

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Nian's Investment, through Nian's Holding, will own approximately 52.5% of the issued share capital of the Company immediately following the completion of the Capitalisation Issue and the Global Offering (assuming no exercise of the Over-allotment Option).

Nian's Investment was incorporated in the BVI on 9 October 2009, whose only issued share is held by JMJ Holdings Limited as nominee in favour of RBS Coutts Trustees (Switzerland) Ltd., the trustee of Nian's Brother Trust. On 16 February 2010, Chim Wai Kong, Chim Wai Shing Jackson and Chim Fo Che transferred their respective shareholding interest of 48.61%, 34.72% and 16.67% in Nian's Holding to Nian's Investment for the purpose of setting up the Nian's Brother Trust, a discretionary trust, for the benefit of their family members. Chim Wai Kong and Chim Wai Shing Jackson are the settlors of the Nian's Brother Trust. The details of Nian's Brother Trust are set out in the section headed "History and Development" of this prospectus.

Immediately upon the Listing, the Controlling Shareholders, comprising Nian's Investment, Nian's Holding, Chim Wai Kong and Chim Wai Shing Jackson as settlors of the Nian's Brother Trust, are together entitled to control the exercise of voting rights of 52.5% of the Shares eligible to vote in a general meeting of the Company (assuming the Over-allotment Option is not exercised).

Save as disclosed above, there is no other person who will, immediately following completion of the Global Offering (without taking into account any Shares which fall to be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme), be directly or indirectly interested in 30% or more of the Shares then in issue or have a direct or indirect equity interest in any member of the Group representing 30% or more of the equity in such entity.

Excluded Business of the Controlling Shareholders and Connected Persons

During the Track Record Period and up to the Latest Practicable Date, Chim Wai Kong, Chim Wai Shing Jackson and their associates (the further particulars of which set forth in the paragraph section headed "Connected Transactions" in this prospectus) are interested in the following companies and businesses (**Excluded Business**):

1. *Costin Int'l Trade (H.K.) Company Limited*

Costin Int'l Trade (H.K.) Company Limited is a company incorporated in Hong Kong with limited liability on 10 September 1999 and is owned as to approximately 0.25% and 99.75% by Chim Wai Shing Jackson and Chim Wai Kong respectively. The principal business of Costin Int'l Trade (H.K.) Company Limited is provision of agency services and is also engaging in trading of fashion garments and woven products.

2. *Hua Xin Weaving*

Hua Xin Weaving is 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 approximately 0.25% and 99.75% by Chim Wai Shing Jackson and Chim Wai Kong respectively. The principal business of Hua Xin Weaving is trading of fashion garments and woven products.

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The woven products of Costin Int'l Trade (H.K.) Company Limited and Hua Xin Weaving are used for fashion garments which is different from the applications of the Group's non-woven fabrics and chemical fibres. The Directors confirmed that the trading of woven products by Costin Int'l Trade (H.K.) Company Limited and Hua Xin Weaving does not compete with the Group as the woven products of Costin Int'l Trade (H.K.) Company Limited and Hua Xin Weaving and the Group's non-woven fabrics and chemical fibres are different types of products manufactured by different production techniques and have different applications.

3. *Nian's Brother (Asia Pacific) Investment Holding Limited*

Nian's Brother (Asia Pacific) Investment Holding Limited is a company with limited liability incorporated in Hong Kong on 18 May 2007 and is owned as to approximately 33.33% by Chim Wai Kong, approximately 33.33% by Chim Wai Shing Jackson and approximately 33.33% by Chim Ching Ching. As at the Latest Practicable Date, Nian's Brother (Asia Pacific) Investment Holding Limited has not commenced any business.

4. *Wah Hing Trading Co*

Wah Hing Trading Co is an unlimited company which commenced business on 1 April 1995 and its sole proprietor is Chim Wai Kong for carrying on business. The principal business of Wah Hing Trading Co is provision of agency services.

5. *Hua Xin Plastic*

Hua Xin Plastic is 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. The principal business of Hua Xin Plastic is recollection of waste tyres.

6. *Xin Hua Import*

Xin Hua Import is a company established in the PRC with limited liability on 19 July 2006 and is owned as to approximately 65% by Chim Wai Shing Jackson and approximately 35% by Hong Lian Qiao. The principal business of Xin Hua Import is import and export of footwear, fashion garments and textile products.

7. *COSTIN Holding Limited*

COSTIN Holding Limited is a company incorporated in the BVI with limited liability on 16 June 2009 and is owned as to approximately 44% by Chim Wai Kong, approximately 36% by Chim Wai Shing Jackson, approximately 10% by Chim Fo Che, approximately 5% by Sze Fo Chau and approximately 5% by Hui Cheung Mau. As at the Latest Practicable Date, COSTIN Holding Limited has not commenced any business.

8. *Nan Fang Weaving*

Nan Fang Weaving is 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. The principal business of Nan Fang Weaving is manufacturing of cloths.

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9. *Long Hu Collection*

Long Hu Collection is 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. The principal business of Long Hu Collection is collection of waste rubber.

10. *Hua Xin Non-weaving*

Hua Xin Non-weaving is a company established in the PRC with limited liability on 15 July 1998 and was wholly owned by Wah Hing Trading Co upon establishment. As there was no plan for the commencement of business of Hua Xin Non-Weaving in the future, on 31 July 2009, Wah Hing Trading Co transferred its entire equity interests in Hua Xin Non-weaving to an Independent Third Party. Hua Xin Non-Weaving had not commenced any business since its establishment and up to the date of its disposal to the Independent Third Party.

11. *Xin Sen Engineering*

Xin Sen Engineering was a company established in the PRC on 30 May 2005 and is owned as to 40% by Hong Ming Qu and as to 60% by Chim Wai Kong respectively. Xin Sen Engineering had not commenced any business as at the Latest Practical Date.

12. *Tian Wei Import*

Tian Wei Import was a company established in the PRC on 28 June 2004 and had published a notice of cease operation in a newspaper on 26 June 2007. It is now in the process of applying for deregistration. Prior to its deregistration application, it is owned as to 95% by Hong Lian Qiao and as to 5% by an Independent Third Party respectively. Tian Wei Import had never commenced any business since its establishment.

13. *Hao Li Oil Station*

Hao Li Oil Station is a company established in the PRC on 12 October 2005 and its sole proprietor is Nian Wei Deng. The principal business of Hao Li Oil Station is the retail sale of diesel oil, engine oil and gasoline.

The Directors have confirmed that the Excluded Business (i) is not within the principal business scope of the Group; and (ii) the Excluded Business has its own operational management staff independent of the Group for their core operations. In light of the foregoing, the Directors are of the view that there is a clear delineation between the businesses of the Group and the Excluded Business does not compete with the Group's business. The Directors believe that it is inappropriate to include any part of the Excluded Business into the Group.

Non-Competition Undertaking

Each of the Controlling Shareholders including Chim Wai Kong, Chim Wai Shing Jackson (who are also the shareholders of Xinhua Company), together with the other six Founders of Xinhua Company namely Chim Fo Che, Sze Fo Chau, Hui Cheung Mau, Nian Wei Deng, Hong Ming Qu and Hong Lian Qiao (collectively the "Covenantors") entered into a deed of non-competition (the "Non-competition

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Deed”) on 1 June 2010 in favour of the Company, pursuant to which each of the Covenantors has given certain non-competition undertakings to the Company (for itself and for the benefit of the members of the Group), to the effect that, he/it shall not, and he/it shall make his/its best efforts to procure that his/its associates or connected persons do not and shall not, directly or indirectly, whether on his/its own or through any entities, be interested or engaged or otherwise be involved, whether for profit, reward or otherwise, in any business which is involved in any activity (the “**Restricted Activity**”), conducted in the PRC or overseas, which is in competition with, or is likely to be in competition with, the business carried on by any member of the Group, from time to time during the restricted period set out in the Non-competition Deed. There shall be no restriction on a Covenantor and/or his/its associates or his/its connected persons holding or being interested in shares or other securities in any company which conducts or is engaged in any Restricted Activity (the “**Subject Company**”), provided that:

- (a) such shares or securities are listed on a stock exchange; and
- (b) the aggregate number of shares, held by him/it and/or his/its associates or his/its connected persons or in which he is interested, does not amount to more than 5% of the issued shares of the Subject Company, and he/it or his/its connected person or associates at no time shall have the right to appoint more than 10% of composition of the board of the Subject Company.

Each of the Covenantors has undertaken further that he/it shall first refer to the Company any investment or other commercial opportunity relating to the Restricted Activity that is identified by, or offered by a third party, to him or any company controlled by him/it (other than those companies which are controlled by any Covenantors only by virtue of his/its shareholding in the Company), in the following manner:

- (a) The relevant Covenantors or his/its associates or connected persons shall give a written offer notice to the Company of such opportunity, identifying the nature of business, investment or acquisition costs and other details reasonably necessary for the Company to consider whether to pursue the opportunity.
- (b) The Company is required to notify the relevant Covenantors within 30 Days (which, if the Company in its sole discretion decides, may be extended for another 30 Days by the Company notifying the relevant Covenantors of such extension) in writing of any decision taken to pursue or decline such opportunity. The Company will seek approval from its board committee, consisting of independent non-executive Directors who do not have a material interest in the matter, as to whether to pursue or decline such opportunity.
- (c) The relevant Covenantors or his/its associates or connected persons will be entitled to pursue such opportunity if (i) he/it has received a notice from the Company declining the opportunity, or (ii) he/it has not received any notice from the Company within 30 days (which, if the Company in its sole discretion decides, may be extended for another 30 days by the Company notifying the relevant Covenantors of such extension).
- (d) If there is a material change in the nature of the opportunity pursued by the relevant Covenantors or his/its associates or connected persons, he/it will refer the opportunity as so revised to the Company in the manner as outlined above.

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Each of the Covenantors has acknowledged that the Company may be required by law, regulatory bodies or the rules and regulations of the stock exchange(s) on which the Company may be listed from time to time, to disclose information on such opportunities, including but not limited to disclosure in public announcements or in the Company's annual report, of decisions made by the Company to pursue or decline such opportunities, and they have agreed to such disclosure to the extent necessary to comply with any such requirement.

The Non-competition Deed will terminate upon the earlier of:

- (a) the anniversary date when the Covenantors and his/its associates or connected persons cease to beneficially own, directly or indirectly, any Shares; or
- (b) the date when the Shares cease to be listed on the Stock Exchange.

Corporate Governance Measures

The Directors are aware that, upon the Listing, the Company will be required to comply with stringent requirements concerning corporate governance. In this connection, the Company will adopt the following measures to ensure good corporate governance practice and improve transparency:

- (a) the independent non-executive Directors will review, at least on an annual basis, the compliance with the non-competition undertaking by the Controlling Shareholders under the Non-competition Deed;
- (b) the Controlling Shareholders have undertaken to provide to the Group all information necessary for the annual review by the independent non-executive Directors and the enforcement of the Non-competition Deed;
- (c) the Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to the compliance and enforcement of the non-competition undertaking of the Controlling Shareholders under the Non-competition Deed in its annual report of the Company; and
- (d) the Controlling Shareholders will make an annual statement on compliance with the non-competition undertaking under the Non-competition Deed in the annual report of the Company, including the disclosure on how the Non-competition Deed was complied with and enforced (if applicable), which is consistent with the principles of making voluntary disclosure in the corporate governance report of the annual report.

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

Having considered the following factors, the Directors are satisfied that the Group can carry on its business independently of the Controlling Shareholders following the Listing:

Management Independence

The Board consists of eight members, comprising of four executive Directors, one non-executive Director and three independent non-executive Directors. Each of the Directors is aware of his or her fiduciary duties as a Director of the Company which requires, among other things,

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that he or she acts for the benefit and in the best interests of the Company and does not allow any conflict between his or her duties as a Director and his or her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between the Group and the Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of the Company in respect of such transactions and shall not be counted in the quorum.

In this regard, the Directors are of the view that the Group can be managed independently notwithstanding that the Controlling Shareholders, namely Chim Wai Kong and Chim Wai Shing Jackson, are the executive Directors of the Company.

In addition, the management independence is warranted as the Group has its own senior staff independent of the Excluded Business, who possesses in-depth experience and understanding of the industry of non-woven fabrics and new materials using recycling wastes and are responsible to take charge of the Group's daily operations.

Operational Independence

The organisational structure of the Group is made up of a number of departments, comprising administration department, procurement department, production department, inventory control department, sales and marketing department, finance department and research and development department. Each department has a specific area of responsibility. There are internal control procedures to ensure effective operation of the Group's business. Furthermore, the Group has its own production lines and its own sources of supplies and customers. It can operate independently through its procuring, marketing and sales networks, which are not overlapped with the Excluded Business.

Although some companies owned by the Controlling Shareholders are the source of premises for lease to the Group, details of which are set out in the section headed "Connected Transactions" to this prospectus, these tenancy agreements were entered into on normal commercial terms after arms-length negotiations. Jones Lang LaSalle Sallmanns Limited, the independent property valuer of the Group, has reviewed the tenancy agreements and confirmed that the rentals payable by the Group are fair and reasonable and consistent with the prevailing market rates for similar premises in similar locations in the PRC. The Directors are of the view that even if these tenancy agreements are ceased and the relevant premises are no longer available to the Group, except for the additional relocation costs incurred by the Group, the Group would be able to find suitable premises from third party landlords in the same districts to satisfy its need for alternative premises for its business operation without undue delay or inconvenience.

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Financial Independence

Loans and advances from the Controlling Shareholders and their respective associates

During the Track Record Period, the Group obtained the following loans and advances from the Controlling Shareholders and their respective associates:

	As at 31 December 2007	As at 31 December 2008	As at 31 December 2009
	RMB (million)	RMB (million)	RMB (million)
Advances from the Controlling Shareholders and their respective associates	166.0	6.7	27.4
Loans from the Controlling Shareholders and their respective associates	—	65.0	5.4

The loans and advances obtained by the Group from the Controlling Shareholders and their respective associates during the Track Record Period were mainly used for general working capital purpose and capital expenditures and the Group had settled all the advances and loans from the Controlling Shareholders and their respective associates before 31 March 2010.

Bank borrowings and banking facilities guaranteed by the Controlling Shareholders and their respective associates

During the Track Record Period, the Group obtained the following bank borrowings and banking facilities from various financial institutions:

	As at 31 December 2007		As at 31 December 2008		As at 31 December 2009	
	RMB (million)	and banking facilities	RMB (million)	and banking facilities	RMB (million)	and banking facilities
Utilised bank borrowings and banking facilities guaranteed by the Controlling Shareholders and their respective associates	82.9	59.9%	157.4	63.7%	141.7	64.6%
Utilised bank borrowings and banking facilities without guarantee by the Controlling Shareholders and their respective associates	55.4	40.1%	89.7	36.3%	77.7	35.4%
Total utilised bank borrowings and banking facilities	138.3	100.0%	247.1	100.0%	219.4	100.0%

Note: The balance of utilised bank borrowings and banking facilities without guarantee by the Controlling Shareholders and their respective associates is equal to the sum of the interest-bearing borrowings and bills payables minus the balance of utilised bank borrowings and banking facilities guaranteed by the Controlling Shareholders and their respective associates.

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In January 2010, the Group had already obtained written confirmations from the relevant banks that all utilised and unutilised bank borrowings and banking facilities guaranteed by the Controlling Shareholders and their respective associates had been fully released.

The Group's financial resources are principally derived from the sales of the Group's products. During the Track Record Period, the Group has been able to obtain loans and credit facilities from financial institutions at market rates without relying on the guarantees by the connected persons. Given such circumstances, the Directors believe that the Group is able to obtain independent bank financing upon the Listing.

After the Listing, with the settlement of the loans and advances from the related companies and the release of the guarantees of the banks loans and bills payables, as well as with the listing proceeds and the enhanced borrowing power derived from its listing status, the Group believes that it is capable of obtaining financial independence without the need to rely on the Controlling Shareholders.

Furthermore, the Group has its own finance department and has established its own financial accounting system independent of the Controlling Shareholders. The Group has its own bank account, makes its tax registrations and has employed a sufficient number of financial accounting personnel.

In view of the factors mentioned above, the Directors confirmed that the Group is able to operate financially independent of the Controlling Shareholders after the Listing.

Non-Competition

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

The Controlling Shareholders and the other six Founders of Xinhua Company have entered into a Non-competition Deed in favour of the Group, which is designated to rule out any potential conflict of interest of the Controlling Shareholders against the Group as set out in the paragraph headed "Non-competition Undertaking" of this section of this prospectus.

NON-DISPOSAL UNDERTAKINGS GIVEN BY THE CONTROLLING SHAREHOLDERS

Each of the Controlling Shareholders has undertaken with the Company and the Stock Exchange that each of them shall not and shall procure that the relevant registered holder(s) shall not:

- (a) in the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date (the "**First Six-Month Period**"), save for the transaction contemplated under the Stock Borrowing Agreement, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it/he is shown by this prospectus to be the beneficial owner(s); and

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- (b) in the period of six months commencing on the date on which the First Six-Month Period expires (the “**Second Six-Month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, the Controlling Shareholders would cease to be the controlling shareholders of the Company, i.e. they cease to control 30% or more of the voting power at general meetings of the Company.

Each of the Controlling Shareholders has undertaken with the Company and the Stock Exchange that within a period commencing from the date of this prospectus and ending on the date on which is the first anniversary of the Listing Date, he or it shall:

- (a) when he or it pledges or charges any securities beneficially owned by him or it in favour of an authorised institution (as defined under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, immediately inform the Company of such pledge or charge together with the number of securities so pledged or charged; and
- (b) when he or it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged securities will be disposed of, immediately inform the Company of such indications.

The Company will inform the Stock Exchange as soon as the Company has been informed of the matters referred to above by any of the Controlling Shareholders and disclose such matters by way of announcement pursuant to the requirements under the Listing Rules as soon as possible.

Given the Shares indirectly held by Sze Fo Chau and Hui Cheung Mau are in an aggregate comprising approximately 7.5% shareholding in the Company immediately after the Global Offering and Capitalisation Issue, assuming the Over-allotment Option has not been exercised and no Shares are issued pursuant to the options granted under the Share Option Scheme, they are not subject to any lock-up restriction upon the Listing.