
RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Immediately after completion of the [●] (assuming that the [●] is not exercised), Bright Warm, which is wholly owned by Mr. Jiang beneficially will, effectively hold 60% of the total issued share capital of our Company (assuming the [●] are not exercised). Mr. Jiang, being the largest Shareholder, has confirmed that he was brought up in the PRC and has lived in the PRC for a substantial period of time. For more details of the background of Mr. Jiang, please see the information set forth in the section headed “Directors, senior management and staff — Directors” in this document.

Apart from the equity interests in our Company and members of our Group, Mr. Jiang also held interest in the following company as at the Latest Practicable Date:

Name of company	Place of establishment	Principal business	Shareholding	Board of directors
Believe Power	BVI	Dormant	Mr. Jiang: 42.63%; Mr. Li: 38.97%; Mr. Du: 18.40%	Mr. Jiang; Mr. Li; Mr. Du

As the above company is dormant, our Directors are of the view that there is no competition between our Company and the above company owned by the Controlling Shareholders.

Save as disclosed in this document, none of our executive Directors, our Controlling Shareholders or their respective associates are engaged in any business that, directly or indirectly, competes or may compete with the business of our Group.

Non-competition undertaking

Pursuant to a deed of non-competition entered into by the Controlling Shareholders (being Bright Warm and Mr. Jiang) and Ms. Guo in favour of the Company and a deed of non-competition entered into by the Substantial Shareholders (being Ordillia and Mr. Li) in favour of the Company (each individually, a “**Deed of Non-competition**” and collectively, the “**Deeds of Non-competition**”), each of Bright Warm, Mr. Jiang, Ms. Guo, Ordillia and Mr. Li (collectively, the “**Covenantors**”) has undertaken, subject to the exceptions mentioned below, that he/she/it would not, and would procure that neither his/her/its associate nor companies controlled by him/her/it (other than our Group) directly or indirectly be interested in or engaged in any business which competes or is likely to compete directly or indirectly with our Group’s business as set out in this document, in the PRC and any other area in which our Group carries on business (the “**Restricted Activity**”).

The aforesaid undertakings do not apply with respect to the holding of or interests in shares or other securities in any company which conducts or is engaged in any Restricted Activity, provided that, in the case of such shares, they are listed on a recognised stock exchange and:

- (a) the total number of the shares held by the relevant Covenantor(s) or their associates does not amount to more than 5% of the issued shares of the company; and
- (b) the relevant Covenantor(s) or their associates are not entitled to appoint a majority of the directors or management of that company.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

The non-competition undertaking and the rights and obligations there under are subject to and conditional upon the [●] becoming unconditional.

The obligation of the Covenantors under the Deeds of Non-competition will remain in effect until:

- (a) the date on which the Shares cease to be [●]; or
- (b) the date on which the relevant Covenantor(s) and their associates cease to own 5% or more of the then issued share capital of the Company directly or indirectly whichever occurs first.

Each of the Covenantors undertakes to our Company that he/she/it would, during the term of the relevant Deed of Non-competition indemnify and keep indemnified our Company and our Group against any loss suffered by our Company or our Group (as relevant) arising out of any breach of his/her/its undertaking under the relevant Deed of Non-competition.

Independence of management, financing and operation

Having considered the following factors, our Directors are satisfied that our Group will be able to be operationally and financially independent from the Controlling Shareholders and their associates:

Non-competition — none of the Controlling Shareholders or our Directors has any interest in a business which competes or is likely to compete, either directly or indirectly, with our Group’s business. In addition, each of the Controlling Shareholders has given a non-competition undertaking in favor of us. For details, please refer to the section headed “Relationship with Controlling Shareholders — Non-competition undertaking” in this document.

Management independence — Our Board comprises three executive Directors and three independent non-executive Directors. Despite the interest of the Covenantors in certain companies outside our Group, we consider that our Board will function independently from the Covenantors because:

- (a) each Director 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 duties as a Director and his personal interest;
- (b) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Company and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions; and
- (c) our board comprises six Directors and three of them are independent non-executive Directors, which represents more than one-third of the members of the Board. This is in line with or better than current governance best practice in Hong Kong.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Financial independence — Our Group has an independent financial system and makes financial decisions according to its own business needs. As at 31 December 2010, approximately RMB16.6 million was owed by our Group to Mr. Jiang, Ms. Guo, Ms. Jiang Ling (a sister of Mr. Jiang), Hebei Deyuan Tube Manufacturing Company Limited (河北德源管業製造有限公司) (“**Hebei Deyuan**”) and Mr. Li. As at 31 December 2011, approximately RMB39.1 million was owed by our Group to Mr. Jiang, Ms. Guo, Hebei Xinhua, Hebei Ruihui, Mr. Li, Ms. Ren, and Ordillia. Out of the outstanding sums owed to them, the amount due to Mr. Jiang and Ms. Guo of RMB20.0 million in aggregate will be waived prior to [●] and the remaining outstanding balance of RMB19.1 million were settled before the Latest Practicable Date. Moreover, our Directors also confirm that, as at the Latest Practicable Date, all guarantees provided by our Controlling Shareholders to secure bank loans or other borrowings by us were released. In the circumstances, we believe we are capable of obtaining financing from third parties without reliance on the Controlling Shareholders.

Operational independence — During the Track Record Period, certain technologies covered by the scope of various patents held by Ms. Guo had been used by us in our operation. We have not entered into any agreement with Ms. Guo in respect of the usage of such patents prior to the transfer. Nevertheless, Ms. Guo has undertaken to us (i) to provide these patents for our use exclusively; and (ii) that our Group will not be required to make any payment for the use of these patents. Such patents have been assigned to us at nil consideration in August 2011 and the registration of the transfer was completed with the State Intellectual Property Office of the PRC as at the Latest Practicable Date. For further details, please refer to the section headed “Further information about the business of our Group — Intellectual property rights of our Group” in Appendix IV to this document.

Save as to the above, we do not use any intellectual properties rights held by our Controlling Shareholders and Directors in the course of our operation. In addition, our Group has an independent work force to carry out our operation and has not shared its operation team with the Controlling Shareholders’ businesses outside our Group. Although during the Track Record Period, there have been certain transactions between us and our related parties (*Notes*), details of which are set out in note 30 to the Accountant’s Report, our Directors have confirmed that these related party transactions were conducted on fair and reasonable and normal commercial terms. None of the historical related party transactions with the connected persons as defined in the [●] are expected to continue and constitute non-exempt connected transactions after the [●].

Notes:

The particulars of business entities (except Bright Warm, Ordillia, Believe Power, Boom World, Plansmart and Hebei Deer) which are related parties set out in note 30 to the Accountants’ Report are set out below:-

1. **Hebei Deyuan**

Hebei Deyuan is a limited liability company established on 7 June 2006 in accordance with the laws of the PRC. Mr. Jiang was the founder and owned the entire equity in Hebei Deyuan at the time of establishment and, upon various disposals of equity interests, ceased to be a shareholder of Hebei Deyuan in March 2011. Hebei Deyuan is currently owned as to 80% and 20% by an Independent Third Party and a daughter of Mr. Jiang, respectively, and principally engages in the business of manufacturing of plastic pipes for agricultural, drainage and telecommunication uses, etc.

2. **Hebei Qianyuan Communication Equipment Company Limited** (河北乾源通信設備有限公司) (“**Hebei Qianyuan**”)

Hebei Qianyuan is a limited liability company established on 4 March 2010 in accordance with the laws of the PRC. Mr. Jiang and Ms. Guo were the founders and owned as to 55% and 45% of the equity interests in Hebei Qianyuan, respectively, at the time of establishment and subsequently disposed their equity interests in January 2011. Hebei Qianyuan is currently owned by Independent Third Parties and principally engages in the business of manufacturing and sales of telecommunication equipment.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

3. **Hebei Yongchang Electricity Engineering Co., Ltd.** (河北永昌電力工程有限公司) (“Hebei Yongchang”)

Hebei Yongchang is a limited liability company established on 15 January 2007 in accordance with the laws of the PRC and controlled by a former shareholder of Hebei Changtong (who is also our employee until December 2008) during the Track Record Period. Hebei Yongchang principally engages in the business of provision of deployment services of electricity wires and ancillary facilities.

4. **Hengshui Qianyuan Real Estate Development Company Limited** (衡水乾源房地產開發有限公司) (“Hengshui Qianyuan”)

Hengshui Qianyuan is a limited liability company established on 22 July 2004 in accordance with the laws of the PRC and controlled by Ms. Jiang Ling (a sister of Mr. Jiang) during the Track Record Period prior to dissolution in January 2011. Hengshui Qianyuan principally engaged in the business of real estate development prior to dissolution.

5. **Shijiazhuang Yu Hua Ai Mei Mei Ju Furniture Distribution Centre** (石家莊市裕華區艾美美居傢俱銷售中心) (“Shijiazhuang Yuhua”)

Shijiazhuang Yuhua is a privately or individually owned business entity established in March 2009 in accordance with the laws of the PRC and wholly owned by Ms. Ren since establishment. Shijiazhuang Yuhua principally engages in the business of sales of furniture.

6. **Hebei Ruihui**

Hebei Ruihui is a limited liability company established on 6 February 2009 in accordance with the laws of the PRC and owned as to 65% and 35% by Mr. Du and Mr. Zhang since establishment. Hebei Ruihui principally engages in the business of manufacturing and sales of glass products.

7. **Hebei Xinhua**

Hebei Xinhua is a limited liability company established on 21 September 1999 in accordance with the laws of the PRC and controlled by Mr. Du during the Track Record Period. Hebei Xinhua principally engages in the business of processing and sales of cashmere wool products.

CONNECTED TRANSACTIONS

We have not entered into any transactions with our connected persons which will continue following the [●] and which will constitute non-exempt continuing connected transactions within the meaning of the [●].