
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Global Offering and the Capitalisation Issue (assuming the Over-allotment Option is not exercised and taking no account of the options which were granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme), Grandview, which is wholly-owned by Mr. Lu, will be interested in 63.75% of the issued share capital of our Company. Hence, Grandview and Mr. Lu will be our Controlling Shareholders within the meaning of the Listing Rules. Grandview was incorporated in the BVI on 28 September 2010 and is an investment holding company. For Mr. Lu's background, please refer to the section headed "Directors, Senior Management and Employees" in this prospectus.

COMPETING INTERESTS

As confirmed by our Directors, our Controlling Shareholders and their respective associates do not have any interests in any business, apart from the business operated by members of our Group, that competes or is likely to compete, directly or indirectly, with our business.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having taken account of the following factors, our Directors are satisfied that we can carry on our business independently of our Controlling Shareholders following the Listing:

Management independence

Our management and operational decisions are made by our Board and a team of senior management. Our Board consists of six members, comprising three executive Directors and three independent non-executive Directors. Each of our Directors is aware of his fiduciary duties as a Director which requires, 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 Director 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 Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum. Further, our independent non-executive Directors will bring independent judgment to the decision making process of our Board. In addition, members of our senior management, who are responsible to take charge of our daily operations, are independent from our Controlling Shareholders and their associates. Our senior management team possesses in-depth experience and understanding of the industry in which we are engaged. In this regard, our Directors are of the view that our Group can be managed independently notwithstanding that Mr. Lu, being a Controlling Shareholder, is an executive Director.

Operational Independence

Although our Controlling Shareholders will retain a controlling interest in our Company after the Listing, our Company has full rights to make all decisions and to carry out our own business operations independently.

Our organisational structure is made up of a number of departments, comprising the management and administration, research and development, production, sales and marketing, finance and accounting, purchasing and logistics and quality control departments. Each department takes a specific role in our operations. There are internal control procedures to ensure effective

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operation of our business. Furthermore, we have our own production lines and our own sources of suppliers and customers, which are all Independent Third Parties. Accordingly, we can carry out our business operations independently.

Financial independence

We have our own financial management system and the ability to operate independently from our Controlling Shareholders from a financial perspective. We have our own bank account, make our own tax registrations and have employed a sufficient number of financial accounting personnel. Taking into account of our Group's internal resources and the estimated net proceeds from the Global Offering, our Directors believe that our Group will have sufficient working capital for its requirements for at least the next 12 months from the date of publication of this prospectus. Our Directors believe that our Group is capable of obtaining financing from external sources without reliance on our Controlling Shareholders. Upon completion of the Global Offering, (i) all amounts due to or from; and (ii) all guarantees provided to or from, our Controlling Shareholders to our Company, will be fully settled or released.

Delineation of business

Our Group is principally engaged in the manufacturing of lingerie materials and is a one-stop solutions provider to lingerie brand owners through our comprehensive product line of lingerie materials, including elastic fabrics, elastic webbing and lace.

Mr. Lu also engages in the business of property development in the Guangdong Province.

Given (i) the different nature between our Group's business and the property development business of Mr. Lu; and (ii) the operations of our Group are independent of and separate from the property development business of Mr. Lu, our Directors are of the view that there is a clear delineation between the property development business of Mr. Lu and our business, and they do not expect there to be any overlap or competition between the businesses of Mr. Lu and our Group.

DEED OF NON-COMPETITION

To better safeguard our Group from any potential competition and conditional upon the Listing taking place, each of our Controlling Shareholders (collectively, the "**Covenantors**") has entered into the Deed of Non-Competition in favour of our Company, pursuant to which each of the Covenantors jointly and severally, irrevocably and unconditionally, undertakes with us that with effect from the Listing Date and for as long as our Shares remain so listed on the Stock Exchange and the Covenantors are regarded as controlling shareholders (as defined under the Listing Rules), each of the Covenantors will not, and will procure that none of their respective associates will:

- (a) directly or indirectly engage, participate or hold any right or interest in or otherwise be involved in any business in competition with or likely to be in competition with our existing business activity or any principal business activity of any member of our Group or be in competition with us in any business activities which we may undertake in the future (the "**Restricted Business**") save for (i) the holding of not more than 5% shareholding interests (individually or any of the Covenantors with their associates collectively) in any listed company in Hong Kong; or (ii) the holding of shares in any listed company in Hong Kong where the Restricted Business conducted or engaged in

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by such company accounts for less than 10% of the relevant company's consolidated turnover or consolidated assets, or (iii) where the Covenantors are already, directly or indirectly, interested or invested in the operations of companies which are engaging in Restricted Business and details of which have been specifically disclosed in this prospectus; and

- (b) take any direct or indirect action which constitutes an interference with or a disruption to our business activities including, but not limited to, solicitation of our customers, suppliers or staff.

In addition, each of the Covenantors hereby jointly and severally undertakes that if any new business opportunity relating to any Restricted Business is made available to any of the Covenantors, it will direct the Restricted Business to us with such required information to enable us to evaluate the merits of the Restricted Business.

Any decision of our Company as to whether or not to engage in the Restricted Business will have to be approved by our independent non-executive Directors. Where our independent non-executive Directors have reviewed the opportunity to invest, participate, be engaged in and/or operate with a third party any Restricted Business and has declined such opportunity, the Covenantors (or his/its associate(s)) may subsequently invest, participate, engage in or operate the Restricted Business as long as the terms by which the Covenantors subsequently invest are not more favourable than those disclosed to our Company.

Where our Company decides and offers to invest, participate, be engaged in and/or operate any Restricted Business with any of the Covenantors and/or his/its associates, such Covenantor and/or his/its associates can invest, participate, be engaged in and/or operate such Restricted Business with our Company. Our Company will comply with the requirements of the Listing Rules in case of such cooperation with the Covenantors and/or his/its associates.

Each of the Covenantors further jointly and severally undertakes that he/it will provide to us all information necessary for the enforcement of the above non-competition undertakings.

Each of the Covenantors also represents and warrants that apart from the disclosures made in this prospectus, neither he or it nor any of his/its associates is currently engaging, directly or indirectly, in any business that competes or may compete with us.

The Deed of Non-Competition will cease to have effect on any of the Covenantors if he/it ceases to be a Controlling Shareholder of our Company, or the date on which the Listing is withdrawn, whichever occurs first.

CORPORATE GOVERNANCE MEASURES

We have adopted the following measures to manage the conflict of interests arising from competing business and to safeguard the interest of our Shareholders:

- (a) the Covenantors will promptly provide to us such information as we may from time to time reasonably request to ascertain the compliance of their obligations under the Deed of Non-Competition;
- (b) our independent non-executive Directors will review on an annual basis the compliance with the non-competition undertaking by the Covenantors under the Deed of Non-Competition;

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- (c) the Covenantors undertake to provide to us all information necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-Competition;
- (d) we will disclose decisions on matters reviewed by our independent non-executive Directors relating to the compliance and enforcement of the non-competition undertaking of the Covenantors under the Deed of Non-Competition in our annual report or by way of announcement to the public;
- (e) the Covenantors shall abstain from voting at any general meeting of our Company if there is any actual or potential conflict of interest;
- (f) the Covenantors will make an annual declaration on compliance with their undertaking under the Deed of Non-Competition in our annual report and make disclosure on how the Deed of Non-Competition has been complied with and enforced, consistent with the principle of making voluntary disclosure in the corporate governance report; and
- (g) we have appointed CCBI as our compliance adviser which shall provide us with professional advice and guidance in respect of compliance with the Listing Rules and applicable laws.