

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

During the Track Record Period, our Group, our Directors and Controlling Shareholders, or their respective associates had interests in the following enterprises whose businesses are similar to and may be in competition with that of our Group, or with whom our Group had transactions during the Track Record Period.

(a) Baoyuan

Baoyuan is a limited liability enterprise established in the PRC on 8 January 2008 with a registered capital of US\$11.2 million. Its principal business is the manufacture and sales of polyester yarns. From the audited accounts prepared in accordance with PRC GAAP and filed with *Yichun City Industry and Commerce Administrative Bureau*, for each of the three years ended 31 December 2010, the revenue of Baoyuan was approximately RMB2.0 million, approximately RMB168.5 million and approximately RMB458.0 million, respectively. The loss after tax was RMB0.09 million for the year ended 31 December 2008. The profits after tax of Baoyuan for the two years ended 31 December 2009 and 2010 was approximately RMB0.2 million and approximately RMB25.4 million, respectively.

Immediately before 8 March 2011, Baoyuan was held as to 87.5% by Lin Changxing (林長興) (of which 47.5% was held by Lin Xiaochun (林小春) and 30% by Zheng Wu (鄭武) on trust for Lin Changxing), 5% by a company controlled by Mr. Lin and the remaining 7.5% by Independent Third Parties. Zheng Yongxiang was the supervisor of Baoyuan. As a supervisor, Zheng Yongxiang did not involve in the management and operation of Baoyuan.

On 3 January 2008, Lin Xiaochun, the mother of Mr. Zheng and Zheng Yongxiang, and Zheng Wu, the elder brother of Mr. Zheng and the younger brother of Zheng Yongxiang, entered into a share charge loan agreement (股份抵押貸款合同) (the “**Loan Agreement**”) with Lin Changxing, an Independent Third Party and not connected with our Group and our Directors. Pursuant to the Loan Agreement, each of Lin Xiaochun and Zheng Wu would advance a loan of US\$5.32 million and US\$3.36 million to Lin Changxing, respectively (the “**Loans**”). As a security for repayments of the Loans, Lin Xiaochun would hold the 47.5% equity interests, and Zheng Wu would hold the 30% equity interests in Baoyuan for Lin Changxing.

The Loans would be for a term of six years with an interest rate of 10% per annum, and the interest would be payable not later than the fourth year of the Loans. Upon the expiry of the six-year period, Lin Changxing shall repay the principal amount of the Loans plus accrued interest, and Lin Xiaochun and Zheng Wu shall return their equity interests in Baoyuan to Lin Changxing at the same price as the amount of the Loans. If Lin Xiaochun or Zheng Wu asks for repayment of the Loans within the six-year period, consent from Lin Changxing is required. Lin Xiaochun and Zheng Wu shall return the accrued interest and their equity interests in Baoyuan to Lin Changxing at the same price as the amount of the Loans. During the term of the Loan Agreement, any of Lin Xiaochun and Zheng Wu shall not sell their equity interests to any third parties unless with the written consent of Lin Changxing. In addition, if Baoyuan declares a dividend during the six-year period, the dividend received by Lin Xiaochun and Zheng Wu may be used to set-off against the interest of the Loans.

Each of Lin Xiaochun, Zheng Wu and Lin Changxing, confirmed that Lin Xiaochun and Zheng Wu, as lenders and as security for the Loans, held the 47.5% and 30% interests in Baoyuan respectively for Lin Changxing since the advancements of the Loans (i.e. 3 January 2008). For the purpose of having access to important matters of Baoyuan, Lin Changxing, Lin Xiaochun and Zheng Wu agreed that Lin Xiaochun was appointed as the legal representative and director, and Zheng Wu as a director of Baoyuan. However, according to a written agreement on directors’ duties (the “**Agreement on Directors’ Duties**”) entered into among Lin Changxing, Lin Xiaochun and Zheng Wu on 5 January 2008, Lin Xiaochun and Zheng Wu shall not be involved in the management and operation of Baoyuan since its establishment. According to

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the PRC laws and the articles of association of Baoyuan, the shareholders have the power to appoint the directors of Baoyuan. Pursuant to the Agreement on Directors' Duties and as confirmed by Lin Xiaochun, Zheng Wu and Lin Changxing, Lin Xiaochun and Zheng Wu have to cast their votes in meetings of directors of Baoyuan in accordance with the wishes of Lin Changxing. Lin Changxing is an independent third party not connected with Lin Xiaochun and Zheng Wu.

Our PRC legal adviser, Commerce & Finance, has opined that, under the PRC laws, the Agreement on Directors' Duties and the confirmation and the entrustment as stated therein are valid, legal and enforceable between the parties thereto but the same cannot be enforceable against bona fide third parties. As a result of the entrustment, Lin Changxing was interested in 87.5% of Baoyuan.

In preparation for the Listing, even though Lin Xiaochun and Zheng Wu are not in actual control of Baoyuan, to avoid any potential competition and conflict of interest with our Group, Lin Xiaochun, Zheng Wu and Lin Changxing agreed to early repay the Loans and return their equity interests in Baoyuan to Lin Changxing. As such, on 8 March 2011, Lin Xiaochun transferred all her equity interests in Baoyuan to Lin Changxing at a consideration of US\$5.32 million, and Zheng Wu transferred all his equity interests in Baoyuan to Lin Changxing at a consideration of US\$3.36 million. Pursuant to the Loan Agreement, interest of the Loans is payable not later than the fourth year of the Loans and Lin Xiaochun and Zheng Wu shall return the accrued interest to Lin Changxing should Lin Xiaochun or Zheng Wu ask for repayment of the Loans within the six-year period. Since the Loans were repaid about three years after the advancements, no interest was payable on the Loans. Lin Xiaochun has also resigned as a director and the legal representative of Baoyuan, Zheng Wu resigned as a director of Baoyuan and Mr. Lin has resigned as a director of Baoyuan. Zheng Yongxiang also resigned as the supervisor of Baoyuan.

As a consequence of the aforesaid transfers of the equity interests in, and the resignations from the board of directors of Baoyuan, Baoyuan has no other connection with our Controlling Shareholders or their associates since 8 March 2011. Other than the advances due from Baoyuan during the Track Record Period as set out in note 35 to the Accountants' Report in Appendix I to this Prospectus, which have been fully settled before the Listing, our Group had no other transactions with Baoyuan. These advances due from Baoyuan were non-trading in nature and were made to satisfy the short-term working capital needs of Baoyuan.

(b) Changle Jinyuan

Changle Jinyuan is a limited liability company established in the PRC on 25 March 1999. Its principal business is the manufacture and sales of cotton yarn/man-made yarn. For each of the three years ended 31 December 2010, the revenue of Changle Jinyuan was approximately RMB1,461.4 million, approximately RMB1,478.6 million and approximately RMB1,647.4 million, respectively and the profits after tax of Changle Jinyuan was approximately RMB62.1 million, approximately RMB125.9 million and approximately RMB209.6 million, respectively.

Immediately before 13 December 2010, Zheng Yongxiang, our Director and the elder brother of Mr. Zheng, held 40% of the equity interests in Changle Jinyuan and Zheng Baozhen (鄭寶振), the uncle of Mr. Zheng and Zheng Yongxiang, held 15% of the equity interests in Changle Jinyuan. The remaining equity interests of Changle Jinyuan was held as to 20% by Chen Mingui (陳敏貴), 12% by Lin Xiaohui (林小惠), 13% by Zheng Liqin (鄭麗欽), all being Independent Third Parties. Mr. Zheng Yongxiang was also a director and the legal representative of Changle Jinyuan and Zheng Baozhen was the general manager (總經理) of Changle Jinyuan.

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Since the products manufactured by Changle Jinyuan are similar to those of our Group, to avoid any potential competition and conflict of interest with Changle Jinyuan, on 13 December 2010, Zheng Yongxiang transferred all his equity interests in Changle Jinyuan to Ye Yuying (葉育英), an Independent Third Party, at a consideration of RMB192 million. Zheng Yongxiang also resigned as the director and legal representative of Changle Jinyuan. Zheng Yongxiang and Ye Yuying agreed that the consideration should be settled in instalments on or before 29 August 2011, and in mid June 2011, all the instalments had been fully settled. After the transfer, Zheng Yongxiang would also be entitled to the dividend declared in respect of the cumulative distributable profits of Changle Jinyuan made up to 31 December 2010 based on his then shareholding of 40%. In case of any dividend declared other than cash dividend, Zheng Yongxiang should be compensated in cash by Ye Yuying.

As a consequence of the aforesaid transfer of the equity interests in and the resignation from the board of directors of Changle Jinyuan, other than Zheng Baozhen holding 15% equity interests and is the general manager of Changle Jinyuan, Changle Jinyuan has no other connection with our Controlling Shareholders or their associates since 13 December 2010. Other than the amount due to Changle Jinyuan during the Track Record Period as set out in note 35 to the Accountants' Report in Appendix I to this Prospectus which have been fully settled before the Listing, our Group had no other transactions with Changle Jinyuan. The amount due to Changle Jinyuan was non-trading in nature and was made to satisfy the short-term working capital needs of our Group.

(c) Jinlun Company

In addition to the above companies, Zheng Baoyou (鄭寶佑), the father of Mr. Zheng and Zheng Yongxiang, currently is the chairman and legal representative of Jinlun Company. Jinlun Company is a company established in the PRC on 11 November 2003. Changle Jinyuan and Fengxin Investment are currently holding 46.55% and 3.45% of the equity interests in Jinlun Company, respectively. The remaining 50% of the equity interests of Jinlun Company was held by 13 Independent Third Parties. The principal business of Jinlun Company is the production and sales of polyester staple fibres. Jinlun Company had been one of our suppliers during the Track Record Period and we will continue the purchases from Jinlun Company after the Listing. For each of the three years ended 31 December 2010, our purchases from Jinlun Company amounted to approximately of RMB32.7 million, RMB45.9 million and RMB38.5 million respectively. Before the disposal of the equity interests in Changle Jinyuan by our executive Director, Zheng Yongxiang, Jinlun Company was our connected person under the Listing Rules. Since the aforesaid disposal of the 40% equity interests in Changle Jinyuan by Zheng Yongxiang on 13 December 2010, Jinlun Company is no longer our connected person and our continuing purchases of raw materials from Jinlun Company will no longer constitute our connected transactions under the Listing Rules. However, these transactions will continue to be our related parties transactions as set out in note 35 to the Accountants' Report in Appendix I to this Prospectus. As at the Latest Practicable Date, other than Fengxin Investment holding 3.45% equity interests in Jinlun Company and Zheng Baoyou is the chairman and the legal representative of Jinlun Company and the continuing purchases of polyester staple from Jinlun Company, our Group, our Controlling Shareholders and their associates have no other connection with Jinlun Company.

(d) Fengxin Investment, Fengxin Real Estate and Changle Yuanlong

Chen Xiuyin (陳秀銀), a director of our subsidiary Jiangxi Jinyuan, currently holds 60% equity interests in Fengxin Investment. The remaining equity interests of Fengxin Investment are held as to 30% by Lin Liangzhu (林良柱) and 10% by Chen Yuhan (陳宇含). Lin Liangzhu is an Independent Third Party and Chen Yuhan is one of our senior management. Other than being a director of Jiangxi Jinyuan, Chen Xiuyin has no other connection with our Group, our Directors, Controlling Shareholders and their respective associates. The principal business of Fengxin Investment is real estate investment and

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consultancy. Zheng Yongxiang currently also holds 51% equity interests in Fengxin Real Estate, which is principally engaged in the property development. The remaining 49% equity interests of Fengxin Real Estate is held by Huang Chunhua (黃春華), an Independent Third Party. Other than the amounts due to Fengxin Investment and Fengxin Real Estate during the Track Record Period as set out in note 35 to the Accountants' Report in Appendix I to this Prospectus, which have been fully settled before the Listing, we do not have other transactions with Fengxin Investment and Fengxin Real Estate. The amounts due to Fengxin Investment and Fengxin Real Estate were non-trading in nature and were made to satisfy the short-term working capital needs of our Group.

Chen Ailan (陳愛蘭), wife of Mr. Zheng, currently holds 25% equity interests in Changle Yuanlong. The remaining equity interests of Changle Yuanlong are held as to 25% by Chen Yun (陳雲), 25% by Chen Wencai (陳文財) and 25% by Wu Kailiang (吳凱亮), all being Independent Third Parties. The principal business of Changle Yuanlong is the manufacture and sales of textile products. Other than the amount due from Changle Yuanlong for the year ended 31 December 2008 as set out in note 35 to the Accountants' Report in Appendix I to this Prospectus, which has been fully settled before the Listing, we do not have other transactions with Changle Yuanlong. The amount due from Changle Yuanlong were non-trading in nature and were made to satisfy the short-term working capital needs of Changle Yuanlong.

Since none of Jinlun Company, Fengxin Investment, Fengxin Real Estate and Changle Yuanlong is principally engaged in the manufacture and sale of polyester yarns, polyester-cotton blended yarns and cotton yarns, our Directors are of the view that these companies do not compete with our business.

As confirmed by our Directors, as at the Latest Practicable Date, our Controlling Shareholders, our Directors and their respective associates did not have any interest in any business, apart from the business operated by members of our Group, that competes or is likely to compete, directly or indirectly, with the business of our Group.

DEED OF NON-COMPETITION

To better safeguard our Group from any potential competition, each of the Covenantors has entered into the Deed of Non-competition with our Company whereby each of the Covenantors jointly and severally, irrevocably and unconditionally, undertakes with our Company that with effect from the Listing Date and for as long as the Shares remain listed on the Stock Exchange and the Covenantors, individually or collectively with their associates, are, directly or indirectly, interested in not less than 30% of the Shares in issue, or are otherwise regarded as Controlling Shareholders, or remain as an executive Director, each of the Covenantors shall, and shall procure that their respective associates shall:—

- (a) not directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of our Group or any business activities which our Group may undertake in the future save for the holding of not more than 5% shareholding interests (individually or any of the Covenantors with their associates collectively) in any company listed on the Stock Exchange or any other stock exchange;
- (b) not take any direct or indirect action which constitutes an interference with or a disruption to the business activities of our Group including, but not limited to, solicitation of customers, suppliers and staff of our Group;
- (c) keep the Board informed of any matter of potential conflicts of interests between the Covenantors (including their associates) and our Group, in particular, a transaction between any of the Covenantors (including its associates) and our Group; and

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- (d) provide us as soon as practicable upon our request a written confirmation in respect of compliance by it with the terms of the Deed of Non-competition and their respective consent to the inclusion of such confirmation in our annual report and all such information as may be reasonably requested by us for our review and enforcement of the Deed of Non-Competition.

In addition, each of the Covenantors hereby jointly and severally, irrevocably and unconditionally, undertakes that if any new business opportunity relating to any product and/or service of our Group (the “**Business Opportunity**”) is made available to any of the Covenantors or their respective associates (other than members of our Group), it or he will direct or procure the relevant associate to direct such Business Opportunity to our Group with such required information to enable our Group to evaluate the merits of the Business Opportunity.

The relevant Covenantor shall provide or procure the relevant associate to provide all such reasonable assistance to enable our Group to secure the Business Opportunity. None of the Covenantors and their respective associates (other than members of our Group) will pursue the Business Opportunity until our Group decides not to pursue the Business Opportunity because of commercial reasons. Any decision of our Company will have to be approved by the independent non-executive Directors taking into consideration the prevailing business and financial resources of our Group, the financial resources required for the Business Opportunity and any expert opinion on the commercial viability of the Business Opportunity. We will disclose the matters reviewed by the independent non-executive Directors and their decision (with basis) on whether to pursue the Business Opportunity in our annual report or by way of announcement to the public.

Each of the Covenantors further jointly and severally, irrevocably and unconditionally, undertakes that it or he will (i) provide to our Group all information necessary for the enforcement of the undertakings contained in the Deed of Non-competition; and (ii) confirm to our Company on an annual basis as to whether it or he has complied with such undertakings.

The Deed of Non-competition will cease to have any effect on the earliest of the date on which:

- (a) our Company becomes wholly-owned by the Covenantors and/or their associates;
- (b) the aggregate beneficial shareholding (whether direct or indirect) of the Covenantors and/or their associates in the Shares falls below 30% of the number of Shares in issue or the relevant Covenantor shall cease to be a Controlling Shareholder (as defined in the Listing Rules) of our Company;
- (c) in the case of any executive Director who is not a Controlling Shareholder, ninety (90) days from the date of resignation or termination of his service contract with the Company, provided that if the relevant service contract is terminated by the Company without any breach on the part of the relevant executive Director, the date of termination of the relevant service contract; or
- (d) the Shares cease to be listed on the Stock Exchange.

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INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

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

Management Independence

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

Operational Independence

The organisational structure of our Group is made up of a number of departments, comprising administration department, procurement department, production department, inventory control department, sales and marketing department and finance department. Each department takes a specific role in our Group's operations. There are internal control procedures to ensure effective operation of our Group's business. Furthermore, our Group has its own production lines and its own sources of suppliers and customers, which are all Independent Third Parties. Accordingly, our Group can carry out its business operations independently.

Financial Independence

During the Track Record Period, we obtained non-trading advance from our related companies, a Director and bank borrowings guaranteed by the related companies and certain directors of Jiangxi Jinyuan and/or director of a related company as set out in note 35 to the Accountants' Report in Appendix I to this Prospectus. Such advances and guarantees will be settled and released before the Listing. As disclosed above, all borrowings, securities and guarantees provided to and by the Controlling Shareholders have been settled or released before the Listing. Our Directors are of the view that our Group does not unduly rely on the advances from the Controlling Shareholders and related parties for its business operations. Our Directors believe that our Group is capable of obtaining financing from external sources without undue reliance on the Controlling Shareholders. Furthermore, our Group has its own finance department and has established its own financial accounting system independent of the Controlling Shareholders. Our Group has its own bank account, makes its tax registrations and has employed a sufficient number of financial accounting personnel. Accordingly, our Directors consider that our Group is capable of operating independently from a financial perspective.

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NON-DISPOSAL UNDERTAKINGS GIVEN BY THE CONTROLLING SHAREHOLDERS

Pursuant to Rule 10.07 of the Listing Rules, each of the Controlling Shareholders has, jointly and severally, undertaken with our 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 by reference to which disclosure of their shareholding is made in this Prospectus and ending on the date which is six months from the Listing Date (the “First Six-Month Period”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances (save pursuant to a pledge or charge as security in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for bona fide commercial loan) 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
- (b) in the period of six months commencing on the date on which the First Six-Month Period expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances (save pursuant to a pledge or charge as security in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for bona fide commercial loan) 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 our Company, i.e. they cease to control 30% or more of the voting power at general meetings of our Company.

Further, each of the Controlling Shareholders has, jointly and severally, undertaken with our Company and the Stock Exchange that within a period commencing on the date by reference to which disclosure of their shareholding is made in 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 her 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 our 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 our Company of such indications.