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CORPORATE DEVELOPMENT

The Group was founded by Mr. Qiu in 2001 when he used the business under the trade name of Hong Kong Golden Shield International Investment Company to acquire the production facilities of Jing Yang Spinning Mill (excluding the land use rights) from the State-owned Assets Administration Bureau of Jing Yang County.

Jing Yang Spinning Mill was a state-owned enterprise. Pursuant to the court order issued by the local court of Jing Yang County in July 2000, due to serious financial deficit and inability to settle its creditors since 1992, Jing Yang Spinning Mill was adjudged an insolvent enterprise, and its assets were put up for sale by the State-owned Assets Administration Bureau of Jing Yang County. According to the Implementation Opinions on Certain Critical Issues regarding the Reform and Development of State-owned Enterprises (關於貫徹《中共中央關於國有企業改革和發展若干重大問題的決定》的實施意見), the major reasons for corporate failure of state-owned enterprises include inefficient organisational structure and management, staff redundancy, and burden of social responsibility for maintenance of amenity facilities for staff. The Company's PRC legal advisers have advised that as Jing Yang Spinning Mill was a county level state-owned enterprise, the State-owned Assets Administration Bureau of Jing Yang County has the power to supervise the distribution of the assets of Jing Yang Spinning Mill and approve the change of asset ownership.

The State-owned Assets Administration Bureau of Jing Yang County, through promotion activities organized by the Jing Yang County Trade Development Bureau, invited interested parties to commence negotiations for the acquisition of the production facilities of Jing Yang Spinning Mill, including lands and buildings, machinery and equipment and supporting facilities such as dormitory. Mr. Qiu, the founder and the non-executive Chairman of the Group, identified the acquisition opportunity through his factory visit organized by the Jing Yang County Trade Development Bureau. Following several rounds of negotiations, in September 2001, Mr. Qiu and the State-owned Assets Administration Bureau of Jing Yang County reached an agreement for the transfer of production and supporting facilities (excluding the land use rights) of Jing Yang Spinning Mill at a consideration of RMB21.58 million. The production and supporting facilities acquired under the transfer agreement included properties amounting to RMB12.76 million, plant and machinery amounting to RMB8.26 million and inventory items amounting to RMB0.56 million for the production of carded pure cotton yarn products.

Pursuant to the said transfer agreement, the consideration included 2 components, of which RMB12.38 million was set up as a reserve by Jing Yang Golden Shield for redundancy payment to the staff of Jing Yang Spinning Mill and the remaining RMB9.20 million was settled in cash in accordance with the schedule prescribed in the said transfer agreement in that: (i) an initial payment of RMB2 million was paid upon the execution of the said agreement; and (ii) the remaining balance of RMB7.2 million was settled as to 20%, 30% and 50% respectively in the following three years. All payments in respect of the cash consideration were settled in 2004 out of the registered capital of Jing Yang Golden Shield and profits of its operations.

Pursuant to the said transfer agreement, the consideration of approximately RMB12.38 million for redundancy payment was retained in Jing Yang Golden Shield for settlement of such liabilities. Hence, Jing Yang Golden Shield set up a provision of the same amount as committed liabilities in its financial statements to service the payment for the maintenance of redundant staff of Jing Yang Spinning Mill not re-employed by Jing Ying Golden Shield since their redundancy. The Company's PRC legal advisers

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have confirmed that pursuant to the relevant PRC regulations, redundancy payment is not required to be settled as one-off payment. Instead, the redundancy payment will be paid periodically to those redundant staff without re-employment until their respective retirement age or death.

The Company's PRC legal advisers have also confirmed that the redundancy liability of Jing Yang Golden Shield can further be minimized by offering re-employment to those redundant staff. After the acquisition of production facilities of Jing Yang Spinning Mill in 2001, Jing Yang Golden Shield had employed approximately 20% of the redundant staff of Jing Yang Spinning Mill. Hence, its redundancy liability is only limited to those who resigned from Jing Yang Golden Shield and the remaining staff who are unemployed, have work-related injury or retired. The Directors have assessed that the current level of provision is sufficient. A deed of indemnity dated 27 June 2011 was executed by the Controlling Shareholders in favour of the Group to jointly and severally indemnify the Group, among other things, for all costs, expenses, losses and damages which may be suffered by the Group as a result of or in connection with the redundancy payment payable to the staff of Jing Yang Spinning Mill in relation to the said transfer agreement in excess of the reserve. For details of the provision, please refer to the section headed "Financial Information" in this prospectus.

The Company's PRC legal advisers have further confirmed that except for the redundancy payment specifically provided in the said transfer agreement, the Group does not have to bear any other liabilities and obligations in relation to the acquisition of the production facilities of Jing Yang Spinning Mill including those social responsibility borne by state-owned enterprises.

Mr. Qiu and Mr. Chen have acquainted each other for more than 10 years. Mr. Chen received his tertiary education in agricultural economics. When Mr. Chen worked in the banking sector, he used to deal with the loan portfolio of different textile and garment companies and became familiar with the general operations of textile businesses. Hence, with the relevant educational background and business knowledge, Mr. Qiu invited Mr. Chen to assist him in the evaluation of the acquisition of production facilities of Jing Yang Spinning Mill and later appointed him as the key management personnel to operate the Group after the establishment of Jing Yang Golden Shield.

In December 2001, Jing Yang Golden Shield was set up to complete the acquisition and to continue the operations of the production facilities formerly held by Jing Yang Spinning Mill. The initial registered capital of Jing Yang Golden Shield was US\$620,000 and it commenced operation with an initial annual production capacity of approximately 23,000 spindles of cotton yarn.

In December 2002, Jing Yang Golden Shield acquired the land use rights of a site in which the production and ancillary facilities formerly held by Jing Yang Spinning Mill are located with an area of approximately 42,759.50 sq.m. for a term of 50 years from 16 December 2002 from Jing Yang Spinning Mill at a consideration of RMB2.5 million.

During the first quarter of 2003, three independent investors, namely Mr. Kung, Mr. Cheung and Mr. Li, acquired 13%, 10% and 7% interests in Jing Yang Golden Shield respectively from Mr. Qiu upon his invitation. Mr. Kung, Mr. Li and Mr. Cheung have been friends of Mr. Qiu for more than 20 years and are engaged in property development, private investment and trading business respectively. Their rights are the same as other Shareholders. They are passive investors and do not intend to involve in any role within the Group before and after the Listing. Save as disclosed above, each of them did not and do not have any past or present relationship or dealing with the Group, its shareholders, directors, senior management or any of their respective associates.

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To cope with business development, between 2003 and 2004, Jing Yang Golden Shield invested approximately RMB10 million to enhance its production and ancillary facilities so as to improve production efficiency and increase its annual production capacity to approximately 32,400 spindles of cotton yarn. The work included the installation of new production equipment for various stages of the Group's cotton yarn spinning operations and certain instruments for product quality testing work. Save for fixtures and fittings required for installation of the above equipment, the Group did not carry out any major upgrade and modification work on the property portion of Jing Yang Production Plant in this exercise. Upon completion of the enhancement work, the Group's cotton yarn spinning capacity was enlarged by approximately 41% from its initial capacity of 23,000 spindles.

In 2006, in order to capture the market demand of cotton yarn beyond its then production capacity and to expand its product scope into grey fabric segment, Jing Yang Golden Shield began to enter into outsourcing agreements with various cotton textile factories, including two state-owned enterprises known as 13th Weaving Mill and Guang Hua Weaving Mill, to produce cotton yarn and grey fabric.

In January 2007, Jing Yang Golden Shield purchased the land use rights of a parcel of land with a site area of approximately 54,866 sq.m. in Yongle Town (永樂鎮) in Jing Yang County for a term up to 24 August 2060 at a consideration of RMB2,775,500 for the construction of a new plant.

In October 2007, Jing Yang Golden Shield acquired the land use rights of another parcel of land with an area of approximately 43,587.7 sq.m. together with certain buildings and structures erected thereon in Yongle Town (永樂鎮) in Jing Yang County for a term up to 29 July 2044 from an independent third party at a consideration of RMB5,402,500 for the construction of a centralized lint cotton warehouse.

To cope with further expansion of Jing Yang Golden Shield, its registered capital was increased from US\$620,000 to US\$3,480,000 by the injection of additional capital of US\$2,860,000 in 2008.

13th Weaving Mill and Guang Hua Weaving Mill were state-owned enterprises established in the PRC and were principally engaged in production of cotton yarn and grey fabric. As mentioned above, the Group outsourced grey fabric production work to 13th Weaving Mill and Guang Hua Weaving Mill before they became insolvent. Due to financial difficulty as a result of inefficient management, 13th Weaving Mill and Guang Hua Weaving Mill were put into liquidation by the People's Intermediate Court of Weinan City (渭南市中級人民法院) in April and August 2008 respectively and Jing Yang Golden Shield acquired their production and ancillary facilities (excluding lands and buildings) at the considerations of RMB2.97 million and RMB9.38 million respectively through open auctions held in June and October 2008 respectively. The production and ancillary facilities acquired from 13th Weaving Mill included plant and machinery amounting to RMB2.57 million, motor vehicles amounting to RMB0.09 million and inventory items amounting to RMB0.31 million for production of carded pure cotton yarn products and pure cotton grey fabric products. The production facilities acquired from Guang Hua Weaving Mill included plant and machinery amounting to RMB6.10 million and inventory items amounting to RMB3.28 million for production of carded pure cotton yarn products and pure cotton grey fabric products. The Directors confirm that in view of the preference of the local regulatory authorities for purchaser of properties being domestic companies in the PRC instead of foreign-invested enterprises, the lands and buildings of 13th Weaving Mill and Guang Hua Weaving Mill were acquired by Shaanxi Golden Shield in the same open auctions with the financial assistance from the Group and were leased to the Group at nil consideration, details of which are set out in sub-paragraph headed

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“Leased Properties” in the section headed “Business” in this prospectus. The considerations paid by Shaanxi Golden Shield for the acquisition of lands and buildings of 13th Weaving Mill were RMB6.47 million and RMB5.71 million respectively and the considerations for the acquisition of lands and buildings of Guang Hua Weaving Mill were RMB19.43 million and RMB11.07 million respectively. All considerations, including payment on behalf of Shaanxi Golden Shield, were settled in cash in February 2010 by the Group. The Company’s PRC legal advisers have confirmed that the acquisitions of production facilities from 13th Weaving Mill and Guang Hua Weaving Mill have complied with the PRC Enterprises Insolvency Law (中華人民共和國企業破產法) and other relevant laws and regulations of the PRC.

The Company’s PRC legal advisers have also confirmed that since the Group was not required to bear any other liabilities and obligations in relation to the acquisition of production facilities from 13th Weaving Mill and Guang Hua Weaving Mill, it did not enter into any undertakings with the relevant State-owned Assets Administration Bureau in respect of redundancy liabilities of 13th Weaving Mill and Guang Hua Weaving Mill, save for the considerations determined in the said open auctions held in June and October 2008 respectively.

Shaanxi Golden Shield is a PRC domestic enterprise established in December 2008 and is owned as to 90% and 10% by Mr. Chen and Mr. Lin respectively. Mr. Chen is also the legal representative of Shaanxi Golden Shield. Save for holding of the properties leased to the Group for the operation of Dali Production Plant and Guang Hua Production Plant, Shaanxi Golden Shield does not carry on any other business activity and thus there is no competition between the Group and Shaanxi Golden Shield. Shaanxi Golden Shield has the words “Golden Shield” in its name similar to that of the Company as it was set up to acquire the properties to be used by the Group. The Directors confirm that due to the preference of the local regulatory authorities for domestic companies in the PRC to hold the properties as mentioned in the previous paragraph, Shaanxi Golden Shield does not form part of the Group and instead enters into lease arrangements with the Group to secure the Group’s use of the production facilities. Pursuant to the Contract Law of the PRC which became effective on 1 October 1999 and the lease agreement between the Group and Shaanxi Golden Shield, the Group is entitled to the first right of refusal granted by Shaanxi Golden Shield. Despite the preference of local regulatory authorities, the Company’s PRC legal advisers have confirmed that the Group has the right to reject the transfer of the lands and buildings of Dali Production Plant and Guang Hua Production Plant by Shaanxi Golden Shield to other parties and the first right of refusal is enforceable.

Upon completion of the acquisitions of production facilities from 13th Weaving Mill and Guang Hua Weaving Mill (which were separate entities and managed independently), the Group’s management team adopted a centralized management approach for all production plants for daily operation activities including their sales and marketing, procurement and production functions in order to allocate resources efficiently. The management team of the Group is made up of personnel with extensive operational experience in the PRC cotton textile industry, including Mr. Chen, Mr. Chen Zhifeng, Mr. Dang Ming, Mr. Xu Xiaoni, Mr. Xing Jigang, Mr. Wang Wentao and Mr. Yao Wen. Details of their working experience are set out in the section headed “Directors, Senior Management and Employees” in this prospectus. The operations of Dali Production Plant and Guang Hua Production Plant commenced immediately following the acquisitions through the open auctions. The total annual production capacity of the Group expanded to approximately 120,800 spindles for cotton yarn production and approximately

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2,590 units of shuttle looms for cotton fabric production by the end of 2008. During 2009 and early 2010, Jing Yang Golden Shield invested approximately RMB3.3 million to enhance these production facilities.

The enhancement work carried out in Dali Production Plant and Guang Hua Production Plant mainly included installation of new cotton yarn production machinery to enhance production efficiency. These new cotton yarn production equipment included humidifiers installed in Dali Production Plant for maintenance of moisture level in the cone winding (cotton yarn packaging) procedure and automated cone winding machines installed in Guang Hua Production Plant for automation of cone winding procedure.

In April 2009, after investment of approximately RMB20 million, the construction work of the centralized lint cotton warehouse of the Group was completed with a storage capacity of approximately 2,000 tonnes of lint cotton for production purpose.

After investment of approximately RMB76.9 million since January 2007, the first phase of the new plant at Yongle Town (永樂鎮) commenced trial operation in January 2010. The first phase of the Group's new plant added a further annual production capacity of approximately 32,700 spindles for combed cotton yarn production.

In order to strengthen the capital base of Jing Yang Golden Shield, its registered capital was further increased from US\$3,480,000 to US\$7,370,000 by the injection of additional capital of US\$3,890,000 in July 2010.

Currently, the Group has a total annual production capacity of about 156,300 spindles for cotton yarn production and approximately 1,039 units of shuttle looms for cotton fabric production.

In June 2011, the Group completed the Reorganisation to prepare for the Listing which involved the following:

- (a) on 26 March 2010, Mr. Qiu, Hai Xin, Wealth Lake and Mr. Li subscribed for a total of 100 shares of US\$1 each of Jade Goal for cash at par;
- (b) Jade Goal acquired 1 share of HK\$1 of HKGSL for cash at par on 2 September 2010;
- (c) HKGSL acquired all equity interests in Jing Yang Golden Shield from Mr. Qiu trading as Hong Kong Golden Shield International Investment Company, Mr. Kung, Mr. Cheung and Mr. Li (the "JY Vendors") at US\$7,370,000 (the "Consideration") on 19 October 2010;
- (d) the JY Vendors assigned the benefit of the Consideration to Jade Goal in consideration of Jade Goal issuing 70 shares, 13 shares, 10 shares and 7 shares, all of US\$1 each, to Mr. Qiu, Hai Xin (as directed by Mr. Kung), Wealth Lake (as directed by Mr. Cheung) and Mr. Li respectively on 1 November 2010;

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- (e) on 3 November 2010, Mr. Qiu transferred his 140 shares in Jade Goal to the Major Shareholder in consideration of the issue of 100 shares by the Major Shareholder. In recognition of Mr. Chen's past contributions to the Group and to align his interest with the Group's future success, Mr. Qiu assigned 21 shares in the Major Shareholder (the "Chen Shares") as gift to Mr. Chen. Upon completion of the said transfer, the Major Shareholder is owned by Mr. Qiu and Mr. Chen as to 79% and 21% respectively. Mr. Chen has undertaken to Mr. Qiu that the Chen Shares shall be subject to the following restrictions:
- Mr. Chen shall not transfer or otherwise dispose of or enter into any agreement to transfer or otherwise dispose of or create any options, rights, interests or encumbrances in respect of any of the Chen Shares or any interest therein within a period of 15 year commencing on 3 November 2010 and ending on 2 November 2025 (the "Period");
 - Mr. Chen shall not be entitled to any dividend/distribution declared/paid in respect of the Chen Shares during the Period;
 - Mr. Chen shall not be entitled to vote at any general meeting of Major Shareholder in respect of the Chen Shares during the Period except as directed by Mr. Qiu; and
 - if Mr. Chen shall cease to be employed by the Company, Jade Goal, Jing Yang Golden Shield or any of the subsidiaries within the Group until 2 November 2025 for whatever reason, Mr. Chen shall transfer to Mr. Qiu the Chen Shares at nil consideration free from all claims, charges, lien, encumbrances, equities and third party rights and together with all rights attached thereto as at the date of such cessation of employment with the Group (the "Termination Date"); and completion of the transfer of the Chen Shares to Mr. Qiu shall take place at such place as Mr. Qiu shall direct in writing within 7 days from the Termination Date; and
- (f) on 21 June 2011, the Company acquired the entire issued share capital of Jade Goal from the Major Shareholder, Hai Xin, Wealth Lake and Mr. Li and issued an aggregate of 999,900 Shares, credited as fully paid, to them as consideration thereof.

On the application of PRC regulations on overseas offering and listing to the Group, the Company's PRC legal advisers have confirmed as follows:

- (1) The Notice in Connection with Further Strengthening of the Management of Offshore Securities Offering and Listing (國務院關於進一步加強在境外發行股票和上市管理的通知) (the "1997 Notice"), which became effective on 20 June, 1997, regulates offshore securities offerings and listings and applies to any offshore securities offering and listing by an overseas company which is controlled by PRC entities. As the Group is ultimately controlled by Mr. Qiu, a PRC citizen, rather an entity, the 1997 Notice is not applicable to the Group.

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- (2) The Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (the “M&A” Rules), which became effective on 8 September 2006 and was amended, repromulgated and came into effect on 22 June 2009, regulate the acquisition of PRC companies by foreign investors, the establishment of offshore special purpose vehicles by PRC domestic enterprises, and the overseas offering and listing activities of such special purpose vehicles. As Jing Yang Golden Shield was established as a foreign-invested enterprise in 2001 prior to the effective date of the M&A Rules, the M&A Rules are not applicable to the Group in connection with the Reorganisation. According to the Implementation Rules of the Law of the People’s Republic of China on Wholly Foreign-owned Enterprises (中華人民共和國外資企業法實施細則) announced on 12 December 1990 and amended on 12 April 2001, Jing Yang Golden Shield’s status as a wholly foreign-owned enterprise is not affected by the fact that Mr. Qiu is a PRC resident. For further details of the M&A Rules, please refer to the paragraph headed “New M&A Regulations and Overseas Listings” in Appendix V to this prospectus.
- (3) Pursuant to the registration requirements under Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) (the “SAFE Circular 75”), Mr. Qiu, Mr. Li and Mr. Chen, who are PRC residents, applied for foreign exchange registrations of overseas investment at the local SAFE in Xian Yang City in December 2010. By its confirmation letter dated 8 December 2010, the SAFE of Xian Yang City confirmed that the relevant registrations for Mr. Li, Mr. Qiu and Mr. Chen were properly executed and do not have any legal impediment. The Company’s PRC legal advisers have further confirmed that the SAFE of Xian Yang City is the appropriate authority to issue the confirmation and the foreign exchange registrations for Mr. Li, Mr. Qiu and Mr. Chen were properly executed and do not have any legal impediment. For further details of foreign exchange control and SAFE Circular 75, please refer to paragraph headed “Foreign Exchange Control” in Appendix V to this prospectus.
- (4) In light of paragraphs (1) to (3) above, following the foreign exchange registrations of Mr. Qiu, Mr. Li and Mr. Chen, the Listing is not subject to any further registration, approval or consent from any PRC regulatory authorities.

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Set out below is the shareholding and corporate structure of the Group immediately upon completion of Share Offer and the Capitalisation Issue:

