ESTABLISHMENT, OPERATION AND MANAGEMENT OF A WHOLLY FOREIGN-OWNED ENTERPRISE

The establishment, operation and management of corporate entities in China is governed by 中華人民共和國公司法 (the Company Law of the PRC) (the "**Company Law**"), which was promulgated by 全國人民代表大會常務委員會 (the Standing Committee of the National People's Congress) on 29 December 1993 and became effective on 1 July 1994. It was subsequently amended on 25 December 1999, 28 August 2004 and 27 October 2005. The Company Law generally governs two types of companies — limited liability companies and joint stock limited companies. The Company Law shall also apply to foreign-invested companies. Where laws on foreign investment have other stipulations, such stipulations shall apply.

The establishment procedures, verification and approval procedures, registered capital requirement, foreign exchange restriction, accounting practices, taxation and labour matters of a wholly foreign-owned enterprise are governed by 中華人民共和國外資企業法 (the Wholly Foreign-owned Enterprise Law of the PRC) (the "**Wholly Foreign-owned Enterprise Law**"), which was promulgated on 12 April 1986 and amended on 31 October 2000, and Implementation Regulation under the Wholly Foreign-owned Enterprise Law, which was promulgated on 12 December 1990 and amended on 12 April 2001.

Investment in the PRC conducted by foreign investors and foreign-owned enterprises shall comply with 外商投資產業指導目錄 (the Guidance Catalogue of Industries for Foreign Investment) (the "**Catalogue**"), which was amended and promulgated by 商務部 (the Ministry of Commerce) and 國家發展和改革委員會 (the National Development and Reform Commission) on 31 October 2007. The Catalogue, as amended, became effective on 1 December 2007 and contains specific provisions guiding market access of foreign capital, stipulating in detail the areas of entry pertaining to the categories of encouraged foreign-invested industries, restricted foreign-invested industries and prohibited foreign investment. Any industry no listed in the Catalogue is a permitted industry. As advised by our PRC legal advisers, there is no regulation or relevant provisions specifically restrict foreign investment in the dyeing, weaving and textile business and thus to our Group.

Our dyeing and weaving business of our Group's PRC subsidiary, Fuqing Hong Liong falls into the "encouraged category" of the Catalogue, while the textile businesses carried out by Fuqing Ecotex and Shishi Maigen as well as the wholesale business carried out by Fuzhou Aike are not mentioned in the Catalogue, and therefore are deemed as a "permitted category". The PRC subsidiaries of the Group have obtained all the necessary approvals to conduct their business as mentioned in their business licenses.

CROSS STRAIT INVESTMENT

According to the Guidelines Governing the Review of Investment or Technical Cooperation in the Mainland Area (the "**Guidelines**"), which is set forth pursuant to paragraph 1 of Article 35 of the Act Governing the Relations Between the Peoples of the Taiwan Area and Mainland Area (the "**Act**"), business operations and business items involved in the investment and cooperation in the PRC as referred to in the Guidelines and the relevant laws are divided into the prohibited category and the non-prohibited category, which is referred to as the general category in the Guidelines. The relevant authorities will review the item lists and categorisation on an annual basis and revise and update the lists and categorisation accordingly. Moreover, the Guidelines further stipulate that any one individual citizen of Taiwan shall not invest more than US$5,000,000 per year in the Mainland Area. Nationals, legal

entities, organisations or other institutions in Taiwan shall submit applications to the Investment Commission (the "**Commission**") for approval prior to investing or engaging in technical cooperation in the PRC. Those approved to invest in the PRC shall submit to the Commission for its acknowledgement within six (6) months of commencement of their investment. Article 86 of the Act provides that any person who makes an investment in any item of the general category in violation of paragraph 1 of Article 35 of the Act shall be punished with an administrative fine of not less than NT$50,000 but not more than NT$25,000,000, or in addition thereto, ordered to terminate any violation or rectify within a specified time frame. Failure to terminate any violation or failure to rectify by the expiration of the required time period may result in consecutive fines being imposed on the individual or corporate violators.

Since some of the Controlling Shareholders had unreported investments to the Commission for approval prior to investing or engaging in technical cooperation in the PRC, they were in violation of paragraph 1 of Article 35 of the Act and were punished with an administrative fine. Among the Controlling Shareholders, Shao Ten-Po's total unreported investment was US$14,723,360; Hsu Chieh-Jung's total unreported investment was US$4,233,320; Tseng Chung-Cheng's total unreported investment was US$2,539,992 and Liao Chin-Yi's total unreported investment was US$1,829,328. These unreported investments represent all the historical investments made by the respective Controlling Shareholders in the PRC, of which applications had not been submitted to the Commission and hence no approvals had been obtained.

In preparation for the Listing, submission of supplemental applications of these unreported investments was made to the Commission on 10 July 2009. As advised by the respective Controlling Shareholders, they had not submitted supplemental applications of these unreported investments until then because they had overlooked and negligently failed to apply for the prior approvals due to the discrepancy of their understanding and the Commission's interpretation on the Guidelines. The Commission rendered administrative fine on each of the Controlling Shareholders on 16 October 2009 and approved the submission of supplemental applications of the unreported investments on 22 October 2009 as stated in the letters from the Commission. The administrative fine for Shao Ten-Po is NT$170,000, for his failure to submit applications for all the historical investments made in the PRC. An administrative fine of NT$100,000 is imposed on each of Hsu Chieh-Jung, Tseng Chung-Cheng and Liao Chin-Yi for their failure to submit applications for all the historical investments made in the PRC. These result in a total administrative fine in the amount of NT$470,000. The total administrative fine were fully settled as at the Latest Practicable Date. The unreported investments were legalised after the penalties were paid as stated in the letters from the Commission and the concern for any refund of these investments does not exist.

Since the unreported investments were approved with monetary administrative fine as well as submission of supplemental applications on 22 October 2009, the issue of unlikely ratification or confirmation of the previously unreported excessive amounts of investment does not exist. The non-compliance of submitting applications to the Commission for seeking approval prior to investing or engaging in technical cooperation in the PRC in accordance to the Guidelines has been solved by Shao Ten-Po, Hsu Chieh-Jung, Tseng Chung-Cheng and Liao Chin-Yi and the unreported investments has been re-approved by the Commission. In short, the Commission has forgiven the excessive investments in its letters according to the Taiwan legal advisers, the unreported investments are properly filed with

the Commission subsequently. Therefore, even Shao Ten-Po's previously unreported investment exceeded the threshold of US$5 million per year, there are no potential legal implications on the Group's business, shareholding structure and the Reorganisation.

Pursuant to the Reorganisation in preparation for the Listing, the Controlling Shareholders have submitted supplemental applications of the new investments arising from the Reorganisation to the Commission on 3 November 2009. For the new investments of the Controlling Shareholders arising from the Reorganisation, Shao Ten Po's total investment was US$2,459,139; Hsu Chieh-Jung's total investment was US$3,550,304; Tseng Chung-Cheng's total investment was US$Nil; Liao Chin-Yi's total investment was US$1,332,031 and Hu Chin-Shu's total investment was US$826,334. Their relevant percentages of the Company's share capital upon completion of the Global Offering are 39.31%, 19.41%, 6.32%, 8.41% and 1.56% respectively. The Commission duly approved the submission of supplemental applications of the new investments arising from the Reorganisation on 23 November 2009. As a result, there will be no potential legal implications on the Group's business (and working capital), shareholding structure and the Reorganisation.

As advised by our Taiwan legal advisers, Chien Yeh Law Offices, the Controlling Shareholders have obtained all governmental approvals in Taiwan and, save for that the controlling shareholders made unreported investments with monetary sanctions in the past but subsequently obtained all the approvals, complied with the relevant Taiwan laws for the investments in the PRC and the Listing. Moreover, according to the Taiwan legal advisers, the Commission will deem the IPO proceeds to be used by the Group in the PRC as additional investments by the Controlling Shareholders and hence subject to the Commission's approval. Application for approval will be made once the IPO proceeds are used and such approval is expected to obtain within about one month from application. As advised by the Taiwan legal advisers, there is no legal impediment in obtaining such approval. The basis in their legal opinion of the Taiwan laws that there is no legal impediment in obtaining approvals from the Commission is that the law only impose monetary penalty to the unreported violation as follows: Paragraphs 1 and 2 of Article 3 of the Sanction Standard for Illegal Investment or Technical Cooperation in the PRC as amended on 2 February 2009, parties that invested in the PRC after 10 March 2008 without obtaining prior approval from the competent authority shall be imposed a fine. In addition, to the many prior experiences of our Taiwan legal advisers in relation to the listing of other companies in Hong Kong, there will be no penalty in whatever form other than the abovementioned monetary penalty. Finally, the law of our investment restriction is only applicable to the Taiwanese investor, individual or company, but not to the invested company; therefore, the penalty, if applicable to the Taiwanese investor, will not affect the operation of the Company. Therefore, there are no potential implications on the Group's operations (and working capital) and shareholding structure or the Controlling Shareholders are required to dispose of their shares in our Company since any potential punishment of monetary penalty will be imposed on the Controlling Shareholders individually instead of the Company nor the shareholders of the Company as a whole.

As advised by the Directors, Ms. Ko Ming Wai, the company secretary of the Company, will be responsible for closely monitoring any new cross strait investments to be made by the Controlling Shareholders after the Listing on a regular basis. When there are new cross strait investments made by any of the Controlling Shareholders after the Listing, she will notify the Commission immediately and submit applications of such investments to the Commission as soon as possible in order not to violate paragraph 1 of Article 35 of the Act and hence trigger the provision of Article 86 of the Act in the future.

TAXATION

Income tax

Prior to 1 January 2008, income tax payable by foreign-invested enterprises in the PRC was governed by 中華人民共和國外商投資企業和外國企業所得税法 (the Foreign-invested Enterprise and Foreign Enterprise Income Tax Law of the PRC) ("**FIE Tax Law**") promulgated on 9 April 1991 and effective on 1 July 1991 and the related implementation rules. Pursuant to the FIE Tax Law, a foreign-invested enterprise was subject to a national income tax at the rate of 30% and a local tax at the rate of 3% unless a lower rate was provided by law or administrative regulations. The income tax on foreign-invested enterprises established in Special Economic Zones, foreign enterprises which have establishments or places in Special Economic Zones engaged in production or business operations, and on foreign-invested enterprises of a production nature in Economic and Technological Development Zones, was levied at the reduced rate of 15%. The income tax on foreign-invested enterprises of a production nature established in coastal economic open zones or in the old urban districts of cities where the Special Economic Zones or the Economic and Technological Development Zones are located, was levied at the reduced rate of 24%. Any foreign-invested enterprise of a production nature scheduled to operate for a period of not less than ten years was exempted from income tax for two years commencing from the first profit-making year (after offsetting all tax losses carried forward from previous years) and allowed a fifty percent reduction in the following three consecutive years.

According to the newly promulgated 中華人民共和國企業所得税法 (Corporate Income Tax Law of the PRC) ("**New Tax Law**"), which was promulgated on 16 March 2007, the income tax for both domestic and foreign-invested enterprises will be at the same rate of 25% effective from 1 January 2008. However, there will be a transition period for enterprises that previously receive preferential tax treatments under the FIE Tax Law. Foreign-invested enterprises that are subject to an enterprise income rate lower than 25% may continue to enjoy the lower rate and gradually transit to the new tax rate after the effective date of the New Tax Law. Foreign-invested enterprises that enjoy a tax rate of 24% will have their tax rate increased to 25% in 2008. Foreign-invested enterprises which enjoy a fixed period of exemptions or reductions under the existing applicable rules and regulations may continue to enjoy such treatment until the expiry of such prescribed period, and for those enterprises whose preferential tax treatment has not commenced due to lack of profit, such preferential tax treatment will commence from the effective date of the New Tax Law.

Withholding tax on dividend distribution

Before the promulgation of the New Tax Law, the principal regulations governing distribution of dividends paid by wholly foreign-owned enterprises include the Wholly Foreign-owned Enterprise Law and the Implementation Regulation of the Wholly Foreign-owned Enterprise Law.

Under these regulations, wholly foreign-owned enterprises in China may only pay dividends from accumulated after-tax profit, if any, determined in accordance with PRC accounting standards and regulations. Dividends paid to its foreign investors are exempt from withholding tax. However, this provision has been revoked by the New Tax Law. The New Tax Law prescribes a standard withholding tax rate of 20% on dividends and other China-sourced passive income of non-resident enterprises. However, the Implementation Rules reduced the rate from 20% to 10%, effective from 1 January 2008.

The PRC and the government of Hong Kong signed Arrangement between the Mainland of the PRC and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排) on 21 August 2006 (the "**Arrangement**"). According to the Arrangement, no more than the 5% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident, provided that the recipient is a company that holds at least 25% of the capital of the PRC company. The 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident if the recipient is a company that holds less than 25% of the capital of the PRC company.

Value-added tax

The Provisional Regulations of the People's Republic of China Concerning Value Added Tax （中華人民共和國增值稅暫行條例）(the "**VAT Regulations**") was promulgated on 13 December 1993 by the State Council and amended on 5 November 2008. The amended VAT Regulations come into effect on 1 January 2009. Under the VAT Regulations, value added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC.

The value-added tax rates shall be as follows:

1. The tax rate for goods sold or imported by taxpayers other than the goods set forth in Items 2 and 3 below shall be 17%.

2. The tax rate for sale or import of the following goods by taxpayers shall be 13%:

   (a) grain, edible vegetable oil;

   (b) tap water, central heating, air-conditioning, hot water, coal gas, liquid petroleum gas, natural gas, methane, and coal products for use by residents;

   (c) books, newspapers, magazines;

   (d) feed, chemical fertiliser, agrochemicals, agricultural machinery, agricultural film; and

   (e) other goods specified by the State Council.

3. The tax rate for goods exported by taxpayers shall be zero, except where otherwise determined by the State Council.

4. The tax rate for processing and repair and replacement services provided by taxpayers shall be 17%.

Small-scale taxpayers engaged in selling goods or taxable services shall use a simplified method according to the total sales and the tax rate for calculating the tax payable. No input tax shall be creditable. The rate leviable on the small-scale taxpayers shall be 3%.

Business tax

The Provisional Regulations of the People's Republic of China Concerning Business Tax （中華人民共和國營業税暫行條例）(the "**Business Tax Regulations**") was promulgated on 13 December 1993 by the State Council and amended on 5 November 2008. The amended Business Tax Regulations come into effect on 1 January 2009. Under the Business Tax Regulations, businesses that provide services (including entertainment business), assign intangible assets or sell immovable property are liable to business tax at a rate ranging from 3% to 20%, of the charges of the services provided, intangible assets assigned or immovable property sold, as the case may be. The formula for calculation of the amount of tax payable is set forth below:

Amount of tax payable = amount of business × tax rate

The amount of business shall be calculated in RMB. Taxpayers that settle their amounts of business income in currency other than RMB shall convert the amounts into RMB.

PRC customs duties

According to the Customs Law of the PRC, the consignee of the imports, the consignor of exports and the owner of the imports and the exports are the persons obligated to pay customs duties (generally speaking, exports are not subject to customs duties). The Customs is the authorities in charge of the collection of customs duties.

The customs duties in the PRC mainly fall under ad valorem duties, i.e. the price of import/export commodities is the basis for the calculation of the duties. When calculating the customs duties, import/export commodities shall be classified under appropriate tax items in accordance with the category provisions of the Customs Import and Export Tariff and shall be subject to tax levies pursuant to relevant tax rates.

Under the laws of the PRC, raw materials, supplementary materials, parts, components, accessories and packing materials imported for processing and assembling finished products for foreign parties or for manufacturing products for export shall be exempt from import duties pursuant to the actual amount of goods processed for export or import duties may be levied upfront on import materials and parts and subsequently refunded pursuant to the actual amount of goods processed for export.

To encourage the introduction of foreign investment, as of 1992, the PRC exercised exemption and reduction of customs duties on the import of machinery, equipment, parts and other materials within the total investment of foreign investment companies. But after the adjustment of policies as of 1 April 1996, such exemption and reduction has been terminated, while the foreign investment companies incorporated before then can still continue to enjoy such preferential treatment within the grace period.

As from 1 January 1998, according to the Notice of the State Council regarding the Adjustment of Taxation Policy of Import Equipment, in respect of the foreign investment projects that fall under Encouraging Category and Restricted B Category of the Industrial Guidance Catalogue of Foreign Investment and also involve the transfer of technology, the equipment imported for its own use within the total investment can be exempt from the customs duties, except for the commodities listed in the Catalogue of the Non-tax-exemption Import Commodity of Foreign Investment Projects.

ENVIRONMENTAL PROTECTION

According to 中華人民共和國環境保護法 (the Environmental Protection Law of the PRC) (the "**Environmental Protection Law**"), promulgated and effective in 26 December 1989:

- any entity that discharges pollutants must establish environmental protection rules and adopt effective measures to control or properly treat waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation and other hazards it produces;

- any entity that discharges pollutants must report to and register with the relevant environmental protection authorities; and

- any entity that discharges pollutants in excess of the prescribed national or local standards must pay a fee therefor.

Violation of the Environmental Protection Law may result in fines, suspension of operation, close-down or even criminal liabilities.

FOREIGN CURRENCY EXCHANGE

The principal regulations governing foreign currency exchange in China is 中華人民共和國外匯管理條例 (the Foreign Exchange Administration Rules of the PRC) (the "**Foreign Exchange Administration Rules**"), promulgated by 國務院 (the State Council) on 29 January 1996 and became effective on 1 April 1996 and amended on 14 January 1997 and 1 August 2008. Under these rules, Renminbi is freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as direct investment, loan or investment in securities outside China unless prior approval of the SAFE is obtained.

Under the Foreign Exchange Administration Rules, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency (subject to a cap approval by SAFE) to satisfy foreign exchange liabilities or to pay dividends. In addition, foreign exchange transaction involving direct investment, loans and investment in securities outside China are subject to limitations and require approvals from SAFE.

ANTI-UNFAIR COMPETITION

The principal legal provisions governing market competition are set out in 中華人民共和國反不正當競爭法 (the Anti-unfair Competition Law of the PRC) (the "**Competition Law**"), which was promulgated on 2 September 1993 and came into effect on 1 December 1993.

The Competition Law provides that business operators shall not undermine their competitors by engaging in the following improper market activities:

- infringement of trademark rights or confidential business information;

- false publicity through advertising or other means, or forgery and dissemination of false information that infringes upon the goodwill of competitors or the reputation of their products; and

- other improper practices, including commercial bribery, cartels, dumping sales at below-cost prices, and offering prizes as sales rebates illegally.

Violations of the Competition Law may result in the imposition of fines and, in serious cases, revocation of its business license as well as incurrence of criminal liability.

PRODUCT QUALITY

The principal legal provisions governing product liability are set out in 中華人民共和國產品質量法 (the Product Quality Law of the PRC) (the "**Product Quality Law**"), which was promulgated on 22 February 1993 and amended on 8 July 2000.

The Product Quality Law is applicable to the production and sale of any product within the PRC, and producers and sellers shall be liable for any failure of their products to meet quality standards in accordance with the Product Quality Law.

Violations of the Product Quality Law may result in the imposition of fines. In addition, the seller or producer will be ordered to suspend its operations and its business license will be revoked. Criminal liability may be incurred in serious cases. According to the Product Quality Law, consumers or other victims who suffer injury or property losses due to product defects may demand compensation from the producer as well as the seller. Where the responsibility lies with the producer, the seller shall, after settling compensation, have the right to recover such compensation from the producer, and vice versa.

OUR COMPLIANCE WITH THE PRC PERMITS, LICENSES AND APPROVAL

As advised by our PRC legal advisers, all the necessary approvals, permits and licenses in regard to its existing business in all material aspects have been obtained by our Group in compliance with all the relevant PRC rules and regulations.