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## HISTORY AND DEVELOPMENT

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Our Group was founded in 1993 when Fuqing Hong Liong was established in Fuzhou, China, on 16 April 1993 with an initial registered capital of US\$3.7 million to engage in the production of high-ended fabric and industrial use specialised textile products. The entire equity interest of Fuqing Hong Liong was owned by Hong Liong Textile, a company incorporated in Hong Kong in 1992. The equity interest in Hong Liong Textile was held by Shao Ten-Po, Hsu Chieh-Jung, Tseng Chung-Cheng and Liao Chin-Yi as to 60%, 20%, 12% and 8% respectively.

On 21 November 1995, the registered capital of Fuqing Hong Liong was increased to US\$6.7 million. The increased equity was mainly used for purchasing imported machinery and equipment and other materials.

On 26 June 1997, the registered capital of Fuqing Hong Liong was further increased to US\$10 million. The increased equity was mainly used for purchasing imported machinery and equipment and office equipment.

On 5 October 1998, Fuqing Hong Liong further increased its registered capital to US\$11 million.

In view of the development in the textile industry in China, we established Fuqing Ecotex on 16 July 2002 with an initial registered capital of US\$1.6 million. As advised by the Directors, the amount of the initial registered capital made by each of Chen Li-Chuan, Huang Szu-Ching, Hsu Fu-Mei and Hsueh Hui-Chen was US\$256,000 and they made their respective investments from their personal resources. Fuqing Ecotex, was wholly owned by Lucky Dragon since its incorporation which in turn was held by Tseng Chung-Cheng, Liao Chin-Yi, Hu Chin-Shu, Chen Li-Chuan, Huang Szu-Ching, Hsu Fu-Mei and Hsueh Hui-Chen in the interests of 10%, 10%, 16%, 16%, 16%, 16% and 16% respectively. Tseng Chung-Cheng, Liao Chin-Yi and Hu Chin-Shu are executive Directors and Chen Li-Chuan, Huang Szu-Ching, Hsu Fu-Mei and Hsueh Hui-Chen are friends of Shao Ten-Po, Hsu Chieh-Jung, Tseng Chung-Cheng and Liao Chin-Yi in Taiwan who have jointly invested in Lucky Dragon. Save for Huang Szu-Ching, who had worked at Fuqing Hong Liong as the assistant manager of the procurement department, none of Chen Li-Chuan, Hsu Fu-Mei and Hsueh Hui-Chen has been involved in the management or operation of our business. Save as disclosed, to the best knowledge of our Directors, having made reasonable enquires, each of Chen Li-Chuan, Huang Szu-Ching, Hsu Fu-Mei and Hsueh Hui-Chen is independent and not connected with the Company or any of its connected person.

Fuqing Ecotex is principally engaged in the production of industrial used specialised textile, special functional apparel, textile related outdoor leisure product and textile related sports accessories and apparels.

On 31 December 2005, the registered capital of Fuqing Hong Liong was increased to US\$11.6 million and its scope of business was changed from the production of textile and plastic products to the production of high-ended fabric and industrial textile and OEM in casual and sportswear products.

To capitalise on our expertise in high-quality sports and leisure apparel development and manufacturing, and our close proximity to the overall Chinese apparel market, Hong Liong Textile established Fuzhou Aike, a wholly foreign-owned enterprise in the PRC, on 26 July 2007 to engage in the China sports and leisure apparel retail market. Fuzhou Aike operates a leisure and sport brand “Aike

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Sport” which targets consumers between the ages of 6 and 14. The registered capital of Fuzhou Aike was US\$0.7 million. The scope of business of Fuzhou Aike includes the wholesaling of domestic and foreign apparel, sports bags, sport equipment and leisure accessories.

On 20 November 2007, the registered capital of Fuqing Hong Liong was increased to US\$13.3 million. The increased equity was mainly used for purchasing imported machinery and equipment and office equipment.

Leveraging on the experience gained from Fuzhou Aike, we expanded our group of consumers to cover those aged between 18 and 35 by acquiring the entire equity interest of Shishi Maigen, a wholly foreign-owned enterprise in the PRC that was principally engaged in the leisure apparel business under the brand “MXN”. Shishi Maigen was established on 20 June 2002 with an initial registered capital of US\$200,000.

On 26 May 2008, Chen Pin-Chou, Kuo Yuan-Li, Su Ming-Che and Chen Li-Nuan (collectively the “Sellers”), Shishi Maigen and Hong Liong Textile entered into a preliminary agreement whereby (a) the Sellers agreed to transfer the entire equity interest in Shishi Maigen to Hong Liong Textile for a consideration of US\$200,000, which was equivalent to the registered capital of Shishi Maigen, and (b) the Sellers agreed to provide confidentiality undertakings to Hong Liong Textile with respect to certain know-how of Shishi Maigen which the Sellers have undertaken not to use the know-how in any way which would result in them being in competition with the business of Hong Liong Textile for a consideration of RMB140,000,000 less US\$200,000. To the best of the Company’s knowledge, information and belief, the Sellers are independent third parties not connected with and not in any relationship, whether past or present, with the Group, its connected persons, shareholders, directors, or senior management or their respective associates. As confirmed by Shao Ten-Po and Tseng Chung-Cheng, Chen Pin-Chou and Kuo Yuan-Li had been friends of Shao Ten-Po and Tseng Chung-Cheng for 30 years. Chen Pin-Chou, Shao Ten-Po and Tseng Chung-Cheng had known each other in the Chiayi County, Taiwan, where they are from, and had become friends since then. Chen Pin-Chou, Kuo Yuan-Li, Shao Ten-Po and Tseng Chung-Cheng had invested in real estate business in Thailand together, which had ceased and the construction company they had invested in had also ceased its business afterwards. Su Ming-Che is a friend of Chen Pin-Chou. Chen Li-Nuan is married to Huang Chung-Ji, who was the executive director of Shishi Maigen prior to its acquisition by the Group.

On 12 September 2008, a sale and purchase agreement was entered into whereby Hong Liong Textile agreed to acquire from the Sellers the entire equity interest of Shishi Maigen from the Sellers at a cash consideration of US\$200,000 which was arrived at based on normal commercial terms after arm’s length negotiations between Hong Liong Textile and the Sellers and was determined with reference to the then registered capital of Shishi Maigen.

On 21 October 2009, the Sellers have entered into a non-compete, confidentiality and intellectual property rights agreement (the “Non-compete, Confidentiality and Intellectual Property Rights Agreement”) in favour of Hong Liong Textile and Shishi Maigen, as referred to in item (b) of the preliminary agreement entered into among the Sellers, Shishi Maigen and Hong Liong Textile on 26 May 2008 as mentioned in the above paragraph. As the Sellers are Taiwanese and Hong Liong Textile, as the purchaser in the transaction, is a company incorporated in Hong Kong, and Shishi Maigen has become a subsidiary of Hong Liong Textile after completion of the transaction, the parties have agreed to use Hong Kong law as the governing law for the Non-compete, Confidentiality and Intellectual

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Property Rights Agreement. The Directors have taken legal advice from the Company's legal advisers and confirm that the Non-compete, Confidentiality and Intellectual Property Rights Agreement has been duly executed by the parties thereto and is a legally binding and effective agreement between the parties.

Pursuant to the Non-compete, Confidentiality and Intellectual Property Rights Agreement, the Sellers confirmed and agreed that they have, in consideration of RMB138,600,400 (being the agreed sum of RMB140,000,000 less US\$200,000) undertaken to Hong Liong Textile from 26 May 2008:

- (a) not to, without the prior written consent of Hong Liong Textile and Shishi Maigen, disclose the Trade Secret (as defined below) in any form whatsoever to any third party at any time. For the purpose of the Non-compete, Confidentiality and Intellectual Property Rights Agreement, "Trade Secret" refers to any information in connection with Shishi Maigen, including without limitation, any proprietary technical information and business information in connection with Shishi Maigen which is unknown to the public and of economic value to Shishi Maigen and has a practical application to Shishi Maigen's business, Shishi Maigen's company files and documents, such as any type of contract, agreement, letter of intent, personnel files, administrative documents and information regarding Shishi Maigen's investors, vendors, customers or suppliers, any information relating to Shishi Maigen's business activities and business development, such as costs, business plans, business strategies (including pricing strategies), marketing strategy and plans, distributors, distribution channels, sales models, quotations, client lists and other relevant information, information regarding Shishi Maigen's financial status, such as assets, debts, account receivable, status of commercial operations and investments, information concerning Shishi Maigen's management methods, information relating to know-how, including technological methods, technological processes, data, design drawings, formulae, technical specifications, quality control and management as well as other relevant materials, which are not publicly available and have not been applied for registration as patent or other intellectual property rights;
- (b) not to, without the prior written consent of Hong Liong Textile and Shishi Maigen, (i) participate, conduct or operate any business or work for any business entity or engage in any kind of business which competes, either directly or indirectly, with that of Shishi Maigen (the "Restrained Business"), (ii) engage in the Restrained Business, whether acting in their own names or in the other party's name, (iii) engage jointly with any third party in the Restrained Business, and (iv) directly or indirectly hold shares in any entity, which engage in any kind of business in competition with Shishi Maigen, in any name or in any manner;
- (c) not to, without the prior written consent of Hong Liong Textile and Shishi Maigen, offer employment to any employee of Shishi Maigen, or attempt to induce or influence any employee of Shishi Maigen to leave the employ of Shishi Maigen or solicit business from any customers or suppliers of Shishi Maigen to do business with any entity competing with Shishi Maigen;
- (d) acknowledge and agree that all intellectual property rights developed by the Sellers, if any, during the time when the Sellers were shareholders and senior management of Shishi Maigen before completion of the acquisition of Shishi Maigen, shall belong to Shishi Maigen as if such rights are created primarily for the purpose of Shishi Maigen's business. For the purpose

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of the Non-compete, Confidentiality and Intellectual Property Rights Agreement, “intellectual property rights” shall include the Trade Secret, copyright, trademarks, trade names and other rights which are relevant to commercial logos in connection with Shishi Maigen, rights relating to invention patents, utility models and design patent (regardless of whether they are registered or under application) and all other intellectual property rights, including but not limited to goodwill in connection with Shishi Maigen.

The consideration of RMB138,600,400 was arrived at after arm’s length negotiation between Hong Liong Textile and the Sellers which the parties acknowledged to be adequate to compensate the Sellers for the confidentiality undertakings, non-competition undertakings, non-solicitation undertakings and the undertakings in connection with Shishi Maigen’s intellectual property rights as described above. As advised by the Directors, the consideration suggested by the Sellers and proposed to Hong Liong Textile for negotiation. The consideration of RMB138,600,400 was partly settled by Shishi Maigen declared dividend of RMB46,423,953 in respect of the profits attributable to the pre-acquisition period. As advised by the Directors, the consideration was then assessed by Hong Liong Textile based on an internal market research they conducted in assessing the valuation of comparable companies to Shishi Maigen in the market and on the reference to the profit estimates of approximately 4 times at the period of negotiation of Shishi Maigen acquisition in 2008. Specifically, the valuation of the intangible assets of Shishi Maigen, namely customer relationships and trademark of an aggregate amount of approximately RMB75,644,000, was assessed by an independent valuer. In October 2009, as part of the Reorganisation, Hong Liong Textile assigned its rights under the Non-compete, Confidentiality and Intellectual Property Rights Agreement to our Company. The Company considers that the retention of the intellectual property rights developed by the Sellers by Shishi Maigen as a result of the Non-compete, Confidentiality and Intellectual Property Rights Agreement would allow Shishi Maigen to continuously develop its business and pursuant to the confidentiality and non-compete undertakings from the Sellers, Shishi Maigen would eliminate any potential competition from the Sellers. Accordingly, the Company considers that the Non-compete, Confidentiality and Intellectual Property Rights Agreement is in the interests of the Company and the shareholders of the Company as a whole.

The consideration was paid by Hong Liong Textile on behalf of the Group. After the execution of the agreement for the acquisition of Shishi Maigen, on 1 July 2008, Shishi Maigen declared dividend of RMB46,423,953 in respect of the profits attributable to the pre-acquisition period which was used to settle the part of the consideration of RMB138,600,400. The remaining amount of RMB92,176,447 (the “Relevant Amount”) was advanced by Shao Ten-Po, Hsu Chieh-Jung, Tseng Chung-cheng and Liao Chin-Yi (the “Relevant Shareholders”). The amount due to shareholders of the Company represented the remaining part of the consideration payable by Hong Liong Textile to the four Sellers for giving the undertakings as stated in the Non-competition, Confidentiality and Intellectual Property Rights Agreement. After completion of the acquisition of Shishi Maigen and the entering of the Non-competition, Confidentiality and Intellectual Property Rights Agreement, Hong Liong Textile was indebted to the Relevant Shareholders in the Relevant Amount (the “First Transaction”).

Pursuant to the Reorganisation, the entire equity interest in Shishi Maigen has been transferred to us at a consideration of RMB93,576,000, which was determined based on the Relevant Amount and has been satisfied by the allotment and issue of 556 Shares, 295 Shares, 83 Shares and 1,757 Shares to More Will, Joyous King, Sunny Beauty, Speedy Grand and Head Pearl respectively at the direction of Hong Liong Textile (the “Second Transaction”).

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After the issue of 556 Shares, 295 Shares, 83 Shares and 1,757 Shares respectively to More Will, Joyous King, Sunny Beauty, Speedy Grand and Head Pearl at the direction of the Relevant Shareholders, the Relevant Amount due from Hong Liong Textile to the Relevant Shareholders in the First Transaction has been set off against the same amount due from More Will, Joyous King, Sunny Beauty, Speedy Grand and Head Pearl (being the holding companies controlled by the Relevant Shareholders) to Hong Liong Textile in the Second Transaction.