for our Shareholders' consideration and approval. The general meetings of our Company (including annual general meetings and extraordinary general meetings) will generally be held in Germany, and Shareholders may exercise their voting rights in person or by proxy. As required under German corporate laws, all resolutions passed in a shareholder meeting of an AG must be notarised by a notary public accepted under German laws, failing which the resolutions will be ineffective and not binding on the AG. The German notaries do not have the authority to notarise the passing of resolutions outside of Germany, and notarisation by a Hong Kong notary public will generally not be acceptable under German law. Having regard to the legal requirements for notarisation of shareholders resolutions, the general meetings of our Company will be held in Germany with the attendance of a competent German notary. We will also consider setting up video-conference facilities in Hong Kong for general meetings of our Company to facilitate the participation of Hong Kong shareholders in the discussion and voting in the general meetings. Please refer to the section headed "Appendix V — Summary of German Legal and Regulatory Provisions" for further details on corporate governance of an AG and the section headed "Appendix VII — Summary of our Constitutional Documents and Internal Rules" in this prospectus for matters requiring shareholders' approval.

SUMMARY

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Rule 3.10 of the Listing Rules requires the appointment of at least three independent non-executive directors. However, the three-tier corporate structure under German law inherently does not contemplate the notion of appointing independent non-executive directors. As the appointment of independent non-executive directors would contravene German law, we have therefore appointed three Independent Supervisors instead to perform the duties of independent non-executive directors. Pursuant to the reasons set forth in the sections headed “Waivers from Strict Compliance with the Listing Rules” and “Supervisory Board and Independent Supervisors”, we have applied to the Hong Kong Stock Exchange, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirement in Rule 3.10 on the conditions that (i) our Company will appoint, and will maintain at all times after the Listing, at least three Independent Supervisors who will satisfy the independence requirements under Rule 3.13 of the Listing Rules, with at least one of the Independent Supervisors possessing appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2); and (ii) all duties and obligations specific to independent non-executive directors as required under the Listing Rules will be assumed and performed by our Independent Supervisors. Please refer to the sections headed “Waivers from Strict Compliance with the Listing Rules — Appointment of Independent Non-executive Directors” and “Supervisory Board and Independent Supervisors” in this prospectus for further details.

ARTICLES OF ASSOCIATION

The constitutional document of a company listed on the Hong Kong Stock Exchange must conform with the provisions set out in Appendix 3 to the Listing Rules. Paragraph 12 of Appendix 3 to the Listing Rules provides that “*No powers shall be taken to freeze or otherwise impair any of the rights attaching to any share by reason only that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to the company.*” However, the German Stock Corporation Act provides that a shareholder of an AG is under an obligation to give notice to the AG if he has acquired certain percentage of shareholding in that AG. It is also provided under the German Stock Corporation Act that until such time when such shareholder has discharged his obligation by making appropriate disclosure to the AG, he is not entitled to exercise certain of his shareholder’s rights, including voting rights attaching to the shares in the AG held by him. Such restriction only applies to shareholders holding not less than 25% interest in an AG and it does not apply to all shareholders in general. For further details, please refer to the sub-paragraph in the section headed “Appendix V — Summary of German Legal and Regulatory Provisions — 3 German Companies Law — (v) The disclosure obligations of the shareholders of an AG” in this prospectus. The restriction of shareholders’ right under this circumstance is mandatory under German laws and cannot be waived or otherwise avoided. Accordingly, we have applied to the Hong Kong Stock Exchange and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with paragraph 12 of Appendix 3 to the Listing Rules, on the basis that compliance with such rule would result in contravention of German laws by our Company. Please refer to the section headed “Waiver from Strict Compliance with the Listing Rules - Articles of Association” in this prospectus for further details.

SUMMARY

AMENDMENT OF SHARE CAPITAL AMOUNT IN THE ARTICLES OF ASSOCIATION

Rule 13.51(1) of the Listing Rules provides that an issuer shall inform the Hong Kong Stock Exchange if there is any proposed alteration of the issuer's articles of association. The issuer shall also issue a circular to shareholders containing the proposed amendments, and to obtain shareholders' approval for such amendments.

However, under the German Stock Corporation Act, when the management board and supervisory board exercise a share capital increase within the pre-approved threshold resolved by shareholders (which is the case for an authorised share capital increase and a contingent share capital increase), the supervisory board is authorised by the articles of association to update the respective provisions of the articles of association to reflect the change in the share capital. An AG must not perform any capital increase without updating the respective provisions of the articles of association relating to the share capital. Under German laws, updating the relevant share capital amount is regarded as a routine administrative duty of the supervisory board as the shareholders have already pre-approved such a threshold in the case of an authorised share capital increase or a contingent share capital increase. This is primarily performed for informing the shareholders and the public of the latest share capital of our Company, and will be reviewed by a notary public and the competent court who registers the respective capital increase. Strict compliance with Rule 13.51(1) of the Listing Rules for all proposed amendments of the respective provisions of the Articles of Association relating to the share capital would require our Company to issue a circular to Shareholders containing the proposed amendments, and to obtain their approval for such amendments for each update. As such, our Directors are of the view that strict compliance with Rule 13.51(1) of the Listing Rules for all proposed updating of share capital amount of our Company pursuant to resolutions passed by Shareholders (including the general mandate granted by Shareholders to the management board) would be unduly burdensome and is inappropriate as it would render the share capital increase of our Company from an authorised share capital or from a contingent share capital impossible. On that basis and other reasons set out in "Waiver from Strict Compliance with the Listing Rule — Amendment of Share Capital Amount in the Articles of Association", we have applied to the Hong Kong Stock Exchange and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rule 13.51(1) by our Company for the requirement to issue a circular to shareholders containing the proposed amendments, and to obtain their approval for such amendments, for the update of the respective provisions of the Articles of Association relating to the share capital of our Company in the event of a share capital increase within the pre-approved threshold resolved by shareholders.