
HISTORY, REORGANISATION AND GROUP STRUCTURE

OUR CORPORATE HISTORY

Introduction

The history of our Group can be traced back to 2000 when Mr. Wong and his wife, Madam Hung Kin established our first operating subsidiary, Zhucheng Eternal Knitting, in Zhucheng, Shandong, the PRC, through their then investment vehicle, Grand Concord (HK). Since the establishment of our innerwear production business in Zhucheng, Shandong, the PRC, our Group has developed into a sizeable operation, with three manufacturing subsidiaries in the PRC and one trading subsidiary in Hong Kong. We consider ourselves a functional fabric and innerwear manufacturer, striving to grow into one of the leading fabric and innerwear manufacturers in the PRC for major international apparel brands.

Milestones in our business development

The following is a summary of the milestones in our business development:

| Year | Event |
|-------------|---|
| 2000 | Following the establishment of Zhucheng Eternal Knitting, we purchased our first manufacturing premises with a total gross floor area of approximately 15,084.48 sq.m. in Zhucheng, Shandong, the PRC for use as a production plant. |
| 2001 | Zhucheng Eternal Knitting commenced its innerwear manufacturing operation in the PRC. |
| 2002 | Zhucheng Eternal Knitting obtained the first batch of orders from Sumikin Bussan Corporation, a company listed on the stock exchange of Tokyo in Japan which signified the recognition of the quality of our products by this important customer in Japan. |
| 2004 | Zhucheng Yumin Knitting was established in the PRC initially to engage in the manufacture and sale of fabrics and garment. The business scope was subsequently extended to cover fabric dyeing and processing services in 2005. |
| 2005 | Zhucheng Eternal Knitting constructed our second manufacturing premises with a total gross floor area of approximately 24,108.17 sq.m. which premises have also been occupied by Zhucheng Yumin Knitting for our fabric manufacturing operation in Zhucheng, Shandong, the PRC. |
| 2006 | Zhucheng Yumin Knitting commenced our fabric weaving and knitting production which was an important step of our Group to implement the strategy of vertical integration as our business model. |

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| Year | Event |
|------|--|
| 2007 | <p>Zhucheng Yumin Knitting commenced our fabric dyeing and printing operation.</p> <p>Shandong Grand Concord was established in the PRC to engage in the manufacture of innerwear.</p> |
| 2009 | <p>We set up our in-house product development department to develop functional fabrics.</p> <p>Shandong Grand Concord commenced the construction of our third manufacturing premises, with an estimated total gross floor area of approximately 29,844.79 sq.m., of which approximately 13,201.54 sq.m. was completed in 2010, for our innerwear manufacturing operation in Zhucheng, Shandong, the PRC.</p> <p>We obtained sales orders for more than 2 million pieces of garments made with our own functional fabrics from Toray Group, a company listed on the stock exchange of Tokyo in Japan, for Ito Yokado Group, an established retail group in Japan.</p> |
| 2010 | <p>We commenced our sales of infants' innerwear to the US market.</p> <p>The annual sale orders from Toray Group increased to over 4.5 million pieces of garments.</p> <p>We registered the trademark "UTEX (优特适)" in the PRC.</p> <p>Grand Concord Garment was incorporated in Hong Kong with a view to consolidating the sales operations of our products to the markets in the US and Europe.</p> |

Our Group members

A. *Our operating subsidiaries*

(1) *Zhucheng Eternal Knitting*

Zhucheng Eternal Knitting, the first operating subsidiary of our Group, was established by Grand Concord (HK) in Zhucheng, Shandong on 24 October 2000 as a wholly foreign owned enterprise to engage in manufacturing of innerwear products.

Zhucheng Eternal Knitting had a registered capital of US\$1.3 million at the time of its establishment which amount remained unchanged during the Track Record Period and as at the Latest Practicable Date. According to the capital verification reports issued by 諸城正本有限責任會計師事務所 (Zhucheng Zhengben Certified Public Accountants Co.

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Ltd.*) dated 8 December 2000, 26 December 2001, 18 October 2002, 3 March 2003, 26 August 2003, 24 December 2003 and 29 October 2004, the registered capital of Zhucheng Eternal Knitting was fully paid up as at 29 October 2004.

The main products of Zhucheng Eternal Knitting are innerwear for export to overseas markets, in particular to Japan.

(2) *Zhucheng Yumin Knitting*

To secure a stable supply of fabrics for our innerwear products and to provide our customers with greater flexibility in the textile supply chain, Grand Concord (HK) established Zhucheng Yumin Knitting in Zhucheng, Shandong on 22 November 2004 to commence our own fabric weaving and knitting production. In October 2005, Zhucheng Yumin Knitting decided to expand its business scope to cover fabric printing and dyeing, which expansion was approved by 濰坊市對外貿易經濟合作局 (Weifang Municipal Bureau of Foreign Trade and Economic Cooperation*) on 11 November 2005 and registered with 濰坊市工商行政管理局 (Weifang Municipal Administration for Industry and Commerce*) on 21 November 2005.

The registered capital of Zhucheng Yumin Knitting was US\$350,000 at the time of its establishment. On 30 August 2006, Zhucheng Yumin Knitting proposed to increase its registered capital from US\$350,000 to US\$2.6 million to cater for its expansion. 濰坊市對外貿易經濟合作局 (Weifang Municipal Bureau of Foreign Trade and Economic Cooperation*) approved such increase on 12 September 2006 and the increase of registered capital was also registered with 濰坊市工商行政管理局 (Weifang Municipal Administration for Industry and Commerce*) on 7 December 2006. According to the capital verification reports issued by 諸城千禧有限責任會計師事務所 (Zhucheng Qianxi Certified Public Accountants Co. Ltd.*) dated 17 February 2005, 15 April 2005, 23 November 2006 and 31 October 2008, the registered capital of Zhucheng Yumin Knitting was fully paid up as at 30 October 2008.

Zhucheng Yumin Knitting is equipped with technically advanced machinery, in particular, weaving machines, dyeing machines, pre-shrinking machines, stentering machines and flat screen and rotary screen printing machines. Our Directors consider the establishment of Zhucheng Yumin Knitting and its pursuit in the fabric weaving, printing and dyeing operations the first step of our vertical integration strategy. Currently, it provides in-house fabric weaving, knitting and dyeing services to the innerwear manufacturing division of our Group as well as supplies fabrics to other manufacturers of innerwear brands.

(3) *Shandong Grand Concord*

Considering that the manufacturing capacity of Zhucheng Eternal Knitting have been largely occupied by OEM orders from Japanese customers, Grand Concord (HK) established Shandong Grand Concord in Zhucheng, Shandong on 9 July 2007 to increase our Group's manufacturing capacity of garment products for customers in the US and Europe.

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Shandong Grand Concord had a registered capital of US\$350,000 at the time of its establishment. On 2 November 2009, Shandong Grand Concord proposed to increase its registered capital from US\$350,000 to US\$850,000. 濰坊市對外貿易經濟合作局 (Weifang Municipal Bureau of Foreign Trade and Economic Cooperation*) approved such increase on 15 December 2009 and the increase of registered capital was also registered with 濰坊市工商行政管理局 (Weifang Municipal Administration for Industry and Commerce*) on 13 January 2010. According to the capital verification reports issued by 諸城千禧有限責任會計師事務所 (Zhucheng Qianxi Certified Public Accountants Co. Ltd.*) dated 24 July 2007, 27 July 2007, 1 July 2009 and 5 January 2010, the registered capital of Shandong Grand Concord was fully paid up as at 24 December 2009.

As advised by our PRC legal advisers, save for the non-registration and non-payment of the contributions to social insurance and housing provident fund as disclosed in the paragraph headed “Risk factors — We did not fully contribute to the mandatory social insurance and housing provident fund” of this prospectus, our subsidiaries in the PRC have obtained all necessary licences, approvals and permits from the authorities for their business operations in the PRC and have complied with all relevant laws and regulations in relation to environmental protection, health and production safety and taxation matters.

(4) Grand Concord Garment

Grand Concord Garment was incorporated on 3 June 2010 in Hong Kong as a limited liability company with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. Grand Concord (HK) subscribed for one share which represented the entire issued share capital of Grand Concord Garment at its incorporation. Since its incorporation, Grand Concord Garment has been principally engaging in the trading of garment.

B. Our investment holding members

(1) Grand Concord (HK)

Grand Concord (HK) was incorporated on 30 November 1995 in Hong Kong as a limited liability company with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. In February 1996, Mr. Wong and Madam Hung Kin acquired the entire issued share capital of Grand Concord (HK) from two independent third parties with a view to taking Grand Concord (HK) as their investment vehicle for trading or investment purposes. Since 2000, Grand Concord (HK) has been acting as the investment holding company for holding the equity interests in all our PRC subsidiaries and Grand Concord Garment.

Pursuant to the Reorganisation, Grand Concord (HK) becomes an indirectly wholly-owned subsidiary of our Company.

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(2) *Grand Concord (BVI)*

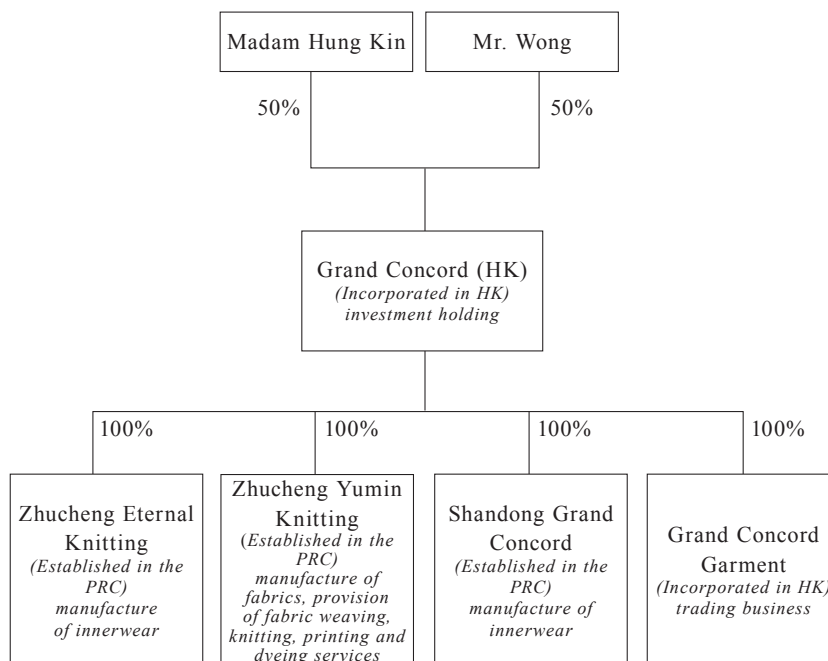
Grand Concord (BVI) was incorporated in BVI on 8 December 2010 as a wholly-owned subsidiary of our Company for the purpose of acting as the intermediate holding company of our Group.

(3) *Our Company*

Our Company was incorporated in BVI on 8 December 2010. As the final step of the Reorganisation, our Company, Mr. Wong and Madam Hung Kin entered into a share swap transaction, further details of which are set out in the paragraph headed “Reorganisation” in this section. In brief, the purpose of the Reorganisation is to rationalise the corporate structure of our Group by transferring the entire direct interest in Grand Concord (HK) and also the entire indirect interest in each of Grand Concord Garment, Zhucheng Eternal Knitting, Zhucheng Yumin Knitting and Shandong Grand Concord held by Mr. Wong and Madam Hung Kin to our Company (held through Grand Concord (BVI)) in return for new Shares issued to Global Wisdom (an investment holding company of Mr. Wong and Madam Hung Kin) in preparation for the Listing.

REORGANISATION

The corporate structure of our Group during the Track Record Period and before completion of the Reorganisation is set out below:



HISTORY, REORGANISATION AND GROUP STRUCTURE

The Reorganisation

Prior to and in preparation for the Listing, our Group underwent the Reorganisation, which involves the following steps:

(a) Incorporation of our intermediate holding company

Grand Concord (BVI) was incorporated in BVI on 8 December 2010 and is authorised to issue a maximum of 50,000 shares of US\$1.00 each. On 9 December 2010, one share of US\$1.00 of Grand Concord (BVI) was allotted and issued to our Company. Please refer to the paragraph headed “Changes in authorised and issued shares or share capital of our subsidiaries” in Appendix V to this prospectus for the details regarding the changes in the authorised shares of Grand Concord (BVI).

(b) Incorporation of our Company

Our Company was incorporated in BVI on 8 December 2010 and was initially authorised to issue a maximum of 39,000,000 shares of HK\$0.01 each. On the same date, one Share was allotted and issued to Global Wisdom. Please refer to the paragraph headed “Changes in authorised and issued shares of our Company” in Appendix V to this prospectus for the details regarding the changes in the authorised shares of our Company.

(c) Acquisition of Grand Concord (HK)

On 22 February 2011, Grand Concord (BVI), at the direction of our Company, acquired from Mr. Wong and Madam Hung Kin their respective 50% shareholding in Grand Concord (HK) (being in aggregate the entire issued share capital of Grand Concord (HK)) in consideration of and exchange for which our Company allotted and issued, credited as fully paid, an aggregate of 9,999,999 Shares to Global Wisdom.

As a result of the above steps of the Reorganisation, our Company became the holding company of our Group, holding through Grand Concord (BVI) the entire equity interest in Grand Concord (HK) which in turn holds the entire equity interest in each of Grand Concord Garment, Zhucheng Eternal Knitting, Zhucheng Yumin Knitting and Shandong Grand Concord.

PRE-LISTING SHARE COMPENSATION TO OUR MANAGEMENT

On 7 March 2011, Global Wisdom entered into a deed for sale and purchase of and lock-up undertakings relating to the Shares (the “**Deed**”) with Mr. S.H. Wang and Mr. Wei, pursuant to which Global Wisdom sold and transferred 500,000 Shares to Mr. S.H. Wang and 800,000 Shares to Mr. Wei (the “**Share Compensation**”), representing approximately 5% and 8% of the then issued Shares respectively and in consideration of RMB11,815,000 and RMB18,904,000 respectively. The consideration for the Share Compensation was determined with reference to the valuation conducted by an independent valuer in February 2011 without any guaranteed discount to the Offer Price and is payable in cash by three instalments.

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Mr. S.H. Wang joined our Group in 2004 and is responsible for our innerwear segment. He has been the general manager of Zhucheng Eternal Knitting since 26 May 2004 and was appointed as its director on 2 December 2009. He is also a director of Zhucheng Yumin Knitting since 10 November 2004 and a director of Shandong Grand Concord since its establishment on 9 July 2007. He has contributed to the stable growth of our Group's innerwear businesses over the years, as reflected by the growth of revenue from the segment from approximately RMB112.5 million for the year ended 31 December 2008 to approximately RMB257.7 million for the year ended 31 December 2010. Mr. Wei joined our Group in 2009 and is responsible for our fabrics segment. He has been the general manager of Zhucheng Yumin Knitting since 1 April 2009. He plays a major role in introducing our functional fabrics businesses, and maintains good relationships with some customers, which contributed to the strong performance of our Group's fabrics businesses during the Track Record Period, as reflected by the growth of revenue from the segment from approximately RMB23.6 million for the year ended 31 December 2008 to approximately RMB120.6 million for the year ended 31 December 2010. Our Controlling Shareholders have confirmed that the Share Compensation, which did not involve any issue of new Shares, were initiated by them in recognition of the significant contribution of Mr. S.H. Wang and Mr. Wei as senior management of our Group and were intended as an incentive to them for contributing to the long term growth and profitability of our Group.

The following table sets forth the details of the Share Compensation:

| | Mr. S.H. Wang | Mr. Wei |
|--|------------------------------------|------------------------------------|
| Date of the Share Compensation | 7 March 2011 | 7 March 2011 |
| Amount and payment date of consideration | <i>RMB'000</i> | <i>RMB'000</i> |
| 1st instalment: | | |
| Paid on 7 March 2011 | 3,000 | 5,000 |
| 2nd instalment: | | |
| Payable on 7 March 2012 | 3,000 | 5,000 |
| 3rd instalment: | | |
| Payable on 7 March 2013 | 5,815 | 8,904 |
| Total: | <u>11,815</u> | <u>18,904</u> |
| Cost per Share ^(Note) | HK\$0.93 | HK\$0.93 |
| Premium to the Offer Price of HK\$0.80 per Share ^(Note) | 16.25% | 16.25% |
| Use of proceeds from the Share Compensation | To be retained by Global Wisdom | To be retained by Global Wisdom |
| Shareholding in our Group upon Listing ^(Note) | 3.95% | 6.31% |

Note: The calculations are based on 15,000,000 and 24,000,000 Shares held by Mr. S.H. Wang and Mr. Wei respectively upon completion of the Share Offer, and does not take into account any Shares which may be allotted and issued pursuant to the exercise of any options that may be granted under the Share Option Scheme.

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The relevant Shares had been transferred to Mr. S.H. Wang and Mr. Wei immediately after signing of the Deed on 7 March 2011. The arrangement for the consideration to be paid in instalments is purely to facilitate the payment by Mr. S.H. Wang and Mr. Wei, and will not create any exit option for them. In the event Mr. S.H. Wang or Mr. Wei fails to make his second and/or third instalment(s) to Global Wisdom, he will be liable to Global Wisdom for the unpaid amount and damages (if any). The Deed contains no provision that allows rescission or unwinding of the Share Compensation by either Mr. S.H. Wang or Mr. Wei without assuming contractual liability.

Following completion of the issue of further Shares by our Company described in the paragraph headed “Increase in authorised Shares and Pre-Listing Share Allotment” below, Mr. S.H. Wang and Mr. Wei hold 15,000,000 Shares and 24,000,000 Shares respectively, representing approximately 5% and 8% of the issued Shares of our Company immediately before Listing respectively, and approximately 3.95% and 6.31% of the enlarged issued Shares after completion of the Share Offer, without taking into account of any Shares which may be allotted and issued upon the exercise of any option which may fall to be granted under the Share Option Scheme.

Pursuant to the terms of the Deed, both Mr. S.H. Wang and Mr. Wei have agreed to be subject to a lock-up period of three years commencing from the Listing Date, or up to 31 December 2014, whichever is earlier, with respect to the Shares owned or thereafter acquired by each of them respectively. Mr. S.H. Wang and Mr. Wei have not been granted any special rights and will not be taking instructions from our Controlling Shareholders in relation to the acquisition, disposal, voting or other disposition of the Shares held by them. In addition, pursuant to the terms of the Deed, neither Mr. S.H. Wang nor Mr. Wei is required to compensate our Group or return the Shares if they cease their employment with our Group in the future. Being executive Directors, both Mr. S.H. Wang and Mr. Wei will not be treated as members of the public for the purpose of satisfying the minimum public float requirements under the Listing Rules. Save for the aforementioned lock-up arrangement, the Shares held by each of them shall rank pari passu in all respects with all Shares in issue and the Shares to be issued pursuant to the Share Offer.

The Share Compensation is regarded as employee compensation and will be accounted for as expenses for share-based payment in the financial statements of our Group under HKFRS 2. Based on the independent valuation obtained by our Company, the expenses in relation to the Share Compensation are RMB5.8 million, which was fully accounted for in the financial statements of our Group for the six months ended 30 June 2011.

REDESIGNATION OF SHARES

Pursuant to a resolution in writing passed by all the then Directors on 10 March 2011, our Company re-designated all our authorised shares of HK\$0.01 each, including the 10,000,000 issued shares of HK\$0.01 each, as Shares with no par value in compliance with the Companies Act.

INCREASE IN AUTHORISED SHARES AND PRE-LISTING SHARE ALLOTMENT

Pursuant to the resolutions in writing passed by all the Shareholders on 15 August 2011, our Company increased its maximum number of authorised Shares from 39,000,000 Shares to 1,000,000,000 Shares.

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On 31 August 2011, our Company allotted and issued an aggregate of 290,000,000 new Shares to our then Shareholders at an issue price of HK\$0.0000001 per Share, as to 252,300,000 Shares allotted and issued to Global Wisdom for HK\$25.23, 14,500,000 Shares allotted and issued to Mr. S.H. Wang for HK\$1.45 and 23,200,000 Shares allotted and issued to Mr. Wei for HK\$2.32.

PRC LEGAL COMPLIANCE

(a) No. 75 Notice

Pursuant to No. 75 Notice, domestic residents establishing or taking control of a special purpose company abroad and domestic enterprises receiving round-trip investments from funds raised by an offshore special purpose company controlled by domestic residents are required to effect foreign exchange registration with the local foreign exchange bureau.

Our PRC legal advisers have advised us that Mr. Wong and Madam Hung Kin do not qualify as “domestic residents” within the meaning ascribed thereto in the No. 75 Notice and are therefore not subject to the requirements under the No. 75 Notice by virtue of the Reorganisation and the Listing.

Our PRC legal advisers have further advised us that as both Mr. S.H. Wang and Mr. Wei are PRC residents, they are subject to the registration and filing requirements under No. 75 Notice following their becoming Shareholders by the acquisition of Shares of our Company from Global Wisdom as disclosed in the paragraph headed “Pre-Listing Share compensation to our management” above and that both Mr. S.H. Wang and Mr. Wei are in the process of applying for registration under the No. 75 Notice.

(b) M&A Regulations

Pursuant to the M&A Regulations, where a domestic individual intends to take over his/her related domestic company in the name of an offshore vehicle which he/she lawfully established or controls, such takeover shall be subject to the examination and approval of the Ministry of Commerce of the PRC; and the M&A Regulations require an offshore special purpose vehicle formed for overseas listing purposes and controlled directly or indirectly by PRC entities or individuals shall obtain the approval of the China Securities Regulatory Commission prior to the listing and trading of the securities of such offshore special purpose vehicle on an overseas stock exchange.

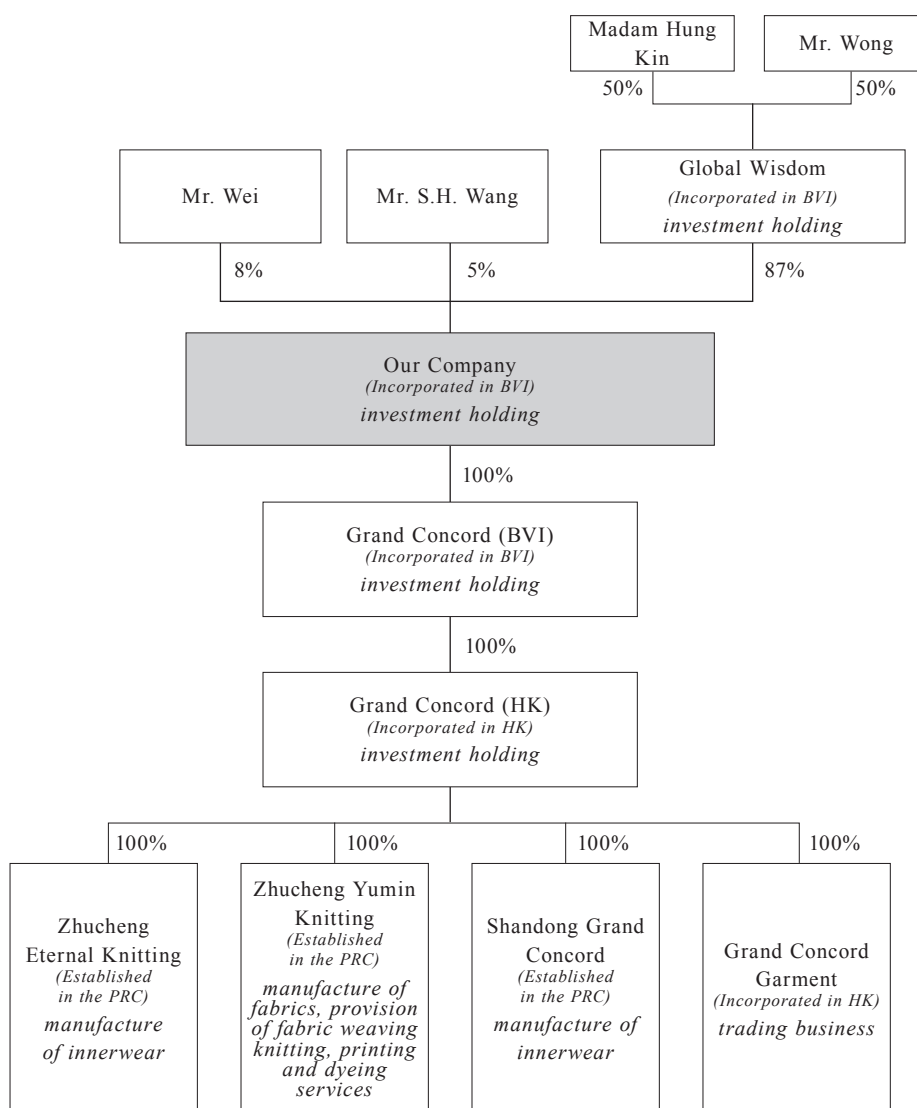
The M&A Regulations further provide the definition of “takeover of a domestic enterprise by a foreign investor”. According to Article 2 of the M&A Regulations, “takeover of a domestic enterprise by a foreign investor” is defined as a situation where a foreign investor purchases by agreement the equity interests in a domestic non-foreign-invested enterprise (a “**domestic enterprise**”) or subscribes for the increased capital of a domestic enterprise, and thus changes the domestic enterprise into a foreign-invested enterprise; or a foreign investor establishes a foreign invested enterprise, and through which it purchases by agreement the assets of a domestic enterprise and operates its assets; or a foreign investor purchases by agreement the assets of a domestic enterprise, and then uses such assets to invest in and establish a foreign-invested enterprise through which it operates the assets.

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We have been advised by our PRC legal advisers that (i) since no part of the Reorganisation and the Listing has involved any merger or acquisition of domestic enterprises through the acquisition of equity or asset by foreign investors within the ambit of the provisions of M&A Regulations, such provisions are not applicable insofar as the Reorganisation and the Listing are concerned; and (ii) the Reorganisation and the Listing comply with applicable PRC laws and regulations and no approval, consent, filing or registration is required from the PRC regulatory authorities.

GROUP STRUCTURE

The corporate structure and the principal activities of the members of our Group as at the Latest Practicable Date are set out below:



HISTORY, REORGANISATION AND GROUP STRUCTURE

The corporate structure and the principal activities of the members of our Group immediately following completion of Share Offer (without taking into account of any Shares which may be allotted and issued upon the exercise of any options that may be granted under the Share Option Scheme) are set out below:

