

## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Immediately following completion of the Global Offering and the Capitalization Issue (taking no account of Shares which may be issued pursuant to the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme), Hopeland International, which is wholly-owned by Mr. Lin, will be interested in 63.75% of the issued share capital of the Company. Hence, Mr. Lin and Hopeland International will be the Controlling Shareholders within the meaning of the Listing Rules.

### INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

The Directors consider that the Group is capable of carrying on its business independent of the Controlling Shareholders and their associates on the following reasons:

#### **1. Management independence and operational independence**

Although the Controlling Shareholders will retain a controlling interest in the Company after the Listing, the Company has full rights to make all decisions on, and to carry out, its own business operations independently. The Company (through its subsidiaries) holds all relevant licences necessary to carry on the business, and has sufficient capital, equipment and employees to operate the businesses independently from the Controlling Shareholders.

The Company's management and operational decisions are made by the executive Directors and senior management, who have served the Company and/or its subsidiaries for a long time and have substantial experience in the industry in which the Company is engaged. Further, the Company's three independent non-executive Directors will bring independent judgment to the decision-making process of the Board.

Save for the continuing connected transaction disclosed in the section headed "Connected Transaction" in this prospectus, the Directors do not expect that there will be any other transactions between the Group and the Controlling Shareholders upon or shortly after the Listing.

#### **2. Administrative independence**

The Group has its own capabilities and personnel to perform all essential administrative functions including financial and accounting management, inventory management and research and development. The company secretary and senior management staff are independent of the Controlling Shareholders.

#### **3. Financial independence**

The Group has its own financial management system and the ability to operate independently from the Controlling Shareholders from a financial perspective. The Directors believe that the Group is capable of obtaining financing from external sources without reliance on the Controlling Shareholders. During the Track Record Period, the Group has certain outstanding balances due from/to related parties. The amount due to

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Mr. Lin of about RMB35.9 million has been assigned to China Grandsoo during 2009 as part of the Corporate Reorganization, resulting in nil balance due to Mr. Lin as at 31 December 2009. After such assignment, the amount due to Mr. Lin from Hong Kong Sijia became amount due to China Grandsoo and intra-group balances within the Group which will be eliminated in the consolidated balance sheet of the Group. The Directors confirmed that all other non-trade payable balances with the Controlling Shareholder and other balances with related parties of the Group will be fully settled before the Listing.

### *Non-competition Undertaking*

The Controlling Shareholders have confirmed that they are neither engaged, nor interested, in any business which, directly or indirectly, competes or may compete with the Group's business.

On 15 January 2010, the Company (for itself and as trustee for and on behalf of its subsidiaries and associated companies) entered into the Non-competition Deed with each of the Controlling Shareholders. Pursuant to the Non-competition Deed, each of the Controlling Shareholders irrevocably and unconditionally, jointly and severally, covenants and undertakes with the Company (for itself and as trustee for and on behalf of its subsidiaries and associated companies) that, during the period from the Listing Date and up to the date on which such Controlling Shareholders and/or its/his associates cease to beneficially own (i) more than 30% of the issued share capital of the Company or (ii) any interests in the direct or indirect corporate shareholders of the Company which in turn beneficially own more than 30% of the issued share capital of the Company, each of the Controlling Shareholders shall not, and shall procure that none of its/his associates shall, directly or indirectly, establish, invest, involve in, manage, operate or otherwise hold any right or interest, directly or indirectly, in the business of design, development, manufacture and sale of (i) the Reinforced Materials, (ii) Conventional Materials and (iii) End Products, and such other business conducted or carried on by the Group from time to time (the "Restricted Business") within the PRC (inclusive of Hong Kong) and such other places as the Group may conduct or carry on business from time to time.

Notwithstanding aforesaid, the non-competition undertaking as set out above shall not prevent the Controlling Shareholders and their respective associates from acquiring a direct or indirect shareholding interest of not more than 10% in a company listed on any stock exchange anywhere in the world and engaged in any Restricted Business.