
CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS

We have entered into numerous related party transactions with our Controlling Shareholders and their associates under normal commercial terms in our ordinary and normal course of business during the Track Record Period. The details of such related party transactions have been disclosed in Appendix I to this prospectus. Upon the Listing, we intend to continue certain of these related party transactions in our ordinary and normal course of business. Such transactions will constitute continuing connected transactions for our Company under the Listing Rules.

Non-exempt continuing connected transactions

1. *Purchase of raw yarns from Poly Luck*

On 27 November 2009, the Company entered into the First Raw Yarns Purchase Agreement with Poly Luck whereby Poly Luck has agreed to supply raw yarns to our Group as requested by us from time to time on a non-exclusive basis. Such raw yarns serve as our Group's raw materials for the production of our fabric products. The term of the First Raw Yarns Purchase Agreement will become effective on the Listing Date and expire on 31 December 2011. Formal purchase agreements (by way of purchase orders and confirmations) will be entered into between our Group and Poly Luck with the detailed terms and conditions as specified in the relevant purchase orders. We are required to settle the purchase price within one month after delivery. The transactions under the First Raw Yarns Purchase Agreement will be conducted on normal commercial terms and will be on terms no less favourable than those available from independent third parties.

The First Raw Yarns Purchase Agreement was entered into in the ordinary and usual course of business and on normal commercial terms. The purchase price payable by our Group to Poly Luck under the First Raw Yarns Purchase Agreement will be estimated based on the expected purchase amount of the raw yarns with reference to our expected production requirement. The purchase price will be comparable to the prevailing market prices.

Connected person

Poly Luck is principally engaged in the trading of raw yarns and fabrics, and is owned as to 50% by Hu Chin-Shu, an executive Director, and as to 50% by Liao Min-Chiang, an executive Director. Poly Luck is an associate of each of Hu Chin-Shu and Liao Min-Chiang and hence a connected person of our Company under the Listing Rules. The transactions contemplated under the First Raw Yarns Purchase Agreement will therefore constitute continuing connected transactions for our Company under Chapter 14A of the Listing Rules upon the Listing. We are informed by Poly Luck that Poly Luck has its own independent customers other than our Group.

Reasons for the transaction

We began to purchase raw yarns from Poly Luck as raw materials for our production since 2004 which has proven to be a reliable source of raw materials for our Company. Our Directors consider that it is in our interests to continue our relationship with Poly Luck after the Listing.

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Historical transaction value

For the three years ended 31 December 2008, the aggregate amount of the purchase of raw yarns from Poly Luck amounted to approximately RMB23.7 million, RMB10.1 million and RMB1.0 million, representing approximately 7.9%, 2.3% and 0.2% of our total raw material purchase costs, respectively. The decrease was due to the quality of domestically produced raw yarns have improved significantly during the period which has replaced the Group's requirement of imported raw yarns supplied by Poly Luck.

For the period from 1 January 2009 to the Latest Practicable Date, purchase of raw yarns from Poly Luck amounted to approximately RMB0.2 million.

Annual Caps

Based on our Directors' estimate of our anticipated production volume and our requirement of raw yarns in the coming three years, it is expected that the following annual cap amounts payable by our Group for the transactions under the First Raw Yarns Purchase Agreement will not exceed:

- (a) RMB0.5 million for the year ending 31 December 2009;
- (b) RMB1.0 million for the year ending 31 December 2010; and
- (c) RMB1.5 million for the year ending 31 December 2011.

In arriving at the annual caps, we have taken into account: (i) the historical transaction amount of raw yarns supplied by Poly Luck to our Group during the Track Record Period (ii) the expected increase in demand for our Group's products, based on the sales contract entered into between our Group and our customers and as a result of anticipated growth of our business operations; and (iii) potential fluctuations in the cost of the materials to be purchased by the Group. The annual caps are estimated based on the projected growth in the purchase volumes for the three years ending 31 December 2011 as a result of continued expected increasing demand for our Group's products.

Given that the assets ratio in respect of the above transaction calculated on an annual basis for the year ending 31 December 2011 is less than 2.5% of the total assets of the Group for the year ended 31 December 2008, the transactions contemplated under the First Raw Yarns Purchase Agreement will be exempt from the independent shareholders' approval requirements but subject to the reporting and announcement requirements under Rule 14A.34 of the Listing Rules.

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2. Purchase of Auxiliary Materials from Vicko Enterprises and raw yarns and fabric materials from Keytrack Development

On 27 November 2009, the Company entered into the Material Purchase Agreement with Vicko Enterprises and Keytrack Development whereby Vicko Enterprises and Keytrack Development have agreed to supply the Materials to our Group as requested by us from time to time on a non-exclusive basis. Such Materials are necessary for the production of our fabric products. The term of the Material Purchase Agreement will become effective on the Listing Date and expire on 31 December 2011. Formal purchase agreements (by way of purchase orders and confirmations) will be entered into between our Group and Vicko Enterprises and Keytrack Development (as the case may be) with the detailed terms and conditions as specified in the relevant purchase orders. We are required to settle the purchase price within one month after delivery. The transactions under the Material Purchase Agreement will be conducted on normal commercial terms and will be on terms no less favourable than those available from independent third parties.

The Material Purchase Agreement was entered into in the ordinary and usual course of business and on normal commercial terms. The purchase price payable by our Group to Vicko Enterprises and Keytrack Development (as the case may be) under the Material Purchase Agreement will be estimated based on the expected purchase amount of the Materials with reference to our expected production requirement. The purchase price will be comparable to the prevailing market prices.

Connected person

Vicko Enterprises is principally engaged in the trading of raw yarns, fabrics, dyestuff accelerant and machineries, and is owned as to 50% by Hu Chin-Shu, an executive Director, and as to 50% by Tsai Te-Tsan, an independent third party. Vicko Enterprises is an associate of Hu Chin-Shu and hence a connected person of our Company under the Listing Rules. Keytrack Development is principally engaged in the trading of raw yarns, and is owned as to 50% by Hu Chin-Shu, an executive Director, and as to 50% by Tsai Te-Tsan, an independent third party. Keytrack Development is an associate of Hu Chin-Shu and hence a connected person of our Company under the Listing Rules. The transactions contemplated under the Material Purchase Agreement will therefore constitute continuing connected transactions for our Company under Chapter 14A of the Listing Rules upon the Listing. We are informed by Vicko Enterprises and Keytrack Development that they have their own independent customers other than our Group.

Reasons for the transaction

We began to purchase the Materials from Vicko Enterprises and Keytrack Development as raw materials for our production since 2004 which has proven to be a reliable source of raw materials for our Company. Our Directors consider that it is in our interests to continue our relationship with Vicko Enterprises and Keytrack Development after the Listing.

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Historical transaction value

For the three years ended 31 December 2008, the aggregate amount of the purchase of the Materials from Vicko Enterprises and Keytrack Development amounted to approximately RMB12.4 million, RMB7.4 million and RMB3.7 million, representing approximately 4.1%, 1.7% and 0.7% of our total raw materials purchase costs, respectively. For the period from 1 January 2009 to the Latest Practicable Date, purchase of Materials from Vicko Enterprises and Keytrack Development amounted to approximately RMB0.5 million.

Annual Caps

Based on our Directors' estimate of our anticipated production volume and our requirement of the Materials in the coming three years, it is expected that the following annual cap amounts payable by our Group for the transactions under the Material Purchase Agreement will not exceed:

- (a) RMB0.5 million for the year ending 31 December 2009;
- (b) RMB0.8 million for the year ending 31 December 2010; and
- (c) RMB1.0 million for the year ending 31 December 2011.

The increase in the annual cap over the amount purchased from Keytrack Development and Vicko Enterprises was due to the expected increase in demand for Materials which cannot be satisfied by domestic suppliers.

In arriving at the annual caps, we have taken into account: (i) the historical transaction amount of the Materials supplied by Vicko Enterprises and Keytrack Development to our Group during the Track Record Period (ii) the expected increase in demand for our Group's products, based on the sales contract entered into between our Group and our customers and as a result of anticipated growth of our business operations; and (iii) potential fluctuations in the cost of the materials to be purchased by the Group. The annual caps are estimated based on the projected growth in the purchase volumes for the three years ending 31 December 2011 as a result of continued expected increasing demand for our Group's products.

Given that the assets ratio in respect of the above transaction calculated on an annual basis for the year ending 31 December 2011 is less than 2.5% of the total assets of the Group for the year ended 31 December 2008, the transactions contemplated under the Material Purchase Agreement will be exempt from the independent shareholders' approval requirements but subject to the reporting and announcement requirements under Rule 14A.34 of the Listing Rules.

3. Purchase of raw yarns from Sum Vision Company Corp. ("Sum Vision")

On 27 November 2009, the Company entered into a framework purchase agreement (the "**Second Raw Yarns Purchase Agreement**") with Sum Vision whereby Sum Vision has agreed to supply raw yarns to our Group as requested by us from time to time on a non-exclusive basis. Such raw yarns serve as our Group's raw materials for the production of our fabric products. The term of the Second Raw Yarns Purchase Agreement will become effective on the Listing Date and expire on 31 December 2011. Formal purchase agreements (by way of purchase orders and confirmations) will be entered into between

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our Group and Sum Vision with the detailed terms and conditions as specified in the relevant purchase orders. We are required to settle the purchase price within one month after delivery. The transactions under the Second Raw Yarns Purchase Agreement will be conducted on normal commercial terms and will be on terms no less favourable than those available from independent third parties.

The Second Raw Yarns Purchase Agreement was entered into in the ordinary and usual course of business and on normal commercial terms. The purchase price payable by our Group to Sum Vision under the Second Raw Yarns Purchase Agreement will be estimated based on the expected purchase amount of the raw yarns with reference to our expected production requirement. The purchase price will be comparable to the prevailing market prices.

Connected person

Sum Vision is principally engaged in the trading of imported raw yarns, and is owned as to 50% by Liao Min-Chiang, a non-executive Director and as to 50% by Hsu Fu-Mei a shareholder of Lucky Dragon. Sum Vision is an associate of Liao Min-Chiang and hence a connected person of our Company under the Listing Rules. The transactions contemplated under the Second Raw Yarns Purchase Agreement will therefore constitute continuing connected transactions for our Company under Chapter 14A of the Listing Rules upon the Listing. We are informed by Sun Vision that Sun Vision has its own independent customers other than our Group.

Reasons for the transaction

We began to purchase raw yarns from Sum Vision as raw materials for our production since 2004 which has proven to be a reliable source of raw materials for our Company. Our Directors consider that it is in our interests to continue our relationship with Sum Vision after the Listing.

Historical transaction value

For the three years ended 31 December 2008, the aggregate amount of the purchase of raw yarns from Sum Vision amounted to approximately RMB1.1 million, RMB7.3 million and RMB5.3 million, representing approximately 0.4%, 1.6% and 1.0% of our total raw material purchase costs, respectively. For the period from 1 January 2009 to the Latest Practicable Date, purchase of raw yarns from Sum Vision amounted to approximately RMB4.7 million.

Annual Caps

Based on our Directors' estimate of our anticipated production volume and our requirement of raw yarns in the coming three years, it is expected that the following annual cap amounts payable by our Group for the transactions under the Second Raw Yarns Purchase Agreement will not exceed:

- (a) RMB6.0 million for the year ending 31 December 2009;
- (b) RMB8.0 million for the year ending 31 December 2010; and
- (c) RMB10.0 million for the year ending 31 December 2011.

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In arriving at the annual caps, we have taken into account: (i) the historical transaction amount of raw yarns supplied by Sum Vision to our Group during the Track Record Period (ii) the expected increase in demand for our Group's products, based on the sales contract entered into between our Group and our customers and as a result of anticipated growth of our business operations; and (iii) potential fluctuations in the cost of the materials to be purchased by the Group. The annual caps are estimated based on the projected growth in the purchase volumes for the three years ending 31 December 2011 as a result of continued expected increasing demand for our Group's products.

Given that the assets ratio in respect of the above transaction calculated on an annual basis for the year ending 31 December 2011 is more than 2.5% of the total assets of the Group for the year ended 31 December 2008 but the total consideration is not less than HK\$10.0 million, the transactions contemplated under the Second Raw Yarns Purchase Agreement will be subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

APPLICATION FOR WAIVERS

Our Directors (including our INEDs) consider that each of the continuing connected transactions described above have been and will be entered into in the ordinary and usual course of business of our Group, on normal commercial terms, and are fair and reasonable and in the interests of our shareholders as a whole.

Accordingly, our Company has applied to the Stock Exchange for a waiver from strict compliance with the announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules at the time of the Listing in respect of the transaction set out above.

Our Company will comply with the relevant requirements under Chapter 14A of the Listing Rules, including the cap amounts as stated above. Our Directors (including our independent non-executive Directors) are of the view that the cap amounts as stated above are fair and reasonable.

CONFIRMATION FROM THE SPONSOR

The Sole Sponsor is of the view that (i) the continuing connected transactions described above for which waivers are sought are on normal commercial terms and have been entered into in the ordinary and usual course of business of our Company; and (ii) the cap amount of these continuing connected transactions described above are fair and reasonable and in the interest of our shareholders as a whole.