
RELATIONSHIP WITH THE VC GROUP

BACKGROUND INFORMATION OF THE VC GROUP

VC was incorporated in Bermuda under the Companies Act as an exempted company with limited liability on 13 February 1996, the shares of which have been listed on the Main Board since 13 May 1996. Immediately upon completion of the Global Offering and the Capitalisation Issue (assuming that no Shares have been issued pursuant to the exercise of any option granted or which may be granted under the Share Option Scheme), VC, through its indirect 51% owned subsidiary, Sure Strategy and its direct wholly-owned subsidiary, VC Investments, will be interested in approximately 72.522% of the issued share capital of our Company.

On 30 April 2010, VC submitted a proposal for the Spin-off to the Stock Exchange pursuant to Practice Note 15 of the Listing Rules. The board of directors of VC believes that the Spin-off will bring about a number of benefits to both VC and our Company:

- (i) VC and our Company are believed to have different growth paths and different business strategies and the Spin-off will allow separate platforms for the business of the two groups;
- (ii) the Spin-off will create two groups of companies and will offer investors with an opportunity to participate in the future development of both the VC Group as well as our Group and flexibility to invest in both or either of the groups;
- (iii) the Spin-off will enable the management team of VC to continue to focus on building its core businesses (i.e. the production and sale of knitted fabric and dyed yarn), thereby enhancing the decision-making process and its responsiveness to market changes;
- (iv) the Spin-off will provide a mechanism to attract and motivate our Group's management directly in line with the financial performance of our Group on a standalone basis;
- (v) the Spin-off is expected to improve the operational and financial transparency of our Group and provide investors, the market and rating agencies with greater clarity on the businesses as well as the respective financial status of the VC Group and our Group;
- (vi) the Spin-off will provide separate fundraising platforms for the VC Group and our Group with respect to their respective operations and future expansion; and
- (vii) the cash proceeds to be received pursuant to the Global Offering associated with the Spin-off will provide capital to our Company for its operations and new investments opportunities.

The VC Group is principally engaged in the production and sale of knitted fabric and dyed yarn. At the same time its garment sourcing and manufacturing division continued to grow. For the three years ended 31 March 2010, our Group's net profit amounted to approximately HK\$56.3 million, HK\$48.5 million and HK\$40.8 million. Our Group's net profit for the three years ended 31 March 2010 also represented approximately 15.2%, 20.1% and 12.1% of the net profit of the VC Group and our Group on an aggregate basis.

RELATIONSHIP WITH THE VC GROUP

Our Group had been operated as an integral part of the VC Group but we have been operating independently from the VC Group since VC Holdings acquired FG International in 2001. The garment sourcing and manufacturing division and the other business segments of the VC Group have been organised into separate operating units. Accordingly, save for the continuing connected transactions disclosed in the section headed “Continuing connected transactions” in this prospectus, our Group does not have any business relationship with the VC Group. As at the Latest Practicable Date, there is no intention to inject any business from VC Group to our Company.

INDEPENDENCE FROM THE VC GROUP

Our Directors consider that our Group is capable of carrying on its business independently of the VC Group after Listing based on the following particulars:

Management independence

As at the Latest Practicable Date, our Board had nine members, comprising three executive Directors, two non-executive Directors and four independent non-executive Directors while the board of directors of VC had four executive directors and three independent non-executive directors.

The following table sets out the composition of the board of directors of VC and our Board:

Our Company	VC
Executive Directors	Executive directors
Mr. Choi Lin Hung	Mr. Li Ming Hung
Mr. Ng Tze On	Mr. Chen Tien Tui
Mr. Lau Kwok Wa, Stanley	Mr. Lee Yuen Chiu Andy
	Mr. Choi Lin Hung
Non-executive Directors	
Mr. Li Ming Hung	
Mr. Chen Tien Tui	
Independent non-executive Directors	Independent non-executive directors
Mr. Lau Chi Kit	Mr. Kan Ka Hon
Mr. Mak Chi Yan	Mr. Phaisalakani Vichai
Mr. Wong Wai Kit, Louis	Mr. Kwok Sze Chi
Mr. Yuen Kin Kei	

In addition, three employees of our Group namely, Mr. Ng Tsze Lun, Ms. Chan Shuk Fun and Mr. Lau Fat Chuen, were referred to and regarded as senior management of VC’s subsidiaries for the year ended 31 March 2010.

RELATIONSHIP WITH THE VC GROUP

Mr. Choi, our executive Director and our chairman and our chief executive officer, is an executive director of VC and will remain as an executive director of VC after Listing. Mr. Choi has been concentrating on strategic planning and overseeing the overall operation and general management of our Group since his appointment as an executive director of VC in 2001. He will serve the same function after Listing. As at the Latest Practicable Date, he was interested in 7,980,000 VC Shares, representing approximately 0.75% of the total issued share capital of VC. Further details of Mr. Choi's shareholding interest in VC are set out in the paragraph headed "Further information about Directors and Shareholders" in Appendix V to this prospectus.

Each of Mr. Li and Mr. Chen, our non-executive Directors, are executive directors of VC. Mr. Li is the chairman of VC, and is responsible for the overall strategic planning of the corporate and business development of the VC Group. Mr. Chen is the chief executive officer of VC, and is responsible for the day-to-day operation in respect of production, sales and marketing of the VC Group. Each of Mr. Li and Mr. Chen will remain on the board of directors of VC as executive directors after Listing. During the Track Record Period, each of Mr. Li and Mr. Chen was the director and/or senior management member of certain of our subsidiaries.

Each of Mr. Li and Mr. Chen will not participate in the day-to-day operations of our Group due to the non-executive nature of their directorship. Their presence on our Board is mainly for the representation of VC for its indirect shareholding interest in our Company. Accordingly, it is expected that there will not be any conflict of interests arising as a result of the overlapping of the roles of the two Directors.

Mr. Ng Tsze Lun, Ms. Chan Shuk Fun and Mr. Lau Fat Chuen have been acting as directors and/or senior management members of various subsidiaries of our Company during the Track Record Period. The above personnel were regarded as senior management personnel of the VC Group in VC's annual reports for the three years ended 31 March 2010. However, none of them had played any role in the VC Group during the Track Record Period other than the business and operation of our Group.

On the other hand, Mr. Lee Chung Shing, the company secretary of VC, had been acting as a director of Top Star Limited, our wholly-owned subsidiary, during the Track Record Period. However, he had not been involved in the management of our Group during the Track Record Period. His directorship is purely for administration convenience. Mr. Lee Chung Shing had resigned from his directorship in Top Star Limited on 9 September 2010.

Save as disclosed above, no other directors or senior management of our Group had any role in the VC Group. Our Directors are of the view that there is no management function overlapping between our Group and the VC Group and our Group is capable of maintaining management independence.

Moreover, if potential conflict of interest between the overlapping directors' roles should arise, the interested Directors with potential conflict of interest shall abstain from voting at the relevant board meetings of VC, our Company or the relevant subsidiaries of our Company, where appropriate, in respect of such transactions or matters with potential conflict of interest, and they shall not be counted in the quorum of the relevant board meetings. For our Company, board decisions in respect of such matters or transactions with potential conflict of interest will be decided by the independent non-executive Directors as well as our executive Directors with no involvement in the VC Group.

RELATIONSHIP WITH THE VC GROUP

Based on the above reasons, our Directors are of the view that our Directors and the senior management of our Group are able to function independently from the VC Group and potential conflict of interest can be avoided and where it arises, resolved.

Operational independence

The core businesses of the VC Group and our Group, by their very nature, are different businesses which are independently operated in distinct markets. Our Directors expect that, immediately following completion of the Global Offering, the VC Group will remain to be engaged principally in the production and sale of knitted fabric and dyed yarn, whereas our Group will focus on sourcing management which provides a wide range of services covering the entire supply chain of garment products with manufacturing capabilities. Fabric and yarn are raw materials of garment products. By the nature of the products and services provided by our Group and the VC Group, there is a clear delineation between the businesses retained by the VC Group and the business of our Group and there will not be any overlapping of business.

The current production bases of our Group are located in Jiangmen, the PRC and Indonesia, while those of the VC Group are located in Jiangmen, the PRC. Although the production facilities of our Group and of the VC Group in Jiangmen are adjacent to each other, the production plants and ancillary facilities of the two groups are clearly delineated. In respect of our PRC production base, all of our production plants and ancillary facilities, such as warehouses and staff quarters, are situated on the land owned by us. Save for the leasing arrangement with the VC Group as disclosed in the section headed “Continuing connected transactions” in this prospectus, as at the Latest Practicable Date, there were no buildings or facilities that were not owned and used by us erected on our land.

The principal raw materials for manufacturing of fabric and yarn are cotton yarn, dyestuff and chemicals while fabric and yarn themselves are principal raw materials for manufacturing of garment products. Further, products/services of the VC Group are mainly sold/provided to garment manufacturing factories while products/services of our Group are mainly sold/provided to megastores, department stores, supermarket chains and importers. As the respective principal raw materials, production base, products and customers of the VC Group and our Group are different or can be clearly delineated, our Directors are of the view that there will not be any actual or potential competition between the respective businesses of the VC Group and our Group. As at the Latest Practicable Date, there is no common customer between VC Group and our Group.

The VC Group has been supplying fabric products and yarn, steam and electricity and waste water treatment services to our Group during the Track Record Period and will continue to supply such products/services to our Group after Listing. These transactions constitute continuing connected transactions for our Company under Chapter 14A of the Listing Rules and are governed by the Fabric Master Agreement, the Steam and Electricity Master Agreement, the Yarn Master Agreement and the Waste Water Treatment Master Agreement, details of which were set out in the section headed “Continuing connected transactions” in this prospectus. The transactions were entered into after arm’s length negotiations and the terms of these transactions are determined with reference to market terms. Other than these transactions and the Lease Agreement referred to in the section headed “Continuing connected transactions” in this prospectus, there are no other transactions between our Group and the VC Group. Under Rules 14A.37 and 14A.38 of the Listing Rules, these transactions will be subject

RELATIONSHIP WITH THE VC GROUP

to annual review by our independent non-executive Directors and our auditors to ensure, among other matters, that these transactions are (i) in the ordinary and usual course of business of our Group; (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to our Group than terms available to or from (as appropriate) Independent Third Parties; and (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interest of our Shareholders as a whole. In order to comply with these requirements, our management will continuously monitor the conducts of all continuing connected transactions between our Group and the VC Group to ensure that all these transactions will be conducted in the above manner, failing which our Company will need to re-comply with the reporting, announcement and/or independent shareholders' approval requirement under Chapter 14A of the Listing Rules in respect of the relevant transactions.

Our Directors consider that we can function independently from the VC Group given that our Group is able to engage other suppliers for the provision of fabric products and yarn when necessary. The fabric products and yarn supplied by the VC Group are generic and can be replaced by products supplied by other independent third party suppliers. Our Group has engaged the VC Group as one of the suppliers because our Directors consider that the fabric products and yarn from the VC Group are of high quality. During the Track Record Period, we had engaged other suppliers for the provision of fabric products and yarn. The purchase of fabric and yarn from the VC Group by our Group accounted for approximately 20.8% of the direct material cost of our Group for the year ended 31 March 2010 and approximately 4.6% of the total cost of sales of our Group business for the year ended 31 March 2010. Other than the VC Group, our Group had 27 suppliers of fabric products and nine suppliers of yarn as at the Latest Practicable Date.

As regards the supply of steam and electricity and waste water treatment services from the VC Group to our Group, our Directors are of the view that in the event the VC Group ceases to supply steam and/or electricity and/or provide waste water treatment services to our Group, we would be able to obtain electricity from other utilities companies when necessary at an annual cost of approximately RMB3.5 million and obtain waste water treatment services from other service providers in the same district which are Independent Third Parties, and we can install devices within one month at a cost of approximately RMB300,000 for generating steam ourselves at a monthly cost of approximately RMB350,000, without undue delay or inconvenience when necessary. Currently we do not have any plans to (i) engage any Independent Third-Parties for the supply of steam and/or electricity or waste water treatment services to us; or (ii) install devices for generating steam ourselves.

To ensure the independence of the operation and businesses of our Group from the VC Group, our Group also has our own merchandising (including sales, marketing and business development, and sales supporting), production and logistics (including production and shipping), quality assurance and control, administration, finance and human resources and other teams (including design and development and other supporting) which have been operating and are expected to continue to operate separately.

The VC Group and our Directors have confirmed that they do not have any interest in a business which competes or is likely to compete, directly or indirectly, with our Group's business.

RELATIONSHIP WITH THE VC GROUP

Financial independence

Our Group has an independent financial system and finance team which is responsible for our own treasury functions despite our members are subsidiaries of VC during the Track Record Period.

During the Track Record Period, all of the bank borrowings of our Group were guaranteed by the VC Group. Agreements in principle for the release of such guarantees upon Listing have been obtained from the relevant banks.

During the Track Record Period, members of our Group were subsidiaries or jointly controlled entities of VC despite that their operations were carried out individually at company level. The financials of such companies are consolidated at the group level. As such, there was no fixed credit terms granted/obtained from such companies as these transactions were considered as internal transactions during such period. Our Group has its own financial system and internal control procedures which are independent from that of the VC Group. The business transactions between our Group and the VC Group includes the supply by the VC Group to us of fabric products and yarn, steam and electricity and waste water treatment services, the terms of which are governed by the Fabric Master Agreement, the Steam and Electricity Master Agreement, the Yarn Master Agreement and the Waste Water Treatment Master Agreement, details of which were set out in the section headed “Continuing connected transactions” in this prospectus. Under the Fabric Master Agreement and the Yarn Master Agreement, the credit terms obtained from the VC Group are determined by the mutual agreement of the parties concerned, failing which payment shall be made within 90 days, which are comparable to the credit terms granted by the other fabric and yarn suppliers of our Group. Under the Steam and Electricity Master Agreement, the credit terms obtained from the VC Group is 30 business days, unless otherwise agreed by the parties, which is comparable to the credit terms granted by other utilities provider to our Group.

On the basis above, our Directors are of the view that the financial system of our Group is independent from the VC Group and apart from the trade nature balances, our Group will not have any outstanding balances with, and guarantees from or to, the VC Group upon Listing.

Administrative independence

Our Company has our own team of staff to carry out our own administrative functions which is independent of that of VC and without requiring the support of VC or its associates. Our Group has our own capabilities and personnel to perform all essential administrative functions, including financial and accounting management, invoicing and billing, human resources and information technology. Each of VC and our Company will be managed and operated by its own board of directors and senior management separately and independently and in the interests of its shareholders. Our Directors are of the view that there is no undue reliance by our Group on the VC Group in any aspect of our operations based on the reasons stated above.

Our Directors are of the view, and the Sponsor concurs, that there is no undue reliance by our Group on the VC Group in any aspect of its operations based on the reasons stated above. In addition, the close working relationship between the two groups arose as a result of their strategic relationship in terms of the supply of fabric products, steam and electricity, yarn and waste water treatment services by the VC Group to our Group and our Group being part of the group of companies of VC.

RELATIONSHIP WITH THE VC GROUP

NON-COMPETITION UNDERTAKING

In order to further delineate the respective businesses of the VC Group and that of our Group and to protect our Group from any potential competition from the VC Group, VC has entered into a deed of non-competition (the “**Non-Competition Undertaking**”) in favour of our Company (for itself and for the benefit of its subsidiaries) on 8 September 2010 pursuant to which VC has, among other matters, irrevocably undertaken with our Company that at any time during the Relevant Period (as defined below), VC shall, and shall procure that its associates and/or companies controlled by it (which shall include other members of the VC Group but excluding our Group), either on its own account or in conjunction with or on behalf of any person, firm or company:

- (i) not, directly or indirectly, be interested or involved or engaged in or acquire or hold any right or interest (in each case whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) in any business which is or is about to be engaged in any business which competes or is likely to compete directly or indirectly with the business currently and from time to time engaged by our Group (including but not limited to the sourcing management and manufacture and sale of garment products to customers) and businesses ancillary to any of the foregoing, in Hong Kong, the PRC and any other country or jurisdiction to which our Group markets, sells, distributes, supplies or otherwise provides such products/services and/or in which any member of the Group carries on business mentioned above from time to time (the “**Restricted Activity**”);
- (ii) not solicit any existing or then existing employee of our Group for employment by it or its associates (excluding our Group);
- (iii) not, without the consent from our Company, make use of any information pertaining to the business of our Group which may have come to its knowledge in its capacity as our Controlling Shareholder for the purpose of engaging, investing or participating in any Restricted Activity;
- (iv) if there is any project or new business opportunity that relates to the Restricted Activity, refer such project or new business opportunity to our Group for consideration;
- (v) not invest or participate in any Restricted Activity; and
- (vi) procure its associates (excluding our Group) not to invest or participate in any project or business opportunity of the Restricted Activity.

The above undertakings are subject to the exception that any of the associates of VC (excluding our Group) are entitled to invest, participate and be engaged in any Restricted Activity or any project or business opportunity, regardless of value, which has been offered or made available to our Group, provided always that information about the principal terms thereof has been disclosed to our Company and our Directors, and our Company shall have, after review and approval by our Directors (including our independent non-executive Directors without the attendance by any Director with beneficial interest in such project or business opportunities, in which resolutions have been duly passed by the majority

RELATIONSHIP WITH THE VC GROUP

of the independent non-executive Directors), confirmed its rejection to be involved or engaged, or to participate, in the relevant Restricted Activity and provided also that the principal terms on which that relevant associate of VC invests, participates or engages in the Restricted Activity are substantially the same as or not more favourable than those disclosed to our Company. Subject to the above, if the relevant associate of VC decides to be involved, engaged, or participate in the relevant Restricted Activity, whether directly or indirectly, the terms of such involvement, engagement or participation must be disclosed to our Company and our Directors as soon as practicable.

The Non-Competition Undertaking is conditional on (i) the Listing Committee granting listing of, and permission to deal in, all our Shares in issue and to be issued under the Global Offering and our Shares which may be issued upon the exercise of the options that were granted or may be granted under the Share Option Scheme; and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant as a result of the waiver of any condition(s) by the Underwriters) and that the Underwriting Agreements not being terminated in accordance with their terms or otherwise.

For the above purpose, the “**Relevant Period**” means the period commencing from the Listing Date and shall expire for the earlier of the dates below:

- (a) the date on which VC, and its associates, individually or taken as a whole, cease to own 30% or more of our issued share capital directly or indirectly or cease to be deemed as a Controlling Shareholder of our Company and do not have power to control the Board and there is at least one other independent Shareholder holding more Shares than VC and its associates taken together; or
- (b) the date on which our Shares cease to be listed on the Stock Exchange.

Under the Non-Competition Undertaking, VC has also undertaken to our Group to allow our Directors, their respective representatives and the auditors of our Group to have sufficient access to the records of VC and its associates to ensure compliance with the terms and conditions of the Non-Competition Undertaking and to provide our Group and our Directors (including independent non-executive Directors) from time to time with all information necessary for the annual review by the independent non-executive Directors with regard to compliance of the terms of the Non-Competition Undertaking. VC has also undertaken to make annual declaration on compliance with the terms of the Non-Competition Undertaking in the annual reports of our Company, if necessary.

CORPORATE GOVERNANCE MEASURES TO AVOID CONFLICT OF INTERESTS

Our Directors recognise the importance of incorporating elements of good corporate governance in management conducive to the protection of the interests of our Shareholders. In particular, the following corporate governance measures in relation to managing potential conflict of interests between our Group and the VC Group, the compliance and enforcement of the Non-Competition Undertaking are taken:

RELATIONSHIP WITH THE VC GROUP

- (a) our Directors or, if appropriate, the disinterested Directors will be responsible for deciding and given authority to decide, without attendance by any Directors with beneficial or conflict interests in the new business opportunity, whether or not to take up a new business opportunity which relates to the garment sourcing and manufacturing business and is referred to our Group by VC or any other matter arising under the terms of the Non-Competition Undertaking. For this purpose, the disinterested Directors may, from time to time, engage external professional advisers as they may consider necessary to advise them on the issues which relate to the above matters;
- (b) any transaction (if any) between (or proposed to be made between) our Group and connected persons will be required to comply with Chapter 14A of the Listing Rules, including, where applicable, the announcement, reporting and independent shareholders' approval requirements and with those conditions imposed by the Stock Exchange for the granting of waiver from strict compliance with the relevant requirements under the Listing Rules;
- (c) in the event that there are conflict of interest in the operations of our Group and the VC Group and its associates, and in respect of any proposed contract or arrangement between our Group and the VC Group and its associates, any Director who is considered to be interested in a particular matter or the subject matter, he shall disclose his interests to our Board and where, pursuant to the applicable provisions in the Bye-laws, he has a material interest in the matter, he may not vote on the resolutions of our Board approving the same and shall not be counted in the quorum for the voting as required under the Listing Rules. A relevant board meeting attended by disinterested Directors who have no material interest in the matter shall be held to deliberate on the matters;
- (d) under the Non-Competition Undertaking given by VC, VC has undertaken to our Group to allow our Directors, their respective representatives and the auditors to have sufficient access to the records of VC and its associates to ensure compliance with the terms and conditions under the Non-Competition Undertaking.

On the basis that all Directors (except Mr. Choi, Mr. Chen and Mr. Li), and senior management of our Group do not hold any position in the VC Group, and that each of our executive Directors and senior management has extensive and relevant experience in the garment sourcing and manufacturing business, our Directors are of the view that our Board will have the expertise to transact business which may potentially involve conflicts of interests between the VC Group and our Group objectively, impartially and in the best interest of our Company and our Shareholders as a whole. Besides, conflicts of interests of any overlapping Directors will not affect the business operations of our Group as the daily business operations of our Group are operated and implemented by employees of our Group under the strategic directions of our Board, or as the case may be, the experienced and interested Board.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between the VC Group and our Group and to protect the interests of our Shareholders, in particular, our minority Shareholders.