

## CONNECTED TRANSACTIONS

### OVERVIEW

During the Track Record Period and prior to the Listing, the Group had entered into a number of transactions with the following parties which will become connected persons (as defined in Chapter 14A of the Listing Rules) of the Company upon Listing:

- (1) Chim Wai Kong, a Director and a Controlling Shareholder;
- (2) Chim Wai Shing Jackson, a Director and a Controlling Shareholder;
- (3) Chim Fo Che, a Director;
- (4) Hong Ming Qu, a Director;
- (5) Nian Wei Deng, a natural brother of Chim Wai Kong, Chim Wai Shing Jackson, Chim Fo Che and Hong Ming Qu;
- (6) Sze Fo Chau, a brother-in-law of Chim Wai Kong, Chim Wai Shing Jackson, Chim Fo Che, Nian Wei Deng and Hong Ming Qu;
- (7) Hui Cheung Mau, a brother-in-law of Chim Wai Kong, Chim Wai Shing Jackson, Chim Fo Che, Nian Wei Deng and Hong Ming Qu;
- (8) Hong Lian Qiao, a brother-in-law of Chim Wai Kong, Chim Wai Shing Jackson, Chim Fo Che, Nian Wei Deng and Hong Ming Qu;
- (9) Hua Xin Plastic, a company established in the PRC with limited liability on 7 December 1995 and is a wholly-owned subsidiary of Wah Hing Trading Co which in turn is wholly-owned by Chim Wai Kong. Its principal business is the recollection of waste tyres. Based on the audited accounts of Hua Xin Plastic prepared under PRC accounting standards, for each of the three years ended 31 December 2007, 2008 and 2009, the turnover of Hua Xin Plastic was approximately RMB237.5 million, RMB256.5 million and RMB262.6 million respectively; and the net profit of Hua Xin Plastic for the same period was approximately RMB21.3 million, RMB22.9 million and RMB23.9 million respectively;
- (10) Hua Xin Weaving, a company established in the PRC with limited liability on 11 March 1994 and is a wholly-owned subsidiary of Costin Int'l Trade (H.K.) Company Limited which in turn is owned as to 0.25% and 99.75% by Chim Wai Shing Jackson and Chim Wai Kong respectively. Its principal business is trading of fashion garments and woven products. Based on the audited accounts of Hua Xin Weaving prepared under PRC accounting standards, for each of the three years ended 31 December 2007, 2008 and 2009, the turnover of Hua Xin Weaving was approximately RMB198.6 million, RMB222.4 million and RMB283.9 million respectively; and the net profit of Hua Xin Weaving for the same period was approximately RMB22.8 million, RMB24.5 million and RMB33.0 million respectively;
- (11) Xin Hua Import, a company established in the PRC with limited liability on 19 July 2006 and owned as to 65% by Chim Wai Shing Jackson and 35% by Hong Lian Qiao. Its principal business is import and export of footwear, fashion garments and textile products. Based on

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the audited accounts of Xin Hua Import prepared under PRC accounting standards, for each of the three years ended 31 December 2007, 2008 and 2009, the turnover of Xin Hua Import was approximately RMB126.0 million, RMB161.6 million and RMB192.9 million respectively; and the net profit of Xin Hua Import for the same period was approximately RMB4.4 million, RMB7.9 million and RMB9.9 million respectively;

- (12) Long Hu Collection, a company established in the PRC with limited liability on 23 August 2005 and is owned as to 60% and 40% by Nian Wei Deng and Hong Ming Qu respectively. Its principal business is collection of waste rubber. Based on the audited accounts of Long Hu Collection prepared under PRC accounting standards, for each of the three years ended 31 December 2007, 2008 and 2009, the turnover of Long Hu Collection was approximately RMB23.8 million, RMB20.3 million and RMB34.4 million respectively; and the net profit of Long Hu Collection for the same period was approximately RMB0.6 million, RMB0.5 million and RMB0.9 million respectively;
- (13) Nan Fang Weaving, a company established in the PRC with limited liability on 4 August 1997 and is wholly-owned by Nian Sha Sha, the daughter of Chim Wai Kong. Its principal business is manufacturing of clothes. Based on the audited accounts of Nan Fang Weaving prepared under PRC accounting standards, for each of the three years ended 31 December 2007, 2008 and 2009, the turnover of Nan Fang Weaving was approximately RMB320.1 million, RMB335.3 million and RMB336.0 million respectively; and the net profit of Nan Fang Weaving for the same period was approximately RMB21.3 million, RMB30.0 million and RMB23.7 million respectively;
- (14) Costin Int'l Trade (H.K.) Company Limited, a company incorporated in Hong Kong with limited liability on 10 September 1999 and is owned as to 0.25% and 99.75% by Chim Wai Shing Jackson and Chim Wai Kong respectively. Its principal business is the provision of agency services and is also engaging in trading of fashion garments and woven products. Based on the audited accounts of Costin Int'l Trade (H.K.) Company Limited prepared under Hong Kong accounting standards, for each of the three years ended 31 March 2007, 2008 and 2009, the turnover of Costin Int'l Trade (H.K.) Company Limited was approximately HK\$0.8 million, HK\$1.6 million and HK\$2.2 million respectively; and the net profit/loss of Costin Int'l Trade (H.K.) Company Limited for the same period was profit of approximately HK\$92,000, loss of approximately HK\$13,000 and profit of approximately HK\$0.4 million respectively. Based on the unaudited management accounts of Costin Int'l Trade (H.K.) Company Limited, the unaudited turnover and net profit for the year ended 31 March 2010 was approximately HK\$271.8 million and HK\$0.6 million respectively;
- (15) Wah Hing Trading Co, an unlimited company established in Hong Kong on 1 April 1995 and its sole proprietor is Chim Wai Kong. Its principal business is the provision of agency services. Based on its unaudited management accounts, for the three years ended 31 March 2010, the unaudited turnover of Wah Hing Trading Co was approximately HK\$533,674, HK\$18,808 and nil respectively; and the unaudited net profit/loss for the same period was profit of approximately HK\$385,700, HK\$14,000 and loss of approximately HK\$68,000 respectively; and

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(16) Hua Xin Non-weaving, a company established in the PRC with limited liability on 15 July 1998 and was wholly owned by Wah Hing Trading Co upon establishment. On 31 July 2009, Wah Hing Trading Co transferred its entire equity interests in Hua Xin Non-weaving to an Independent Third Party. It has not commenced any business.

Except for the transactions that are disclosed under the paragraph headed “Connected Transactions — Continuing Connected Transactions” of this prospectus, all other transactions entered into with the connected persons have been or will be completed or discontinued before the Listing.

### A. Summary of connected transactions completed or discontinued before Listing

The following set out the summary of connected transactions completed or discontinued before Listing, further details of which are set out in paragraph C of this section:

	<u>Members of the Group</u>	<u>Connected persons</u>	<u>Relationship with the Group</u>	<u>Transaction</u>	<u>Waiver sought</u>
1.	Xinhua Company	Hua Xin Weaving	associate of Controlling Shareholders	(a) Asset transfer agreements (b) Rental agreements and tenancy agreements (c) Sale and purchase agreements in respect of raw materials and non- woven products (d) Property rights transfer agreement in respect of certain buildings (e) Loan agreements	None
2.	Xinhua Company	Hua Xin Plastic	associate of Controlling Shareholders	(a) Asset transfer agreements (b) Steam supply agreement (c) Rental agreements (d) Sale and purchase agreements in respect of garment raw materials	None
3.	Xinhua Company	Hua Xin Non-weaving	associate of Controlling Shareholders	Land transfer agreement	None
4.	Xinhua Company	Costin Int’l Trade (H.K.) Company Limited	associate of Controlling Shareholders	(a) Agency agreement (b) Loan agreement	None
5.	Xinhua Company	Wah Hing Trading Co	associate of Controlling Shareholders	Agency agreement	None
6.	Xinhua Company	Long Hu Collection	associate of Directors	Sale and purchase agreements in respect of waste plastic materials	None

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<u>Members of the Group</u>	<u>Connected persons</u>	<u>Relationship with the Group</u>	<u>Transaction</u>	<u>Waiver sought</u>
7. Xinhua Company	Nan Fang Weaving	associate of Controlling Shareholders	Sale and purchase agreements in respect of waste plastic materials	None
8. Xinhua Company	Xin Hua Import	associate of Controlling Shareholders	Sale and purchase agreements in respect of non-woven fabrics, chemical fibres and fashion garment	None
9. the Group	(a) Chim Wai Kong (b) Chim Wai Shing, Jackson (c) Nian Wei Deng (d) Chim Fo Che	Controlling Shareholders or associates of Controlling Shareholders or Director	Loans from the Group	None
10. Xinhua Company	(a) eight individual Founders of Xinhua Company (b) Hua Xin Plastic (c) Hua Xin Weaving (d) Nan Fang Weaving (e) Xin Hua Import	Controlling Shareholders or associates of Controlling Shareholders	Bank guarantees and loans	None
11. (a) Xinhua Company	Nian Wei Deng	associate of Controlling Shareholder	Acquisition of vehicle	None
(b) Xinhua Company	Hong Ming Qu	associate of Controlling Shareholder	Acquisition of vehicle (unwritten transaction)	None
12. Xinhua Company	eight individual Founders of Xinhua Company	Controlling Shareholders or associates of Controlling Shareholders	Structure Contracts	None
13. (a) Gerfalcon PRC	eight individual Founders of Xinhua Company	Controlling Shareholders or associates of Controlling Shareholders	Share transfer agreement	None
(b) Gerfalcon Trading				
14. (a) Gerfalcon PRC	eight individual Founders of Xinhua Company	Controlling Shareholders or associates of Controlling Shareholders	Agreement of gift	None
(b) Gerfalcon Trading				

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### B. Summary of continuing connected transactions

The following set out the summary of continuing connected transactions, further details of which are set out in paragraph D of this section:

<u>Members of the Group</u>	<u>Connected persons</u>	<u>Relationship with the Group</u>	<u>Transaction</u>	<u>Waiver sought</u>
15. Xinhua Company	Hua Xin Plastic	associate of Controlling Shareholders	Rental agreement	Exempted from reporting and announcement
16. Xinhua Company	Hua Xin Weaving	associate of Controlling Shareholders	(a) Rental agreement (b) Tenancy agreement	Exempted from reporting and announcement

The Group entered into transactions with the connected persons during the Track Record Period for the following reasons:

- Several asset transfer agreements were entered into with connected persons for the purpose of streamlining the Group's business before the Listing.
- Agreements of trading nature entered into in the ordinary course of business (e.g. sale and purchase agreements, tenancy agreements, steam supply agreement) were entered into as the relevant connected persons are physically located near the premises of the Group and it is more practical to enter into agreements with them.
- Terms offered by connected persons were no less favourable than those offered by Independent Third Parties based on the quotations obtained by the Directors.

The Directors considered that the transactions entered into with the connected persons during the Track Record Period were conducted in the ordinary and usual course of the Group's business and on normal commercial terms in view of the following circumstances:

- For sales to the connected persons, the selling prices are comparable to the prices charged to independent customers by the Group; the connected persons will arrange for its own delivery of goods directly from the Group; and credit period of up to 90 days was granted to the connected persons which was similar to the credit terms offered to independent major customers of the Group. These credit and delivery terms are in accordance with normal industry practice.
- For purchases from connected persons, the Group has considered market prices and compared with at least 3 other independent suppliers in terms of pricing and product quality before entering into such purchases, so as to ensure that purchasing from the connected persons was no less favourable than purchasing from independent suppliers.

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- For rental income and expenses, the Group has determined the rentals with reference to the market price in the surrounding area of the rented properties at the time of entering the lease, and Jones Lang LaSalle Sallmanns Limited, the independent property valuer to the Group, has confirmed that the rental is fair and reasonable and consistent with the prevailing market rate.
- For the agency fees paid to the connected persons, which is 1% of the contract amount as stipulated in the agency agreements, the Directors confirmed that such rate is determined after considering the administrative expenses and bank charges actually borne by the connected persons in relation to the services rendered.
- Pricing of steam supply is based on the actual cost incurred for the supply of steam.
- Interest on the loans provided by the connected persons is based on the prevailing bank loan interest rate of the same level in the corresponding period.
- The considerations for the asset transfers were based on their respective net asset value of the assets.

Moreover, the Group has checks and controls in place to ensure the transactions entered into with the connected persons during the Track Record Period and after Listing were no less favourable to the Group than those offered by independent supplier and/or customers as follows:

- For purchases from connected persons, the Group will compare the prices and product quality with at least three other independent suppliers before entering into such purchases, so as to ensure that the purchase terms from the connected persons are comparable to market prices, in accordance with normal industry practice and are no less favourable than purchasing from independent suppliers.
- For sales to the connected persons, the Group will determine the sales terms with reference to the prices and terms offered by independent customers, so as to ensure that the transaction terms with the connected persons are comparable to market prices, in accordance with industry practice and are no less favourable than selling to independent customers.
- For the transactions other than the sales to and purchase from the connected persons, the Group would consider the market prices or rate (if applicable), the actual costs incurred and the net asset value in order to determine the consideration and the Group would also make reference to the commercial terms of the industry practice (if applicable) so as to ensure the terms offered by the connected persons are no less favorable to the Group than those offered by the Independent Third Parties.

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### C. Connected transactions completed or discontinued before Listing

During the Track Record Period, the Group had entered into transactions with connected persons of the Company, which are either one-off transactions or transactions that have been completed or discontinued prior to Listing.

#### 1. Transactions entered into between Xinhua Company and Hua Xin Weaving

##### 1(a) Asset Transfer Agreements

<u>Transactions</u>	<u>Date</u>	<u>Description</u>	<u>Consideration (based on net asset value)</u>
Asset Transfer Agreement	1 November 2007	Sale of certain quantities of non-woven machineries and facilities by Hua Xin Weaving to Xinhua Company (the transactions thereunder were completed within 15 days from 1 November 2007)	RMB17,131,985.75
Asset Transfer Agreement	1 November 2007	Sale of certain quantities of clothing machineries and facilities by Xinhua Company to Hua Xin Weaving (the transactions thereunder were completed within 15 days from 1 November 2007)	RMB941,693.59
Asset Transfer Agreement	28 November 2007	Sale of certain quantities of inventory (including non-woven raw materials and non-woven products) by Hua Xin Weaving to Xinhua Company (the transactions thereunder were completed within 3 days from 28 November 2007)	RMB19,784,392.98

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<u>Transactions</u>	<u>Date</u>	<u>Description</u>	<u>Consideration (based on net asset value)</u>
Asset Transfer Agreement	21 March 2008	Sale of certain quantities of machineries relating to the production of non-woven fabrics and chemical fibres by Hua Xin Weaving to Xinhua Company; and sale of one set of electricity supply system by Xinhua Company to Hua Xin Weaving (the transactions thereunder were completed within 15 days from 21 March 2008)	RMB381,651.96  RMB27,060.75

### 1(b) *Rental Agreements*

<u>Transactions</u>	<u>Date</u>	<u>Description</u>	<u>Term</u>	<u>Monthly Rental</u>
(i) Rental Agreement between Xinhua Company as tenant and Hua Xin Weaving as landlord (as terminated by a termination agreement dated 1 November 2007)	25 December 2006	Certain production lines (which was terminated by the termination agreement with effect from 1 November 2007)	12 months commencing in January 2007 and expiring in December 2007	RMB257,270.87, exclusive of water and electricity charges
(ii) Rental Agreement between Xinhua Company as tenant and Hua Xin Weaving as landlord	25 December 2006	Two premises with the areas of 505.73 sq.m. and 1,329.64 sq.m.	12 months commencing in January 2007 and expiring in December 2007	RMB18,353.62, exclusive of water and electricity charges



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Transactions	Date	Description	Term	Monthly Rental	
(iii)	Rental Agreement between Xinhua Company as landlord and Hua Xin Weaving as tenant (and supplemented by a supplemental agreement dated 10 January 2008 and further supplemented by a further supplemental agreement dated 29 December 2008)	20 December 2007	<ul style="list-style-type: none"> <li>• Under the Rental Agreement, various properties located at Xinhua Industrial Garden was leased by Hua Xin Weaving from Xinhua Company</li> <li>• Under the supplemental agreement, the monthly rental was increased from RMB78,689.93 to RMB86,596.65</li> <li>• Under the further supplemental agreement, the Rental Agreement and the supplemental agreement were terminated</li> </ul>	36 months commencing in December 2007 and expiring in December 2010	RMB78,689.93, exclusive of water and electricity charges  RMB86,596.65, exclusive of water and electricity charges
(iv)	Rental Agreement between Xinhua Company as tenant and Hua Xin Weaving as landlord	10 January 2008	Two premises with the areas of 505.73 sq.m. and 1,329.64 sq.m.	12 months commencing in January 2008 and expiring in December 2008	RMB20,796, exclusive of water and electricity charges
(v)	Tenancy Agreement between Hua Xin Weaving as tenant and Xinhua Company as landlord	11 December 2008	Two premises with the areas of 6,567.15 sq.m. and 4,162.58 sq.m. respectively located at Xinhua Industrial Garden	1 year commencing from 1 January 2009 to 31 December 2009	RMB107,297.30 exclusive of water and electricity charges

## CONNECTED TRANSACTIONS

Transactions	Date	Description	Term	Monthly Rental
(vi) Tenancy Agreement between Hua Xin Weaving as tenant and Xinhua Company as landlord (supplemented by a supplemental agreement dated 20 October 2009)	3 January 2009	<ul style="list-style-type: none"> <li>• Under the Tenancy Agreement, four premises with the areas of 4,938.84 sq.m., 3,603.30 sq.m., 3,534.68 sq.m. and 1,018.81 sq.m. respectively located at Xinhua Industrial Garden for the period from 1 January 2009 to 31 December 2009.</li> <li>• Under the supplemental agreement, the four premises leased under the Tenancy Agreement were changed to three premises with the areas of 4,938.84 sq.m., 3,603.30 sq.m. and 1,018.81 sq.m. respectively located on Xinhua Industrial Garden</li> </ul>	1 year commencing from 1 January 2009 to 31 December 2009	RMB104,765.04 exclusive of water and electricity charges

1(b)(i) *Rental Agreement dated 25 December 2006 and entered into between Xinhua Company and Hua Xin Weaving*

On 25 December 2006, Xinhua Company as tenant and Hua Xin Weaving as landlord entered into a rental agreement (the “**2006 Rental Agreement Hua Xin Weaving (1)**”) whereby Xinhua Company agreed to lease from Hua Xin Weaving certain production lines for production purpose. The 2006 Rental Agreement Hua Xin Weaving (1) was for a term of 12 months commencing in January 2007 and expiring in December 2007. The monthly rental was RMB257,270.87, exclusive of water and electrical charges, and was fixed throughout the term of the rental agreement.

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On 1 November 2007, Xin Hua Company and Hua Xin Weaving entered in a termination agreement whereby the 2006 Rental Agreement Hua Xin Weaving (1) was terminated with effect from 1 November 2007.

For the year ended 31 December 2007, Hua Xin Weaving received from Xinhua Company rentals which amounted to approximately RMB2.8 million under the above rental agreement.

*1(b)(ii) Rental Agreement dated 25 December 2006 and entered into between Xinhua Company and Hua Xin Weaving*

On 25 December 2006, Xinhua Company as tenant and Hua Xin Weaving as landlord entered into a rental agreement (the “**2006 Rental Agreement Hua Xin Weaving (2)**”) whereby Xinhua Company agreed to lease from Hua Xin Weaving two premises with the areas of 505.73 sq.m. and 1,329.64 sq.m. for production and operation purposes. The 2006 Rental Agreement Hua Xin Weaving (2) was for a term of 12 months commencing in January 2007 and expiring in December 2007. The monthly rental was RMB18,353.62, exclusive of water and electrical charges, and was fixed throughout the term of the rental agreement.

For the year ended 31 December 2007, Hua Xin Weaving received from Xinhua Company rentals which amounted to approximately RMB0.2 million under the above rental agreement.

*1(b)(iii) Rental Agreement dated 20 December 2007 and entered into between Xinhua Company and Hua Xin Weaving*

On 20 December 2007, Hua Xin Weaving as tenant and Xinhua Company as landlord entered into a rental agreement (the “**2007 Rental Agreement Hua Xin Weaving**”) whereby Hua Xin Weaving agreed to lease from Xinhua Company the various properties located at Xinhua Industrial Garden for production and operation purposes. The 2007 Rental Agreement Hua Xin Weaving was for a term of 36 months commencing in December 2007 and expiring in December 2010. The monthly rental was RMB78,689.93, exclusive of water and electricity charges, and was fixed through out the term of the rental agreement.

By a supplemental agreement dated 10 January 2008 and entered into between Xinhua Company as landlord and Hua Xin Weaving as tenant, the monthly rental under the 2007 Rental Agreement Hua Xin Weaving was increased from RMB78,689.93 to RMB86,596.65 whilst the other terms of the 2007 Rental Agreement Hua Xin Weaving remained unchanged.

By a further supplemental agreement dated 29 December 2008 and entered into between Xinhua Company as landlord and Hua Xin Weaving as tenant, the 2007 Rental Agreement Hua Xin Weaving and the supplemental agreement dated 10 January 2008 were terminated with effect from 29 December 2008.

For the two years ended 31 December 2007 and 2008, Xinhua Company received from Hua Xin Weaving rentals which amounted to approximately RMB78,690 and RMB1 million respectively under the above agreements.

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*1(b)(iv) Rental Agreement dated 10 January 2008 and entered into between Xinhua Company and Hua Xin Weaving*

On 10 January 2008, Xinhua Company as tenant and Hua Xin Weaving as landlord entered into a rental agreement (the “**2008 Rental Agreement Hua Xin Weaving**”) whereby Xinhua Company agreed to lease from Hua Xin Weaving two premises with the areas of 505.73 sq.m. and 1,329.64 sq.m. for production and operation purposes. The 2008 Rental Agreement Hua Xin Weaving was for a term of 12 months commencing in January 2008 and expiring in December 2008. The monthly rental was RMB20,796, exclusive of water and electrical charges, and was fixed throughout the term of the rental agreement.

For the year ended 31 December 2008, Hua Xin Weaving received from Xinhua Company rentals which amounted to approximately RMB0.2 million under the above rental agreement.

*1b(v) Tenancy Agreement dated 11 December 2008 and entered into between Xinhua Company and Hua Xin Weaving*

On 11 December 2008, Hua Xin Weaving as tenant and Xinhua Company as landlord entered into a tenancy agreement (廠房租賃合同) (the “**2008 Tenancy Agreement**”) whereby Hua Xin Weaving agreed to lease from Xinhua Company two premises with the areas of 6,567.15 sq.m. and 4,162.58 sq.m. located at Xinhua Industrial Garden for production and operation purposes. The 2008 Tenancy Agreement is for a term of one year commencing from 1 January 2009 to 31 December 2009. The monthly rental is approximately RMB107,297.30, exclusive of water and electricity charges, and is fixed throughout the term of the tenancy agreement.

Hua Xin Weaving has been granted a right of first refusal to purchase the premises under the 2008 Tenancy Agreement. The 2008 Tenancy Agreement is also renewable upon the consent of Xinhua Company with Hua Xin Weaving giving three months notice prior to the expiry thereof.

For the year ended 31 December 2009, Xinhua Company received total rentals of RMB1,287,567.60 from Hua Xin Weaving under the above tenancy agreement.

*1b(vi) Tenancy Agreement dated 3 January 2009 and entered into between Xinhua Company and Hua Xin Weaving*

On 3 January 2009, Hua Xin Weaving as tenant and Xinhua Company as landlord entered into a tenancy agreement (廠房租賃合同) (the “**2009 Tenancy Agreement**”) whereby Hua Xin Weaving agreed to lease from Xinhua Company four premises with the areas of 4,938.84 sq.m., 3,603.30 sq.m., 3,534.68 sq.m. and 1,081.81 sq.m. respectively located at Xinhua Industrial Garden for production and operation purposes for a term of 1 year commencing from 1 January 2009 to 31 December 2009. The monthly rental is approximately RMB104,765.04, exclusive of water and electricity charges, and is fixed throughout the term of the tenancy agreement.

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Hua Xin Weaving has been granted a right of first refusal to purchase the premises under the 2009 Tenancy Agreement. The 2009 Tenancy Agreement is also renewable upon the consent of Xinhua Company with Hua Xin Weaving giving three months notice prior to the expiry thereof.

By a supplemental agreement dated 20 October 2009 and entered into between Xinhua Company as landlord and Hua Xin Weaving as tenant, the four premises leased under the 2009 Tenancy Agreement were changed to three premises with the areas of 4,938.84 sq.m., 3,603.30 sq.m. and 1,018.81 sq.m. respectively whilst the other terms of the 2009 Tenancy Agreement remained unchanged.

For the year ended 31 December 2009, Xinhua Company received total rentals of RMB1,257,180.48 from Hua Xin Weaving under the above tenancy agreement.

### 1(c) *Sale and Purchase Agreements*

Apart from the above connected transactions, during the Track Record Period, Xinhua Company and Hua Xin Weaving had entered into a number of transactions, pursuant to which, Xinhua Company purchased certain garment raw materials from and offered for sale of non-woven products to Hua Xin Weaving. The total purchase price amounted to approximately RMB0.8 million for the year ended 31 December 2007, representing approximately 0.3% of the Group's total purchases, and the total sale price amounted to approximately RMB4.1 million for the year ended 31 December 2008.

Xinhua Company was not the sole customer and supplier of Hua Xin Weaving during the Track Record Period. During the Track Record Period, the percentage of sales made by Hua Xin Weaving to Xinhua Company for the year ended 31 December 2007 represented approximately 0.4% of the total sales of Hua Xin Weaving; and the percentage of purchases by Hua Xin Weaving from Xinhua Company for the year ended 31 December 2008 represented approximately 2.1% of the total purchases of Hua Xin Weaving.

### 1(d) *Property Rights Transfer Agreement*

On 28 September 2009, Xinhua Company as transferor and Hua Xin Weaving as transferee entered into a property rights transfer agreement (the “**Property Rights Transfer Agreement**”), pursuant to which Xinhua Company's rights in respect of certain buildings located in Xinhua Industrial Garden were transferred to Hua Xin Weaving at a consideration of approximately RMB31.1 million, such consideration was based on the value as appraised by an independent PRC property valuer.

By a supplemental agreement dated 28 September 2009 and entered into between Xinhua Company and Hua Xin Weaving, a breakdown of the consideration for those buildings transferred under the Property Rights Transfer Agreement were set out.

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### 1(e) *Loan Agreements*

On 30 December 2008 and 20 June 2009, Xinhua Company as borrower and Hua Xin Weaving as lender entered into two loan agreements in respect of the loans in the amount of RMB65 million and RMB5 million with the repayment dates of 31 December 2010 and 30 June 2011 respectively, both at the annual interest rate of 5.40% and have been fully settled before 31 March 2010.

## 2. *Transactions entered into between Xinhua Company and Hua Xin Plastic*

### 2(a) *Asset Transfer Agreements*

<u>Transactions</u>	<u>Date</u>	<u>Description</u>	<u>Consideration (based on net asset value)</u>
Asset Transfer Agreement	30 December 2007	Sale of certain quantities of boilers equipment by Hua Xin Plastic to Xinhua Company (the transactions thereunder were completed within 15 days from 30 December 2007)	RMB1,334,300.00
Asset Transfer Agreement	30 December 2007	Sale of an ancillary production line relating to fashion garment by Xinhua Company to Hua Xin Plastic (the transactions thereunder were completed within 15 days from 30 December 2007)	RMB539,222.29

### 2(b) *Steam Supply Agreement*

<u>Transactions</u>	<u>Date</u>	<u>Description</u>	<u>Consideration</u>
Steam Supply Agreement	undated	Hua Xin Plastic as supplier and, amongst others, Xinhua Company as customer in respect of the supply of steam commencing from 1 January 2007 to 31 December 2007	RMB215 per ton of steam

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For the year ended 31 December 2007, the consideration paid by Xinhua Company to Hua Xin Plastic under the Steam Supply Agreement amounted to approximately RMB5.4 million.

### 2(c) *Rental Agreements*

<u>Transactions</u>	<u>Date</u>	<u>Description</u>	<u>Term</u>	<u>Monthly Rental</u>
(i) Rental Agreement between Xinhua Company as tenant and Hua Xin Plastic as landlord	25 December 2006	Two premises with the areas of 1,520.63 sq.m. and 1,853.53 sq.m.	12 months commencing in January 2007 and expiring in December 2007	RMB39,924.06, exclusive of water and electricity charges
(ii) Rental Agreement between Xinhua Company as tenant and Hua Xin Plastic as landlord	10 January 2008	Two premises with the areas of 1,520.63 sq.m. and 1,853.53 sq.m.	12 months commencing in January 2008 and expiring in December 2008	RMB46,103.50, exclusive of water and electricity charges

#### 2(c)(i) *Rental Agreement dated 25 December 2006 and entered into between Xinhua Company and Hua Xin Plastic*

On 25 December 2006, Xinhua Company as tenant and Hua Xin Plastic as landlord entered into a rental agreement (the “**2006 Rental Agreement Hua Xin Plastic**”) whereby Xinhua Company agreed to lease from Hua Xin Plastic two premises with the areas of 1,520.63 sq.m. and 1,853.53 sq.m. The 2006 Rental Agreement Hua Xin Plastic was for a term of 12 months commencing in January 2007 and expiring in December 2007. The monthly rental was RMB39,924.06, exclusive of water and electrical charges, and was fixed throughout the term of the rental agreement.

For the year ended 31 December 2007, Hua Xin Plastic received from Xinhua Company rentals which amounted to approximately RMB479,088.72 under the above rental agreement.

#### 2(c)(ii) *Rental Agreement dated 10 January 2008 and entered into between Xinhua Company and Hua Xin Plastic*

On 10 January 2008, Xinhua Company as tenant and Hua Xin Plastic as landlord entered into a rental agreement (the “**2008 Rental Agreement Hua Xin Plastic**”) whereby Xinhua Company agreed to lease from Hua Xin Plastic two premises with the areas of 1,520.63 sq.m. and 1,853.53 sq.m. The 2008 Rental Agreement Hua Xin Plastic was for a term of 12 months commencing in January 2008 and expiring in December 2008. The monthly rental was RMB46,103.50 exclusive of water and electrical charges, and was fixed throughout the term of the rental agreement.

For the year ended 31 December 2008, Hua Xin Plastic received from Xinhua Company rentals which amounted to approximately RMB0.6 million under the above rental agreement.

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### *2(d) Sale and Purchase Agreements*

Apart from the above connected transactions, during the Track Record Period, Xinhua Company and Hua Xin Plastic had entered into a number of transactions, pursuant to which, Xinhua Company purchased certain garment raw materials from Hua Xin Plastic. The total purchase price amounted to approximately RMB28,277 and RMB2,276 respectively for the year ended 31 December 2007 and the year ended 31 December 2009.

Xinhua Company was not the sole customer of Hua Xin Plastic during the Track Record Period. During the Track Record Period, the percentage of sales made by Hua Xin Plastic to Xinhua Company for the year ended 31 December 2007 and the year ended 31 December 2009 represented approximately 0.012% and 0.00087%, of the total sales of Hua Xin Plastic respectively.

### **3. *Transactions entered into between Xinhua Company and Hua Xin Non-weaving***

Pursuant to a land transfer agreement dated 1 December 2008 and the approval granted by Jinjiang Bureau of Land and Resources on 2 March 2009, Hua Xin Non-weaving transferred to Xinhua Company the land use rights of a parcel of land with a site area of 4,000 sq.m. located at Fulin Village, Longhu Town, Jinjiang City at a consideration of RMB1,448,000 for industrial purpose.



## CONNECTED TRANSACTIONS

### 4. *Transactions entered into between Xinhua Company and Costin Int'l Trade (H.K.) Company Limited*

#### 4(a) *Agency Agreement*

<u>Transactions</u>	<u>Date</u>	<u>Description</u>	<u>Term</u>	<u>Consideration</u>
Agency Agreement (supplemented with a supplemental agreement dated 28 December 2008 and terminated by a termination agreement dated 13 October 2009)	1 March 2007	<ul style="list-style-type: none"> <li>• Under the Agency Agreement, Costin Int'l Trade (H.K.) Company Limited as an agent of Xinhua Company to enter into sale and purchase contracts in connection with the overseas markets, as well as to collect and to pay the contract money on behalf of Xinhua Company</li> <li>• Under the supplemental agreement, Costin Int'l Trade (H.K.) Company Limited is entitled to receive 1% of the contract sum as agency fee in connection with the services rendered under the Agency Agreement</li> <li>• Under the termination agreement, the Agency Agreement and supplemental agreement were thereby terminated with effect from 13 October 2009</li> </ul>	3 years commencing from 1 March 2007	Costin Int'l Trade (H.K.) Company Limited is entitled to receive 1% of the contract sum as agency fee which is to be due on 31 December 2009 and is not deductible from the contract money

For the three years ended 31 December 2009, the agency fees charged by Costin Int'l Trade (H.K.) Company Limited under the agency agreement amounted to approximately RMB0.2 million, RMB1.7 million and RMB0.5 million respectively.

The appointment of Costin Int'l Trade (H.K.) Company Limited as the Group's agent to be responsible for the overseas sales was mainly due to the reasons that (1) it is located in Hong Kong which conveniently facilitates communications and negotiations with overseas customers; and (2) it can facilitate the process of Xinhua Company to claim the export sales value-added tax refund. When claiming export sales value-added tax refund, relevant governmental authorities would verify the authenticity and legality of the documents such as

## CONNECTED TRANSACTIONS

the invoices. The PRC Legal Adviser advised that if the name of the entity making the payment to Xinhua Company is different from that on the corresponding sales contract and invoice, additional documents may be required to be submitted to the relevant government authorities to demonstrate the reasons for such differences, and this may slow down the process of claiming the tax refund if such additional documents are not submitted in a timely manner. Since certain customers of Xinhua Company used different names to make the corresponding payment, Xinhua Company also appointed Costin Int'l Trade (H.K.) Company Limited as agent to enter into the sales contracts and to collect the contract money from these various overseas customers on behalf of Xinhua Company, and thereby facilitating Xinhua Company to claim the export sales value-added tax refund. During the Track Record Period, the total amount of sales (including those conducted through connected persons) of Xinhua Company where the customers of Xinhua Company made the sales payments to Xinhua Company through entities whose names are different from those on the relevant sales contracts is approximately RMB2.4 million, RMB6.5 million and RMB5.2 million, representing approximately 0.5%, 1.1% and 0.7% of the Group's total sales respectively.

The Directors confirmed that since the cessation of the agency agreement with Costin Int'l Trade (H.K.) Company Limited in October 2009, the Group has requested all its customers to use the same name as appeared on the relevant sales contract to make corresponding payments to the Group and there has been no non-compliance with such request by the customers since then.

The appointment of Costin Int'l Trade (H.K.) Company Limited as the Group's agent to be responsible for imports was mainly due to the reason that, according to the PRC foreign exchange regulations, to allow Xinhua Company to transfer money out of the PRC for making its import payments, unless reasonably justified, Xinhua Company must transfer the money to an account with a name identical to the supplier's name appearing on the corresponding purchase contract and invoice. Since certain suppliers of Xinhua Company requested Xinhua Company to transfer contract money to an account name that is different from their name appearing on the corresponding purchase contract and invoice, additional documents have to be submitted to the relevant government authorities to demonstrate the reason for the differences and this may cause delay for Xinhua Company to make such money transfer. Therefore, Costin Int'l Trade (H.K.) Company Limited was appointed as agent to enter into the purchase contracts with and make corresponding payments to overseas suppliers on behalf of Xinhua Company. During the Track Record Period, the total amount of purchases (including those conducted through connected persons) of Xinhua Company where the suppliers requested Xinhua Company to make purchase payments to entities whose names are different from those on the relevant purchase contracts is approximately nil, RMB12.7 million and RMB19.9 million, representing approximately nil, 3.5% and 4.2% of the Group's total purchases respectively. Costin Int'l Trade (H.K.) Company Limited merely acted as an agent of Xinhua Company to enter into sale and purchase contracts with overseas customers and suppliers, and to collect and transfer contract money on behalf of Xinhua Company pursuant to the agency agreement. The trade receivables collected by Costin Int'l Trade (H.K.) Company Limited on behalf of Xinhua Company derived only from sales to overseas customers made by Costin Int'l (H.K.) Company Limited. Therefore, Xinhua Company is acting as principal of and will be responsible for the acts done by Costin Int'l Trade (H.K.) Company Limited.

## CONNECTED TRANSACTIONS

The Directors confirmed that since the cessation of the agency agreement with Costin Int'l Trade (H.K.) Company Limited in October 2009, the Group has requested all its suppliers to provide account names that are the same as their names as appeared on the corresponding purchase contract for the Group to make purchase payment to such account and there has been no non-compliance with such request by the suppliers since then.

The selling price from Xinhua Company to Costin Int'l Trade (H.K.) Company Limited is the same as that of Costin Int'l Trade (H.K.) Company Limited to the overseas customers.

For the three years ended 31 December 2009, approximately RMB8.3 million, RMB101.4 million and RMB12.4 million, representing approximately 17.7%, 56.8% and 3.9% of the Group's total export sales, respectively were attributable to the sales through Costin Int'l Trade (H.K.) Company Limited. During the same periods, the trade receivables collected by Costin Int'l Trade (H.K.) Company Limited on behalf of Xinhua Company, which represents only the sales of Xinhua Company made through Costin Int'l Trade (H.K.) Company Limited, amounted to approximately RMB8.3 million, RMB101.4 million and RMB8.5 million respectively. For each of the three years ended 31 December 2009, the amount of value-added tax refund received by Xinhua Company in relation to export sales handled by Costin Int'l Trade (H.K.) Company Limited were approximately RMB0.3 million, nil and nil, respectively. In addition, for each of the three years ended 31 December 2009, the amount of value-added tax credit in relation to export sales handled by Costin Int'l Trade (H.K.) Company Limited that were used by Xinhua Company to offset against the amount of output value-added tax that would otherwise be payable by Xinhua Company amounted to approximately RMB0.7 million, RMB4.4 million and RMB1.0 million, respectively.

In view of the goods being directly exported to overseas customers by Xinhua Company, Xinhua Company deemed the overseas customers as its ultimate customers instead of Costin Int'l Trade (H.K.) Company Limited's, although Xinhua Company entered into sales contracts with Costin Int'l Trade (H.K.) Company Limited which subsequently entered into sales contracts with the overseas customers. The Reporting Accountants, RSM Nelson Wheeler, agreed with the Directors' judgement in relation to the accounting treatment to account for the sales/purchases through Costin Int'l Trade (H.K.) Company Limited to/from overseas customers/suppliers as Xinhua Company's sales/purchase to/from overseas customers/suppliers. For further details, please also refer to note 5 — "Critical Judgement And Key Estimates — Key sources of estimation uncertainty — (f) sales and purchases via agency companies" set out in the Accountants' Report of the Group in Appendix I to this prospectus. Please also refer to the paragraph headed "Business — Customers" of this prospectus.

Since 2007, Costin Int'l Trade (H.K.) Company Limited commenced to import PET chips as agent for the Group and it was authorised to pay the contract money for the imports of solid wastes it conducted on behalf of the Group.

For the three years ended 31 December 2009, approximately RMB7.0 million, RMB68.6 million and RMB51.6 million, representing all of the Group's total import amount during the relevant period were attributable to the imports conducted through Costin Int'l Trade (H.K.) Company Limited.

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Other than being the agent of Xinhua Company pursuant to the agency agreement, Costin Int'l Trade (H.K.) Company Limited is also engaging in trading of fashion garments and woven products.

As the sale and purchase transactions with the overseas customers do not require any licence or approval, the Group planned to secure its overseas customers and manage its export business by itself so as to avoid unnecessary connected transactions after the Listing. Therefore, in October 2009, in preparation for the Listing and to eliminate the continuing connected transactions with Costin Int'l Trade (H.K.) Company Limited, a termination agreement was entered into between Costin Int'l Trade (H.K.) Company Limited and Xinhua Company to terminate the agency agreement. The Directors confirmed that since the termination agreement, all transactions contemplated under the agency agreement had been ceased. After cessation of the agency agreement with Costin Int'l Trade (H.K.) Company Limited, the Group maintained its export business by itself.

#### 4(b) *Loan Agreement*

On 30 June 2009, Xinhua Company as borrower and Costin Int'l Trade (H.K.) Company Limited as lender entered into a loan agreement in respect of a loan in the amount of US\$769,378.60 with the repayment date of 30 June 2011 together with interest accrued thereon from 1 July 2009 at the annual interest rate of 5.40% and have been fully settled by 31 March 2010.

## CONNECTED TRANSACTIONS

### 5. *Transaction entered into between Xinhua Company and Wah Hing Trading Co*

<u>Transaction</u>	<u>Date</u>	<u>Description</u>	<u>Term</u>	<u>Consideration</u>
Agency Agreement (and terminated by a termination agreement dated 20 November 2007 and supplemented with a supplemental agreement dated 28 December 2008)	1 January 2006	<ul style="list-style-type: none"> <li>• Under the Agency Agreement, Wah Hing Trading Co as an agent of Xinhua Company to enter into sale and purchase contracts in connection with the overseas markets, as well as to collect and to pay the contract money on behalf of Xinhua Company</li> <li>• Under the termination agreement, the Agency Agreement was thereby terminated with effect from 1 December 2007</li> <li>• Under the supplemental agreement, Wah Hing Trading Co is entitled to receive 1% of the contract sum as agency fee in connection with the services rendered under the Agency Agreement</li> </ul>	2 years commencing from 1 January 2006	Wah Hing Trading Co is entitled to receive 1% of the contract sum as agency fee which is to be due on or before 31 December 2009

For the year ended 31 December 2007, the agency fees charged by Wah Hing Trading Co amounted to approximately RMB0.1 million respectively.

The appointment of Wah Hing Trading Co as the Group's agent to be responsible for the overseas sales was mainly due to the reasons that (1) it is located in Hong Kong which conveniently facilitates communications and negotiations with overseas customers; and (2) it can facilitate the process of Xinhua Company to claim the export sales value-added tax refund. When claiming export sales value-added tax refund, relevant governmental authorities would verify the authenticity and legality of the documents such as the invoices. The PRC Legal Adviser advised that if the name of the entity making the payment to Xinhua Company is different from that on the corresponding sales contract and invoice, additional documents may be required to be submitted to the relevant government authorities to demonstrate the reasons for such differences, and this may slow down the process of claiming tax refund if such additional documents are not submitted in a timely manner. Since certain customers of Xinhua Company used different names to make the corresponding payment, Xinhua Company also appointed Wah Hing Trading Co as agent to enter into sales contract and to collect the contract money from these various overseas customers on behalf of Xinhua Company, and thereby expediting the process of Xinhua Company to claim the export sales value-added tax refund. Wah Hing Trading Co merely acted as an agent of Xinhua Company to enter into sale and purchase contracts with overseas customers and to collect contract

## CONNECTED TRANSACTIONS

money on behalf of Xinhua Company pursuant to the agency agreement. The trade receivables collected by Wah Hing Trading Co on behalf of Xinhua Company derived only from sales to overseas customers made by Wah Hing Trading Co. Therefore, Xinhua Company is acting as principal of and will be responsible for the acts done by Wah Hing Trading Co. During the Track Record Period, the total amount of sales (including those conducted through connected persons) of Xinhua Company where the customers of Xinhua Company made the sales payments to Xinhua Company through entities whose names are different from those on the relevant sales contracts is approximately RMB2.4 million, RMB6.5 million and RMB5.2 million, representing approximately 0.5%, 1.1% and 0.7% of the Group's total sales respectively.

Although it is stipulated in the agency agreement that Wah Hing Trading Co has the right to pay the contract money on behalf of Xinhua Company, Wah Hing Trading Co has never exercised this right as Wah Hing Trading Co has never conducted imports on behalf of the Group during the Track Record Period. The agency agreement with Wah Hing Trading Co was terminated in 2007.

The selling price from Xinhua Company to Wah Hing Trading Co is the same as that of Wah Hing Trading Co to the overseas customers.

For the year ended 31 December 2007, approximately RMB14.0 million representing approximately 29.7% of the Group's total export sales was attributable to the sales conducted through Wah Hing Trading Co. For the two years ended 31 December 2009, the trade receivables collected by Wah Hing Trading Co on behalf of Xinhua Company, which represents only the sales of Xinhua Company made through Wah Hing Trading Co, amounted to approximately RMB0.1 million and nil respectively. For each of the three years ended 31 December 2009, the amount of value-added tax refund received by Xinhua Company in relation to export sales handled by Wah Hing Trading Co were approximately nil, nil and nil respectively. In addition, for each of the three years ended 31 December 2009, the amount of value-added tax credit in relation to export sales handled by Wah Hing Trading Co that were used by Xinhua Company to offset against the amount of output value-added tax that would otherwise be payable by Xinhua Company amounted to approximately RMB0.5 million, nil and nil respectively.

In view of the goods being directly exported to overseas customers by Xinhua Company, Xinhua Company treated the overseas customers as its customers instead of Wah Hing Trading Co's, although Xinhua Company entered into sales contracts with Wah Hing Trading Co which subsequently entered into sales contracts with the overseas customers. The Reporting Accountants, RSM Nelson Wheeler, agreed with the Directors' judgement in relation to the accounting treatment to account for the sales through Wah Hing Trading Co to overseas customers as Xinhua Company's sales to overseas customers. For further details, please also refer to note 5 — "Critical Judgement And Key Estimates — Key sources of estimation uncertainty — (f) sales and purchases via agency companies" set out in the Accountants' Report of the Group in Appendix I to this prospectus. Please also refer to the paragraph headed "Business — Customers" of this prospectus.

### **6. Transactions entered into between Xinhua Company and Long Hu Collection**

For the year ended 31 December 2007, Xinhua Company and Long Hu Collection had entered into a number of sale and purchase agreements, pursuant to which, waste plastic materials were supplied by Long Hu Collection to Xinhua Company.

## CONNECTED TRANSACTIONS

For the year ended 31 December 2007, the purchase price paid by Xinhua Company to Long Hu Collection amounted to approximately RMB10.8 million, representing approximately 4.1% of the Group's total purchases. The Directors confirmed that no transactions were entered into between Xinhua Company and Long Hu Collection since November 2007 and the transactions will not continue after the Listing.

Xinhua Company was not the sole customer of Long Hu Collection during the Track Record Period. During the Track Record Period, the percentage of sales to Xinhua Company for the year ended 31 December 2007 was approximately 45.4% of the total sales of Long Hu Collection.

### **7. Transactions entered into between Xinhua Company and Nan Fang Weaving**

For the years ended 31 December 2007 and 2008, Xinhua Company and Nan Fang Weaving had entered into a number of sale and purchase agreements, pursuant to which Xinhua Company agreed to purchase from Nan Fang Weaving various quantities of waste plastic materials.

For the two years ended 31 December 2007 and 2008, the purchase price paid by Xinhua Company to Nan Fang Weaving amounted to approximately RMB384,616 and RMB42,872 respectively. The Directors confirmed that no transactions were entered into between Xinhua Company and Nan Fang Weaving since November 2008 and the transactions will not continue after the Listing.

Xinhua Company was not the sole customer of Nan Fang Weaving during the Track Record Period. During the Track Record Period, the percentage of sales made by Nan Fang Weaving to Xinhua Company for the two years ended 31 December 2007 and 2008 represented approximately 0.1% and 0.013% respectively of the total sales of Nan Fang Weaving.

### **8. Transactions entered into between Xinhua Company and Xin Hua Import**

For the two years ended 31 December 2007 and 2008, Xinhua Company and Xin Hua Import had entered into a number of sale and purchase agreements, pursuant to which Xinhua Company sold to Xin Hua Import non-woven fabrics, chemical fibres and fashion garment. The relevant considerations amounted to approximately RMB27.9 million and RMB11.5 million for the year ended 31 December 2007 and 31 December 2008, representing approximately 6.1% and 1.9% of the Group's total sales respectively.

Xinhua Company was not the sole supplier of Xin Hua Import during the Track Record Period. During the Track Record Period, the percentage of purchases by Xin Hua Import from Xinhua Company for the two years ended 31 December 2007 and 2008 represented approximately 23.9% and 7.7% respectively of the total purchases of Xin Hua Import.

### **9. Personal Loans**

In 2008, the Group had provided a number of loans in an aggregate amount of RMB90 million to certain connected persons namely, Chim Wai Kong, Chim Wai Shing Jackson, Nian Wei Deng and Chim Fo Che. The details of which are set out in note 23 of the Accountants' Report of the Group as set out in Appendix I to this prospectus.

## CONNECTED TRANSACTIONS

The Directors confirmed that the loans as set out above had been repaid before June 2009 by way of dividend payment.

### 10. *Bank Guarantees and Loans*

- (a) Chim Wai Kong, Chim Wai Shing Jackson, Chim Fo Che, Sze Fo Chau, Hui Cheung Mau, Nian Wei Deng, Hong Ming Qu and Hong Lian Qiao had provided personal guarantees in favour of certain banks for banking facilities granted to Xinhua Company. For the three years ended 31 December 2009, these personal guarantees amounted to approximately RMB82.9 million, RMB157.4 million and RMB141.7 million.
- (b) in connection with (a) above, Hua Xin Plastic, Hua Xin Weaving and Nan Fang Weaving had jointly provided some guarantees in favour of certain banks for banking facilities granted to Xinhua Company. For the three years ended 31 December 2009, these joint guarantees amounted to approximately RMB27.0 million, RMB78.5 million and nil.
- (c) Xinhua Company had provided some guarantees and assets pledge in favour of certain banks for banking facilities granted to Hua Xin Weaving. For the three years ended 31 December 2009, the guarantees and assets pledge amounted to approximately RMB11.1 million, RMB10.5 million and nil.
- (d) Hua Xin Plastic, Hua Xin Weaving and Xin Hua Import had provided some loans to Xinhua Company. For the three years ended 31 December 2009, these loans amounted to approximately RMB191.3 million, RMB17.7 million and RMB58.1 million.
- (e) the Group had provided some loans to Hua Xin Plastic, Hua Xin Weaving and Xin Hua Import. For the three years ended 31 December 2009, these loans amounted to approximately RMB75.4 million, RMB175.0 million and RMB78.2 million.

Further details of the above are set out in note 35 of the Accountant's Report of the Group in Appendix I to this prospectus. The Directors have confirmed that the banks had already been released the guarantees as set out in paragraphs (a) and (b) above.

The Directors further confirmed that the guarantees and assets pledge as set out in paragraph (c) had been released in November 2009, and the loans as set out in paragraphs (d) and (e) above had already been repaid.

The Directors confirmed that the above loans or guarantees would be repaid or released by internal resources of the Group. For further details, please also refer to the paragraph headed "Relationship with Controlling Shareholders — Independence from the Controlling Shareholders — Financial Independence" of this prospectus.



## CONNECTED TRANSACTIONS

### 11. *Others*

- (a) On 10 November 2008, a sale and purchase agreement was entered into between Xinhua Company and Nian Wei Deng, pursuant to which Xinhua Company acquired from Nian Wei Deng a vehicle at a consideration of RMB0.7 million.
- (b) In 2009, an unwritten transaction was entered into between Xinhua Company and Hong Ming Qu, pursuant to which Xinhua Company acquired from Hong Ming Qu a vehicle at a consideration of RMB80,000.

### 12. *Structure Contracts*

On 20 October 2009, 29 December 2009 and 17 March 2010, Gerfalcon PRC entered into the Structure Contracts with Xinhua Company and/or each Founder of Xinhua Company. The Structure Contracts were all terminated on 17 March 2010.

### 13. *Share Transfer Agreement*

On 17 March 2010, a share transfer agreement (supplemented by a supplemental agreement dated 20 April 2010) was entered into between the Founders of Xinhua Company as transferors on the one hand and Gerfalcon PRC and Gerfalcon Trading as transferees on the other hand. Pursuant to which, the Founders of Xinhua Company had transferred 99% and 1% shareholding in Xinhua Company to Gerfalcon PRC and Gerfalcon Trading respectively at a total consideration of RMB80 million.

### 14. *Agreement of Gift entered into amongst Gerfalcon PRC, Gerfalcon Trading and the Founders of Xinhua Company*

On 17 March 2010, an agreement of gift was entered into between Gerfalcon PRC and Gerfalcon Trading as beneficiaries on the one hand and the eight Founders of Xinhua Company as donors on the other hand in connection with a fund of RMB80.0 million, of which RMB79.2 million was provided at nil consideration to Gerfalcon PRC and RMB0.8 million was provided at nil consideration to Gerfalcon Trading.

## D. **Continuing connected transactions**

### **Non-Exempt Continuing Connected Transactions**

#### 15. *Transactions entered into between Xinhua Company and Hua Xin Plastic*

<u>Transaction</u>	<u>Date</u>	<u>Premises Involved</u>	<u>Term</u>	<u>Monthly Rental</u>
Rental Agreement between Xinhua Company as tenant and Hua Xin Plastic as landlord	5 January 2009	Two premises with the area of 1,520.63 sq.m. and 1,853.53 sq.m.	36 months commencing in January 2009 and expiring in December 2011	RMB46,103.50, exclusive of water and electricity charges

## CONNECTED TRANSACTIONS

On 5 January 2009, Xinhua Company as tenant and Hua Xin Plastic as landlord entered into a rental agreement (the “**2009 Rental Agreement (1)**”) whereby Xinhua Company agreed to lease from Hua Xin Plastic two premises with the area of 1,520.63 sq.m. and 1,853.53 sq.m. for production and operation purposes. The 2009 Rental Agreement (1) is for a term of 36 months commencing in January 2009 and expiring in December 2011. The monthly rental is RMB46,103.50, exclusive of water and electricity charges, and is fixed throughout the term of the rental agreement. For the year ended 31 December 2009, Xinhua Company paid total rentals of RMB553,242 to Hua Xin Plastic. The annual rental payable by Xinhua Company to Hua Xin Plastic for each of the two years commencing January 2010 will not exceed the annual cap of RMB553,242.

### 16. *Transactions entered into between Xinhua Company and Hua Xin Weaving*

<u>Transactions</u>	<u>Date</u>	<u>Premises Involved</u>	<u>Term</u>	<u>Monthly Rental</u>
(a) Rental Agreement between Xinhua Company as tenant and Hua Xin Weaving as landlord	5 January 2009	Three premises with the areas of 1,517.18 sq.m., 2,659.27 sq.m. and 2,882.96 sq.m. located at Xinhua Industrial Garden	36 months commencing in January 2009 and expiring in December 2011	RMB70,594.10, exclusive of water and electricity charges
(b) Tenancy Agreement between Hua Xin Weaving as tenant and Xinhua Company as landlord	31 December 2009	Six buildings within five premises with the areas of 4,938.84 sq.m., 3,603.30 sq.m., 1,018.81 sq.m., 6,567.15 sq.m. and 4,162.58 sq.m. respectively located at Xinhua Industrial Garden	1 year commencing from 1 January 2010 to 31 December 2010	RMB223,197.48 exclusive of water and electricity charges

#### 16(a) *Rental Agreement dated 5 January 2009 and entered into between Xinhua Company and Hua Xin Weaving*

On 5 January 2009, Xinhua Company as tenant and Hua Xin Weaving as landlord entered into a rental agreement (資產租賃合同) (the “**2009 Rental Agreement (2)**”) whereby Xinhua Company agreed to lease from Hua Xin Weaving three premises with the areas of 1,517.18 sq.m., 2,659.27 sq.m. and 2,882.96 sq.m. located at Xinhua Industrial Garden, for production and operation purposes. The 2009 Rental Agreement (2) is for a term of 36 months commencing in January 2009 and expiring in December 2011. The monthly rental is RMB70,594.10, exclusive of water and electricity charges, and is fixed throughout the term of the rental agreement.

For the year ended 31 December 2009, Xinhua Company paid total rentals of RMB847,129.20 to Hua Xin Weaving under the above rental agreement.

## CONNECTED TRANSACTIONS

### *16(b) Tenancy Agreement dated 31 December 2009 and entered into between Xinhua Company and Hua Xin Weaving*

On 31 December 2009, Hua Xin Weaving as tenant and Xinhua Company as landlord entered into a tenancy agreement (廠房租賃合同) (the “**2010 Tenancy Agreement**”) whereby Hua Xin Weaving agreed to lease from Xinhua Company five premises with the areas of 4,938.84 sq.m., 3,603.30 sq.m., 1,018.81 sq.m., 6,567.15 sq.m. and 4,162.58 sq.m. respectively located at Xinhua Industrial Garden for production and operations purposes. The 2010 Tenancy Agreement is for a term of one year commencing from 1 January 2010 to 31 December 2010. The monthly rental is approximately RMB223,197.48, exclusive of water and electricity charges, and is fixed throughout the term of the tenancy agreement.

Hua Xin Weaving has been granted a right of first refusal to purchase the premises under the 2010 Tenancy Agreement. The 2010 Tenancy Agreement is also renewable upon the consent of Xinhua Company with Hua Xin Weaving giving three months notice prior to the expiry thereof.

The PRC Legal Adviser has confirmed that (a) Hua Xin Plastic has the legal and valid title to lease the premises contemplated under the 2009 Rental Agreement (1) as set out in paragraph 15 above; and (b) Hua Xin Weaving has the legal and valid title to lease the premises contemplated under the 2009 Rental Agreement (2) as set out in paragraph 16 above.

Jones Lang LaSalle Sallmanns Limited, the independent property valuer to the Group, has reviewed the 2009 Rental Agreement (1), the 2009 Rental Agreement (2) and 2010 Tenancy Agreement as set out in paragraphs 15 and 16 above and confirmed that the rentals payable thereunder are fair and reasonable and consistent with prevailing market rate for similar premises in similar locations in the PRC and the terms of the agreements are on normal commercial basis and the duration of the leases are consistent with the prevailing market.

Given that Hua Xin Plastic is ultimately wholly-owned by Chim Wai Kong; and (b) Hua Xin Weaving is ultimately owned as to 0.25% by Chim Wai Shing Jackson and 99.75% by Chim Wai Kong, the rental agreements and tenancy agreements as set out in paragraphs 15 and 16 above may be regarded as a series of transactions under Rules 14A.25 of the Listing Rules. Accordingly, the annual cap of the considerations contemplated thereunder may be aggregated for the purpose of calculating the applicable percentage ratios under the Listing Rules.

Based on the rents payable per month as set out in the 2009 Rental Agreement (1) and the 2009 Rental Agreement (2), the breakdown of the annual caps payable by Xinhua Company thereunder are as follows:

	Year ended 31 December 2007	Year ended 31 December 2008	Year ended 31 December 2009	Year ending 31 December 2010	Year ending 31 December 2011
	RMB	RMB	RMB	RMB	RMB
2009 Rental Agreement (1) . . . . .	—	—	553,242.00	553,242.00	553,242.00
2009 Rental Agreement (2) . . . . .	—	—	847,129.20	847,129.20	847,129.20
Total: . . . . .	—	—	1,400,371.20	1,400,371.20	1,400,371.20

## CONNECTED TRANSACTIONS

Based on the rent receivable per month as set out in the 2010 Tenancy Agreement, the annual caps receivable by Xinhua Company thereunder are as follows:

	Year ended 31 December 2007	Year ended 31 December 2008	Year ended 31 December 2009	Year ending 31 December 2010	Year ending 31 December 2011
	RMB	RMB	RMB	RMB	RMB
2010 Tenancy Agreement . . .	—	—	—	2,678,369.70	—

The annual cap for the rentals under each of the 2009 Rental Agreement (1), the 2009 Rental Agreement (2) and the 2010 Tenancy Agreement was determined with reference to the prevailing market rate for similar premises in similar locations in the PRC.

On the assumption that the lowest range of the Offer Price HK\$2.36 shall apply, then the applicable percentage ratio for rental under the 2009 Rental Agreement (1), the 2009 Rental Agreement (2) and 2010 Tenancy Agreement receivable and payable by Xinhua Company respectively is to be more than 0.1% and HK\$1,000,000 but less than 2.5% for the year ending 31 December 2010 and 2011 and shall be subject to the reporting and announcement requirements pursuant to Rule 14A.34(1).

The reason for the Group to enter into the 2009 Rental Agreement (1) and 2009 Rental Agreement (2) as tenant is that the relevant premises are physically located near the premises of the Group. It would be convenient for the Group to carry out its day-to-day operation, meanwhile the terms under the aforesaid agreements were no less favorable than those offered by Independent Third Parties, and fair and reasonable.

The reason for the Group to lease the premises under the 2010 Tenancy Agreement is that, the relevant premises contemplated thereunder had been occupied for manufacturing fashion garment before the streamlining of the Group's business to focus on the production and sale of non-woven fabrics and chemical fibres, as such, the designs of these premises are accommodated to the need of fixing the machinery and equipment in relation to fashion garment business. In this regard, if the Group continues to lease the premises to Hua Xin Weaving after the Listing, it can make good use of the premises by generating additional source of rental income.

The Directors are of the view that the 2009 Rental Agreement (1), the 2009 Rental Agreement (2) and 2010 Tenancy Agreement are in the interest of the shareholders of the Company as a whole and the rentals under these agreements are fair and reasonable. These agreements were entered into after arm's length negotiations and on normal commercial terms.

An application of waiver from the strict compliance with Rule 14A.34(1) of the Listing Rules had been submitted to the Stock Exchange. Such waiver has been granted on the grounds or conditions that:

- (a) Jones Lang LaSalle Sallmanns Limited, the independent property valuer to the Group, has reviewed the 2009 Rental Agreement (1), the 2009 Rental Agreement (2) and 2010 Tenancy Agreement and confirmed that the rentals payable thereunder are fair and

## CONNECTED TRANSACTIONS

reasonable and consistent with prevailing market rate for similar premises in similar locations in the PRC and the terms of the agreements are on normal commercial basis and the duration of the leases are consistent with the prevailing market;

- (b) The Directors (including the independent non-executive Directors) have confirmed that it is in the interests of the Company to continue the 2009 Rental Agreement (1), the 2009 Rental Agreement (2) and 2010 Tenancy Agreement after the Listing and these continuing connected transactions have been and shall be entered into in the ordinary and usual course of the Company's business, on normal commercial terms and the terms and annual caps are fair, reasonable and in the interest of the shareholders of the Company as a whole;
- (c) The Sponsor is of the view that the continuing connected transactions for which the waivers are sought have been and shall be entered into in the ordinary and usual course of the Company's business, on normal commercial terms, the terms and the annual caps are fair, reasonable and in the interests of the shareholders of the Company as a whole; and
- (d) the consideration and terms of each of the 2009 Rental Agreement (1), the 2009 Rental Agreement (2) and 2010 Tenancy Agreement will not be varied throughout the remaining tenure, otherwise the relevant rules under Chapter 14A shall be fully complied with the Group.