

## SUBSTANTIAL AND CONTROLLING SHAREHOLDERS

### SUBSTANTIAL SHAREHOLDERS

The Directors confirm that, immediately following completion of the Share Offer and the Capitalisation Issue (but without taking into account any Shares which may be taken up under the Share Offer), the following persons will have interests in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO (including any interests which they are taken or deemed to have under such provisions of the SFO):

<u>Name</u>	<u>Nature of interest</u>	<u>Number of Shares</u>	<u>Approximate shareholding percentage</u> (%)
The Major Shareholder	Beneficial owner	527,464,000	56.0
Mr. Qiu	Corporate ( <i>Note 1</i> )	527,464,000	56.0
Hai Xin	Beneficial owner	73,468,000	7.8
Mr. Kung	Corporate ( <i>Note 2</i> )	73,468,000	7.8
Wealth Lake	Beneficial owner	56,512,000	6.0
Mr. Cheung	Corporate ( <i>Note 3</i> )	56,512,000	6.0

*Notes:*

1. These Shares will be owned by the Major Shareholder, which is owned by Mr. Qiu and Mr. Chen as to 79% and 21% respectively.
2. These Shares will be owned by Hai Xin, which is wholly owned by Mr. Kung.
3. These Shares will be owned by Wealth Lake, which is wholly owned by Mr. Cheung.

### CONTROLLING SHAREHOLDERS

So far as the Directors are aware, immediately following completion of the Share Offer and the Capitalisation Issue (but without taking into account any Shares which may be taken up under the Share Offer), the Major Shareholder, Mr. Qiu and Mr. Chen collectively are entitled to exercise or control the exercise of 30% or more of the voting power at the general meetings of the Company and are therefore regarded as controlling shareholders under the Listing Rules.

### INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

The Group is engaged in the production and sale of cotton yarn and grey fabric in the PRC while the Controlling Shareholders are mainly engaged in the property development in the PRC. The Directors are of the view that the property development business engaged by the Controlling Shareholders do not compete, directly or indirectly, with the business of the Group, given the difference in nature between

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the textile and property development businesses. The Directors are satisfied that the Group is capable of carrying on its business independently from and does not have undue reliance on the Controlling Shareholders, taking into consideration, among other factors, the following factors:

### **(i) Competition**

As at the Latest Practicable Date, none of the Controlling Shareholders or any of their respective associates and none of the Directors was interested in any business (other than the Group) which is, directly or indirectly, in competition with the Group's business. To ensure that competition will not exist in future, the Controlling Shareholders have entered into a deed of non-competition (the "Deed of Non-Competition") in favour of the Group. Please refer to the paragraph headed "Deed of Non-Competition" below for details of the principal terms of the Deed of Non-Competition.

### **(ii) Independence of business operations**

Save for the properties located at Dali Production Plant and Guang Hua Production Plant which were leased from Shaanxi Golden Shield, which is controlled by Mr. Chen, the managing director of the Company, and Mr. Lin, a non-executive Director, the Group owns all of the production and operating facilities and technology relating to its business operations. Sales, marketing and administrative functions relating to the Group's business are carried out independently from the Controlling Shareholders. The Group have sufficient operational capacity in terms of capital, equipment and employees to operate its businesses independently from the Controlling Shareholders.

Apart from the Controlling Shareholders, the Board comprises of 3 executive Directors, 1 non-executive Director and 3 independent non-executive Directors. Each of the Directors is aware of his fiduciary duty to the Company. It includes to act for the benefit and in the best interests of the Group and to avoid any conflict of interest to exist between him/her as a Director and his/her personal interests. The Board is of the opinion that it will function independently from the Controlling Shareholders and their respective associates.

### **(iii) Financial independence**

The Directors are of the view that the Group is able to maintain financial independence from the Controlling Shareholders.

The Group historically had, and will, continue to have its own internal control and accounting systems. Its own finance department is capable of discharging the treasury functions for cash receipts and payments, accounting, reporting and internal control independently of the Controlling Shareholders.

As at the Latest Practicable Date, the Group had no outstanding loans or loan guarantees from or to the Controlling Shareholders.

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### DEED OF NON-COMPETITION

The Controlling Shareholders have entered into the Deed of Non-Competition in favour of the Group, pursuant to which the Controlling Shareholders have undertaken to the Group that they shall not and shall procure their respective associates not to, whether as principal or agent and whether directly or indirectly (including through any of their associates, subsidiaries, partnerships, joint ventures or other contractual arrangements) and whether for profit or otherwise, carry on, engage, invest, participate in, or hold any right or interest in, or otherwise be involved in any business which is or may be in competition with business of any member of the Group from time to time whether alone or jointly with another person and whether directly or indirectly except:

- (a) through their interests in the Group; or
- (b) through ownership of shares in any company whose shares are listed on the Stock Exchange or on any other stock exchange and which competes with the Group provided that such shares do not exceed 5% of such listed company's issued share capital and provided further that at no time shall the Controlling Shareholders and/or their associates participate in the management of such company.

The non-competition undertaking under the Deed of Non-Competition is conditional upon the Share Offer becoming unconditional as specified under the section headed "Structure and Conditions of the Share Offer" and will remain in effect until the earlier of the date on which:

- (a) the Shares cease to be listed on the Stock Exchange; or
- (b) the Controlling Shareholders and their respective associates (other than any member of the Group) cease to hold or otherwise interested in, whether directly or indirectly, 30% or more of the voting rights of the Company.

### Corporate governance measures

Pursuant to the Deed of Non-Competition, the Controlling Shareholders have undertaken:

- (i) to provide all information necessary for the annual review by the independent non-executive Directors for the enforcement of the Deed of Non-Competition; and
- (ii) to make an annual declaration on the compliance with this Deed of Non-Competition.

In this connection, the Group also intends to adopt the following corporate governance measures to manage any potential conflicts of interest arising from any future potential competing business and to safeguard the interests of the Shareholders:

- (i) the independent non-executive Directors will review, at least on an annual basis, the compliance of the Controlling Shareholders with the Deed of Non-Competition; and
- (ii) the Company will make disclosures in its annual reports or by way of announcements regarding the review of the independent non-executive Directors relating to such compliance with and the enforcement of the Deed of Non-Competition.