Yongsheng Advanced Materials Company Limited
永盛新材料有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 3608

Share Offer


Sole Sponsor

Haitong International Capital Limited

Sole Bookrunner and Sole Lead Manager

Haitong International Securities Company Limited

IMPORTANT

If you are in any doubt *about the contents of this prospectus, you should obtain independent professional advice.*

Yongsheng Advanced Materials Company Limited
永盛新材料有限公司

(Incorporated in the Cayman Islands with limited liability)

SHARE OFFER

Number of Offer Shares	**:**	**100,000,000 Shares (subject to the Over-allotment Option)**
Number of Public Offer Shares	**:**	**10,000,000 Shares (subject to reallocation)**
Number of Placing Shares	**:**	**90,000,000 Shares (subject to the Over-allotment Option and reallocation)**
Offer Price	**:**	**Not more than HK$1.20 per Offer Share (payable in full on application and subject to refund, plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%) and expected to be not less than HK$0.80 per Offer Share**
Nominal Value	**:**	**HK$0.01 per Share**
Stock Code	**:**	**3608**

Sole Sponsor

海通國際
HAITONG

Haitong International Capital Limited

Sole Bookrunner and Sole Lead Manager

海通國際
HAITONG

Haitong International Securities Company Limited

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus. A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies" in Appendix VII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required under Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other documents referred to above.

The final Offer Price is expected to be determined by the Price Determination Agreement between the Sole Bookrunner (on behalf of the Underwriters) and us on or about Wednesday, 20 November 2013 or such later time as may be agreed between the Sole Bookrunner (on behalf of the Underwriters) and us, but in any event no later than 6:00 p.m. (Hong Kong time) on Monday, 25 November 2013. If, for any reason, the Sole Bookrunner (on behalf of the Underwriters) and us are unable to reach an agreement on the Offer Price by 6:00 p.m. (Hong Kong time) on Monday, 25 November 2013, the Share Offer will not become unconditional and will lapse immediately. The Offer Price will be not more than HK$1.20 per Offer Share and is currently expected to be not less than HK$0.80 per Offer Share unless otherwise announced in the manner set out below. Investors applying for Offer Shares must pay the maximum Offer Price of HK$1.20 per Offer Share together with brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price finally determined is lower than HK$1.20 per Offer Share.

The Sole Bookrunner (on behalf of the Underwriters) may, with our consent, reduce the Offer Price range below that as stated in this prospectus at any time not later than the morning of the last day for lodging applications under the Public Offer. In such a case, notice of the reduction in the Offer Price range will be published in The Standard (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the day which is the last day for lodging applications under the Public Offer.

Pursuant to the certain provisions including force majeure provisions contained in the Public Offer Underwriting Agreement in respect of the Share Offer, the Sole Bookrunner (on behalf of the Public Offer Underwriter) has the right in certain circumstances, subject to its sole and absolute opinion, to terminate the obligations of the Public Offer Underwriter under the Public Offer Underwriting Agreement at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date (such date is currently expected to be Wednesday, 27 November 2013). Further details of the terms of the force majeure provisions are set out in the section headed "Underwriting" in this prospectus.

15 November 2013

	2013 *(note 1)*
Latest time to complete electronic applications under **HK eIPO White Form** service through the designated website at **www.hkeipo.hk** *(note 3)*	11:30 a.m. on Wednesday, 20 November
Application lists for the Public Offer open *(note 2)*	11:45 a.m. on Wednesday, 20 November
Latest time for lodging **WHITE** and **YELLOW** Application Forms and giving **electronic application instructions** to HKSCC *(note 4)*	12:00 noon on Wednesday, 20 November
Latest time to complete payment of **HK eIPO White Form** applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Wednesday, 20 November
Application lists for the Public Offer close *(note 3)*	12:00 noon on Wednesday, 20 November
Expected Price Determination Date *(note 5)*	Wednesday, 20 November
Announcement of the Offer Price, the level of indication of interest in the Placing, level of applications of the Public Offer, results of applications and the basis of allocation of the Public Offer Shares under the Public Offer to be published (a) in The Standard (in English) and the Hong Kong Economic Times (in Chinese) and (b) on the website of the Stock Exchange at **www.hkexnews.hk** and the website of the Company at **www.chinaysgroup.com** *(note 6)*	Tuesday, 26 November
Results of allocations in the Public Offer (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels, including the website of the Stock Exchange at **www.hkexnews.hk**, the website of the Company at **www.chinaysgroup.com**, the Public Offer allocation results telephone enquiry line and the special allocation results booklets as described in "How to apply for the Public Offer Shares – Publication of results" of this prospectus	Tuesday, 26 November

	2013 *(note 1)*
Despatch of share certificates in respect of wholly or partially successful applications pursuant to the Public Offer on or before *(notes 7 to 9, 12)*	Tuesday, 26 November
Despatch of refund cheques in respect of wholly successful (where applicable) or wholly or partially unsuccessful applications pursuant to the Public Offer on or before *(notes 6, 8 to 12)*	Tuesday, 26 November
Despatch of HK eIPO White Form e-Auto Refund payment instructions in respect of wholly successful (where applicable) or wholly or partially unsuccessful applications will be despatched on or before *(notes 6, 8 to 12)*	Tuesday, 26 November
Dealings in Shares on the Main Board to commence on	Wednesday, 27 November

Notes:

(1) All times refer to Hong Kong local time. Details of the structure of the Share Offer, including its conditions, are set out in the section headed "Structure and conditions of the Share Offer" in this prospectus.

(2) If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 20 November 2013, the application lists will not open on that day. Further information is set out in the section headed "How to apply for the Public Offer Shares – Effect of bad weather conditions on the opening of the application lists" in this prospectus. If the application lists do not open and close on Wednesday, 20 November 2013, the dates mentioned in "Expected Timetable" may be affected. An announcement will be made by us in such event.

(3) You will not be permitted to submit your application through the designate website at **www.hkeipo.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30a.m., the applicant will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(4) Applicants who apply for Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed "How to apply for the Public Offer Shares – Applying by giving electronic application instructions to HKSCC via CCASS" in this prospectus.

(5) The Offer Price is expected to be determined by Wednesday, 20 November 2013, or such later time as may be agreed between the Sole Bookrunner (on behalf of the Underwriters) and our Company, but in any event no later than 6:00 p.m. (Hong Kong time) on Monday, 25 November 2013. If, for any reason, the Sole Bookrunner (on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price by 6:00 p.m. on Monday, 25 November 2013, the Share Offer will not become unconditional and will lapse immediately.

(6) e-Auto Refund payment instruction/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Public Offer and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant's Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant's Hong Kong identity card number or passport number before cashing the refund cheque.

Inaccurate completion of an applicant's Hong Kong identity card number or passport number may lead to delays in encashment of, or may invalidate, the refund cheque.

(7) Share certificates for the Public Offer Shares will become valid certificates of title at 8:00 a.m. on Wednesday, 27 November 2013 provided that (i) the Share Offer has become unconditional in all respects and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms (and the allotment and issue of Public Offer Shares will be made subject to the aforesaid provisions).

(8) Applicants who have applied on **WHITE** Application Forms or through the **HK eIPO White Form** service for 1,000,000 Public Offer Shares or more under the Public Offer and have indicated in their applications that they wish to collect any refund cheque(s) and/or Share certificate(s) in person from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, may do so in person from 9:00 a.m. to 1:00 p.m. on Tuesday, 26 November 2013. Applicants being individuals who are applying for 1,000,000 Public Offer Shares or more and opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who are applying for 1,000,000 Public Offer Shares or more and opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with the corporations' chop. Identification and (where applicable) authorisation documents acceptable to our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, must be produced at the time of collection.

(9) Applicants who have applied on **YELLOW** Application Forms for 1,000,000 Public Offer Shares or more under the Public Offer may collect their refund cheque(s), where applicable, in person but may not elect to collect their Share certificate(s), which will be deposited into CCASS for credit to their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheque(s) for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants specified in note (8) above.

(10) For applicants who have applied for Public Offer Shares by giving **electronic application instructions**, their refund (if any) will be credited to their designated bank account or the designated bank account of the designated CCASS Participant through which they made their application on Tuesday, 26 November 2013. For applicants who have instructed their designated CCASS Participant (other than CCASS Investor Participant) to give **electronic application instructions** on their behalf, they can check the amount of refund (if any) payable to them with that designated CCASS Participant. For applicants who have applied as CCASS Investor Participant, they can check the amount of refund (if any) payable to them via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, 26 November 2013 or in the activity statement showing the amount of refund money credited to their designated bank account made available to them by HKSCC immediately after the credit of refund money to their bank account. Please refer to the section headed "How to apply for the Public Offer Shares – Despatch/collection of share certificates and refund of monies" for details.

(11) For applicants who have applied through the **HK eIPO White Form** service and paid the application monies from a single bank account, refund monies (where applicable) will be despatched to their application payment bank account in the form of e-Auto Refund payment instructions on Tuesday, 26 November 2013. For applicants who have applied through **HK eIPO White Form** service and paid the application monies from multiple bank accounts, refund monies (where applicable) in the form of refund cheque(s) on Tuesday, 26 November 2013 by ordinary post at their own risk. Please refer to the section headed "How to apply for the Public Offer Shares – Despatch/collection of share certificates and refund of monies" for details.

(12) Uncollected Share certificate(s) and refund cheque(s) will be despatched by ordinary post at the applicants' own risk to the addresses specified in the relevant applications. Further details are set out in the section headed "How to apply for the Public Offer Shares – Despatch/collection of share certificates and refund of monies" in this prospectus.

For details of the structure of the Share Offer, including the conditions thereof, please refer to the section headed "Structure and conditions of the Share Offer" in this prospectus.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information which is different from that contained in this prospectus. Any information or representation not made in this prospectus must not be relied upon by you as having been authorised by us, the Sole Sponsor, the Underwriters, any of their respective Directors or any other person or party involved in the Share Offer.

Page

Expected timetable i

Contents iv

Summary 1

Definitions 13

Glossary of technical and other terms 28

Forward-looking Statements 33

Risk factors 34

Waiver from strict compliance with the Listing Rules 55

Information about this prospectus and the Share Offer 57

Directors and parties involved in the Share Offer 61

Corporate information 64

Industry overview 66

Regulatory overview 100

History and development 121

Business 173

Relationship with our Controlling Shareholders 257

Directors, senior management and employees 261

Substantial shareholders 274

CONTENTS

Page

Continuing connected transactions 276

Share capital 282

Financial information 286

Future plans and use of proceeds from the Share Offer 405

Underwriting 406

Structure and conditions of the Share Offer 414

How to apply for the Public Offer Shares 423

Appendices

Appendix I – Accountant's report I-1

Appendix II – Unaudited pro forma financial information II-1

Appendix III – Property valuation III-1

Appendix IV – Summary of the constitution of the Company and Cayman Islands company law IV-1

Appendix V – History of certain share transfers of Yongsheng Group and our subsidiaries V-1

Appendix VI – Statutory and general information VI-1

Appendix VII – Documents delivered to the Registrar of Companies VII-1

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all of the information which may be important to you. You should read this prospectus in its entirety before you decide to invest in the Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Shares are summarised in the section headed "Risk factors" in this prospectus. You should read that section carefully before you decide to invest in the Shares.

OVERVIEW

We are principally engaged in the trading of textile-related products, the dyeing and processing of differentiated polyester fabric, and the production of polyester filament yarn, which are three business segments associated with the textile industry in China.

Trading

We engage in trading of textile-related products which mainly includes cotton, PET chips, nylon chips, PTA, MEG, wood pulp and cotton pulp during the Track Record Period. We generally place orders and procure the textile-related products based on our best estimate of customers' demand. Leveraging on our experience in the textile industry accumulated through our involvement in different areas of the textile industry supply chain, our broad customer base and our close proximity to the hub of the textile industry in China, our management is able to estimate demand from our customers by making reference to the previous purchase record of our customers and the local shortage of textile-related products. Our Directors consider that engaging in the trading business may increase our market connections which may help us connect to new customers for our production and processing business.

Dyeing and processing of differentiated polyester fabric

We dye and/or process differentiated polyester fabric from our customers or from our own sourcing. We provide dyeing and processing services on differentiated polyester fabric provided by our customers, in return for a processing fee. We also sourced differentiated polyester fabric for further dyeing and processing to conduct direct sales of such finished differentiated polyester fabric to other customers. Our products include various types of synthetic chamois leather. As at the Latest Practicable Date, we had five processing lines at our Dyeing Facilities and had a processing capacity of approximately 48 million metres of differentiated polyester fabric per year. We plan to further increase our processing capacity at our Dyeing Facilities to approximately 57 million metres of differentiated polyester fabric per year by the addition of one more processing line by December 2014.

Polyester filament yarn production

We are also a developer and manufacturer of polyester filament yarn in China. Our products include various types of polyester filament yarn that can be classified into two main categories, regular polyester filament yarn and differentiated polyester filament yarn. During each of the three years ended 31 December 2012, the majority of our sales of polyester filament yarn were regular polyester filament yarn, but we are aiming to gradually focus our production and sales on differentiated polyester filament yarn due to its higher profit margin. As such, approximately 78.4% of our total sales of polyester filament yarn for the six months ended 30 June 2013 was contributed by the sales of differentiated polyester filament yarn. As at the Latest Practicable Date, the total production capacity at our Fiber Facilities and our Nantong Facilities was approximately 14,600 tpa and 10,900 tpa respectively, with a total production capacity for polyester filament yarn of approximately 25,500 tpa, assuming all our production lines are in operation.

Other business information

Production facilities

For the six months ended 30 June 2013, our Dyeing Facilities, Fiber Facilities and Nantong Facilities have annualised processing/production capacities of approximately 48 million metres, 14,600 tonnes and 7,400 tonnes respectively and a utilisation rate of approximately 88%, 85% and 78% respectively. For further details, please refer to the paragraph headed "Current production/processing facilities and capacity" in the section headed "Business" on page 196 of this prospectus.

Our Customers

We have a diverse customer base. For each of the year ended 31 December 2010, 2011, 2012 and the twelve months ended 30 June 2013, we had transactions with approximately 620, 800, 910 and 940 customers respectively during the relevant year/period. We have both domestics and overseas customers for our three business segments, among which, sales to our domestic customers accounted for approximately 81.2%, 76.9%, 89.0% and 77.9% of our revenue for each of the three years ended 31 December 2012 and the six months ended 30 June 2013 respectively. Our customers of our polyester filament yarn production mainly consist of fabric manufacturers which are located in Zhejiang Province and Jiangsu Province. The end applications of our polyester filament yarn include, among others, various style of garment products and home furnishing products. In addition to sales to our domestic customers, we also sell a portion of our polyester filament yarn to customers in Egypt, Syria, Thailand and Iran. Our customers of our dyeing and processing business mainly consist of fabric manufacturers and home furnishings and sofa manufacturers which are mainly located in Zhejiang Province and Jiangsu Province, with some overseas customers located in the US, Brazil and Canada. Our customers of our trading business consist of both trading companies and manufacturers of textile-related products which are located in different regions of the PRC. We also sell a portion of our textile-related products to customers located in Switzerland and Hong Kong.

Our Suppliers

We have transactions with approximately 340, 370, 450 and 460 suppliers for each of the year ended 31 December 2010, 2011, 2012 and the twelve months ended 30 June 2013 respectively. Our suppliers of our trading business consist of trading companies and manufacturers located inside and outside China. Our primary raw materials for our dyeing and processing business are dyeing agents and differentiated polyester fabric and our primary raw materials for the production of polyester filament yarn are PET chips, nylon chips, POY, and FDY. Our suppliers for our dyeing and processing and production business are mainly located in Zhejiang and Jiangsu Provinces.

BUSINESS STRATEGIES AND SUSTAINABILITY OF OUR BUSINESS

Our overall financial performance during the Track Record Period, in particular, for each of the three years ended 31 December 2012, had been materially and adversely affected by the continuous drop in gross profit margin of our trading business which in turn was largely due to the overall drop in market prices of textile-related products. However, our trading business has managed to record positive gross profit margin during the Track Record Period. As stated in the section headed "Industry overview" of this prospectus, the independent industry expert anticipates that overall prices of textile-related products will rise due to strong demand in the PRC market in the future. As such, we consider our trading business may continue to contribute to our Group's revenue in the future. In addition, the continuous growth and satisfactory performance of our businesses of dyeing and processing as well as polyester filament yarn production had successfully mitigated the adverse impact of our trading business. Therefore, (i) the net profit after exclusion of investment income and/or listing expenses (which showed the actual results of our principal businesses) of our Group during the two years ended 31 December 2012 only slightly dropped by approximately RMB3 million from approximately RMB40 million to approximately RMB37 million; and (ii) the net profit after exclusion of investment income and listing expenses of our Group for the six months ended 30 June 2013 recorded a robust growth of approximately RMB11 million to approximately RMB24 million as compared to the six months ended 30 June 2012.

We aim at maintaining our position in the trading of textile-related products business and focusing on the niche market of differentiated polyester filament yarn production and differentiated polyester fabric processing which we consider are of higher gross profit margin and stronger growth potential. We plan to achieve the above goals by: (i) continuing on and further expanding our trading business of textile-related products; (ii) continuing to improve on our research and development on differentiated polyester filament yarn production and dyeing and processing techniques; (iii) further expansion of our production and processing capacity and improve our production and processing efficiency and product quality; and (iv) further expansion of our marketing network and strengthen our relationships with players in the textile industry.

In particular, we consider our differentiated polyester filament yarn production and dyeing and processing of differentiated polyester fabric business segments to have a stronger development potential and could lead to a higher growth drive for our Group in the future, for the reasons indicated in the paragraph headed "Prospects" under the section headed "History and development" in the prospects.

Based on the above and our business strategies, we believe our business will be sustainable and developing with positive prospects.

COMPETITIVE STRENGTHS

We believe that our principal competitive strengths include, among others: (i) our strong research and development and commercialisation capabilities which allow us to offer a comprehensive portfolio of differentiated polyester filament yarn with higher profit margin; (ii) our experienced management team with extensive textile industry knowledge and experience; (iii) our location which is close to the centre of the textile industry in China; and (iv) our products and services which help us build our reputation and customer loyalty. For further details, please refer to page 176 in the paragraph headed "Our competitive strengths" in the section headed "Business" of this prospectus.

RISK FACTORS

Among the risks relating to our business, the relatively material risks are as follows: (i) our financial performance in our trading business may be negatively affected by fluctuations in prices of textile-related products; (ii) our financial performance in our production and processing segment may be affected by fluctuations in raw material prices as we may not always be able to pass on the increase in raw material costs to our customers; (iii) we generally do not enter into long-term contracts with our customers and are thus subject to uncertainty and potential volatility with respect to our revenue from period to period; and (iv) our research and development of new types of differentiated polyester filament yarn and dyeing and processing techniques may not be successful and our newly-developed products may fail to achieve our desired results. For further details, please refer to the section headed "Risk factors" on page 34 of this prospectus.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Our Controlling Shareholders consist of Mr. Li and Ever Thrive. As at the Latest Practicable Date, Mr. Li beneficially owned approximately 79.61% of the issued share capital of Ever Thrive, and Ever Thrive will directly hold approximately 51.62% of the issued share capital of our Company immediately after completion of the Capitalisation Issue and the Share Offer (assuming no exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme). Our Controlling Shareholders confirm that they do not have any business or interest which competes or may compete with the business of our Group. Apart from our Group's business, Mr. Li is also interested in certain companies which had or will continue to have business relationship with our Group during the Track Record Period and after Listing. Particulars of such transactions are set out in the paragraphs headed "Related parties transactions" in the section headed "Financial Information" and the section headed "Continuing connected transactions" on page 376 and on page 276 in this prospectus respectively.

REGULATORY NON-COMPLIANCE

During the Track Record Period, our Group had failed to comply with certain laws and regulations in the PRC. The material non-compliance relating to our Group includes, among others (a) non-compliant bill arrangement; and (b) failure to comply with PRC social insurance and housing provident fund contribution requirements. Please refer to page 227 in the paragraph headed "Non-compliance and legal proceedings" in the section headed "Business" in this prospectus for further details.

SUMMARY FINANCIAL INFORMATION

Key information from consolidated statement of comprehensive income and consolidated statements of financial position

The table below sets forth the selected information of our Group's consolidated financial statements for each of the three years ended 31 December 2012 and the six months ended 30 June 2012 and 30 June 2013, details of which are set out in the Accountant's report in Appendix I to this prospectus.

	Year ended 31 December			Six months ended 30 June	Six months ended 30 June
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Revenue	1,565,630	2,037,346	2,210,853	1,240,999	1,110,842
Gross profit	137,624	114,409	109,145	51,510	61,227
Operating profit	119,378	93,231	58,788	25,845	34,730
Profit before income tax	106,898	80,259	39,048	14,792	24,997
Net profit for the year/period	82,930	60,011	32,987	12,390	19,301
Net profit attributable to equity holders of the Company	78,217	54,206	23,173	6,253	15,461
Net profit excluding investment income and/or listing expenses *(Note)*	62,489	40,047	37,052	12,812	23,520
Net profit excluding investment income and/or listing expenses, attributable to equity holders of the Company *(Note)*	57,334	34,024	27,238	6,675	19,680

	As at 31 December			As at 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	194,899	198,575	190,113	184,892
Current assets	968,688	1,071,870	891,166	427,508
Current liabilities	(1,016,544)	(1,060,990)	(829,977)	(364,454)
Net current (liabilities)/assets	(47,856)	10,880	61,189	63,054
Non-current liabilities	(19,002)	(9,565)	(59,970)	(37,629)
Net assets	128,041	199,890	191,332	210,317

Note: We have excluded certain material items not relating to our ordinary and usual course of business, net of tax from our net profit in order to show the actual results of our principal businesses during the Track Record Period. Net profit excluding investment income and/or listing expenses and net profit excluding investment income and/or listing expenses attributable to equity holders of the Company are not directly extracted from the Accountant's report in Appendix I to this prospectus.

Breakdown of revenue, gross profit and gross profit margin by trading, dyeing and processing and polyester filament yarn production

	Year ended 31 December												Six months ended 30 June							
	2010				2011				2012				2012 (unaudited)				2013			
	Revenue		Gross Profit	Gross Profit Margin	Revenue		Gross Profit	Gross Profit Margin	Revenue		Gross Profit	Gross Profit Margin	Revenue		Gross Profit	Gross profit margin	Revenue		Gross Profit	Gross Profit Margin
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
Trading	1,231,526	78.7	104,918	8.5	1,558,533	76.5	75,563	4.8	1,754,658	79.4	37,100	2.1	1,025,136	82.6	17,929	1.7	895,282	80.6	14,136	1.6
Dyeing and processing of differentiated polyester fabric	98,568	6.3	23,591	23.9	112,567	5.5	26,511	23.6	117,663	5.3	37,197	31.6	52,407	4.2	17,748	33.9	59,868	5.4	20,383	34.0
Polyester filament yarn production																				
– Regular	198,138	12.6	681	0.3	276,756	13.6	(3,024)	(1.1)	182,873	8.3	(3,425)	(1.9)	86,677	7.0	(1,668)	(1.9)	33,627	3.1	699	2.1
– Differentiated	37,398	2.4	8,434	22.6	89,490	4.4	15,359	17.2	155,659	7.0	38,273	24.6	76,779	6.2	17,501	22.8	122,065	10.9	26,009	21.3
Total	1,565,630	100	137,624	8.8	2,037,346	100	114,409	5.6	2,210,853	100	109,145	4.9	1,240,999	100	51,510	4.2	1,110,842	100	61,227	5.5

Overall discussion on financial performance during the Track Record Period

Revenue

Our revenue increased from approximately RMB1,565.6 million in 2010 to approximately RMB2,210.9 million in 2012 mainly driven by the expansion of trading and dyeing and processing business. Revenue from polyester filament yarn production dropped slightly by 7.6% from 2011 to 2012 as we reduced production and sales of regular polyester filament yarn which recorded gross loss in 2012 while we increased sales of differentiated polyester filament yarn which recorded gross profit margin of 24.6% in 2012.

Revenue declined by 10.5% from the six months ended 30 June 2012 to the six months ended 30 June 2013 mainly due to (1) decline in trading revenue by 12.7% as we reduced trading in products with negative or fluctuating gross profit margin during the Track Record Period, and (2) decrease in revenue from polyester filament yarn production by 4.8% as we continued to shift from production and sales of regular products to differentiated polyester filament yarn, offset by continuing expansion of dyeing and processing business with increase in revenue by 14.2%.

Gross profit

Gross profit decreased from approximately RMB137.6 million in 2010 to approximately RMB109.1 million in 2012, mainly resulted from decrease in gross profit from trading activities which was in turn driven by drop in market price of trading products. This is partly offset by the growth in gross profit contributed by dyeing and processing business and polyester filament yarn production business from approximately RMB23.6 million and RMB9.1 million respectively in 2010 to approximately RMB37.2 million and RMB34.8 million respectively in 2012.

Gross profit of dyeing and processing and production of polyester filament yarn businesses recorded robust growth from 2010 to 2012 with CAGR of 25.6% and 95.5% respectively. Increase in gross profit from dyeing and processing was mainly due to (1) increase in sales volume from 2010 to 2011 due to production expansion, and (2) increase in gross profit margin from 2011 to 2012 mainly due to decrease in raw material costs and that our newly added processing line in 2011 has reached its efficient capacities in 2012. Increase in gross profit from production of polyester filament yarn was mainly due to our shift towards sales and production of differentiated products which have higher gross profit margin as compared with regular products.

Gross profit increased from approximately RMB51.5 million for the first half of 2012 to approximately RMB61.2 million for the first half of 2013 by 18.9% as contributed by (1) increase in gross profit by 14.9% from dyeing and processing due to increased revenue from new customers, and (2) increase in gross profit by 68.7% from production of polyester filament yarn due to increase in sales proportion of differentiated polyester filament yarn which recorded higher gross profit margin as compared to regular polyester filament yarn.

Net profit for the year/period

Net profit for each of the three years ended 31 December 2012 and the six months ended 30 June 2013 amounted to approximately RMB82.9 million, RMB60.0 million, RMB33.0 million and RMB19.3 million respectively, which included: (1) investment income/(loss) which mainly consist of gain/(loss) from investment in future contracts, mutual fund and stocks of approximately RMB27.5 million, RMB26.7 million, negative RMB3.7 million and negative RMB0.4 million, and (2) listing expenses which mainly included fees paid to various professional parties for services in relation to the Listing of approximately nil, nil, RMB2.6 million and RMB4.3 million respectively.

Net profit excluding investment income and/or listing expenses

In order to show the results of our principal businesses which will continue after Listing during the Track Record Period, net profit excluding investment income and/or listing expenses is also calculated. Net profit excluding investment income and/or listing expenses decreased from approximately RMB62.5 million in 2010 to approximately RMB40.0 million in 2011 by approximately RMB22.5 million, primarily due to the decrease in gross profit by approximately RMB23.2 million which was in turn driven by drop in market price of trading products. It slightly decreased to approximately RMB37.1 million in 2012 by approximately RMB3.0 million as consistent with the decrease in gross profit by approximately RMB5.3 million as a result of further deterioration of trading activities, partially offset by robust growth in gross profit from dyeing and processing business due to decrease in raw material costs and more efficiency achieved in production facilities and significant increase in gross profit from polyester filament yarn production due to increased sales proportion from differentiated products. Net profit excluding investment income and listing expenses increased significantly from approximately RMB12.8 million for the six months ended 30 June 2012 to approximately RMB23.5 million for the six months ended 30 June 2013 by approximately RMB10.7 million mainly as a result of increase in gross profit of approximately RMB9.8 million, as contributed by continuing growth in gross profit of dyeing and processing contributed by newly developed customers and in gross profit of polyester filament yarn production business as a result of increase in sales proportion of differentiated products.

Other key financial ratios

	For the year ended 31 December			**Six months ended 30 June**
	2010	**2011**	**2012**	**2013**
Net profit margin	5.3%	2.9%	1.5%	1.7%
Net profit margin after exclusion of investment income and/or listing expenses	4.0%	2.0%	1.7%	2.1%
Current ratio	0.95	1.01	1.07	1.17
Total debt to equity ratio	3.29	2.82	2.24	1.12

Net profit margin decreased from 5.3% in 2010 to 2.9% in 2011 and further to 1.5% in 2012 mainly as a result of decrease in gross profit margin from 8.8% in 2010 to 5.6% in 2011 and further to 4.9% in 2012, as well as the significant decrease in other gains/losses during 2012 as a result of loss incurred from investment activities out of the usual and ordinary course of business of our Group. Net profit margin after exclusion of investment income and/or listing expenses followed similar declining trend from 2010 to 2012 but dropped more mildly from 2.0% in 2011 to 1.7% in 2012 after excluding investment income and/or listing expenses. Both net profit margin and net profit margin after exclusion of investment income and listing expenses increased from 1.0% and 1.0% respectively for the six months ended 30 June 2012 to 1.7% and 2.1% respectively for the six months ended 30 June 2013, mainly as a result of our increased gross profit margin from 4.2% to 5.5% for the respective periods, which is due to the improvement of gross profit margin of polyester filament yarn production. Net profit margin after exclusion of investment income and listing expenses recorded more significant growth after adding back listing expenses.

Our current ratio increased steadily throughout the Track Record Period as a result of our successful liquidity management.

Our total debt to equity ratio decreased from 3.29 in 2010 to 2.82 in 2011 due to the percentage increase in total equity is larger than that for total debt in 2011 and further decreased to 2.24 in 2012 mainly as a result of decrease in current portion of bank borrowings by approximately RMB150.5 million from 31 December 2011 to 31 December 2012. Total debt to equity ratio further declined to 1.12 as at 30 June 2013 mainly due to the significant decrease in bank borrowings from approximately RMB427.1 million as at 31 December 2012 to approximately RMB235.6 million by approximately 44.8% as we used excess cash to repay bank loans in order to reduce finance costs during the first half of 2013.

We incurred listing related expenses of approximately RMB13.8 million, of which RMB6.9 million has been charged to our consolidated statements of comprehensive income during the Track Record Period, and RMB6.9 million has been capitalised and will be charged to equity upon Listing. We expect to incur further listing related expenses amounting to approximately RMB13.7 million for the period after 30 June 2013, of which about RMB5.8 million will be charged to our consolidated statements of comprehensive income for the year ending 31 December 2013, and approximately RMB7.9 million (including underwriting commission) will be charged to equity upon Listing. The above is an estimate only, and you should note that the listing expenses might have impact on the profitability of our Group after Listing, the extent of which will depend on the results of operations of our Group and industry environments during the relevant period.

RECENT DEVELOPMENTS

Based on the unaudited management accounts of our Group for the nine months ended 30 September 2013, we recorded revenue, gross profit and gross profit margin for our major business segments as follows:

	Revenue	Gross profit	Gross profit margin
	RMB'000	*RMB'000*	%
Trading	1,128,174	17,976	1.6%
Dyeing and processing of differentiated polyester fabric	90,682	30,305	33.4%
Polyester filament yarn production			
– Regular	50,816	2,593	5.1%
– Differentiated	182,501	40,616	22.3%
Total	1,452,173	91,490	6.3%

The selected information disclosed above is derived from the unaudited consolidated financial statements for the nine months ended 30 September 2013 prepared by our Directors in accordance with International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board, which have been reviewed by the Reporting Accountant in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board.

Our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in our financial or trading position or prospects since 30 June 2013.

We have recorded satisfactory results for the nine months ended 30 September 2013. Our Directors are optimistic on the operating environment of our Group as the textile-related industries are picking up in 2013.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirmed that, as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

OFFER STATISTICS

	Based on an Offer Price of HK$0.80 per Share	Based on an Offer Price of HK$1.20 per Share
Market capitalisation of the Shares *(note 1)*	HK$320 million	HK$480 million
Unaudited pro forma adjusted net tangible assets per Share *(note 2)*	HK$0.71	HK$0.81

Notes:

(1) The calculation of the market capitalisation of the Shares is based on 400,000,000 Shares in issue immediately after completion of the Share Offer and the Capitalisation Issue but does not take into account any Shares which may be issued upon the exercise of the Over-allotment Option or of any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandate and the repurchase mandate.

(2) The unaudited pro forma adjusted net tangible assets of our Group per Share has been arrived at after the adjustments referred to in the section headed "Financial Information" in this prospectus and on the basis of 400,000,000 Shares in issue at the range of the Offer Price of HK$0.80 and HK$1.20 per Share immediately following completion of the Share Offer and the Capitalisation Issue but without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandate and the repurchase mandate.

DIVIDEND POLICY

We declared dividends of approximately RMB90.3 million for the year ended 31 December 2012, approximately RMB81.9 million of which were paid to our shareholders in the same year with internal resources generated from our business operations while approximately RMB8.4 million of which were waived by HUVIS, being the non-controlling shareholder of Yongsheng Dyeing with respect to dividend declared by Yongsheng Dyeing in September 2012. We currently do not have a fixed dividend policy. The declaration, payment and amount of dividends in the future will be at the discretion of our Directors and will depend on our results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends, future prospects and other factors that we may consider relevant. Dividends may be paid only out of our distributable profits as permitted under the relevant laws.

USE OF PROCEEDS

Our Directors presently intend to use the net proceeds from the Share Offer as follows:

- approximately HK$39.2 million or 60% will be used for building four additional production lines at our Nantong Facilities and acquiring the production equipments and machines;
- approximately HK$13.1 million or 20% will be used for increasing the processing capacity and improving the waste water treatment system and energy savings system at our Dyeing Facilities;
- approximately HK$6.5 million or 10% will be used to strengthen our research and analysis capabilities and business development capabilities in our trading department; and
- approximately HK$6.5 million or 10% will be used for general working capital and other general corporate purposes of our Group.

For further details, please refer to the section headed "Future plans and use of proceeds from the Share Offer" on page 405 of this prospectus.

In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings.

"affiliate(s)"	in relation to a body corporate, any subsidiary undertaking or parent undertaking of such body corporate, and any subsidiary undertaking of any such parent undertaking for the time being
"Application Form(s)"	WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s), or where the context so requires, any of them, relating to the Public Offer
"Articles of Association" or "Articles"	the articles of association of our Company adopted on 7 November 2013, and as amended, modified or supplemented from time to time
"associate(s)"	has/have the meaning ascribed thereto under the Listing Rules
"Board of Directors" or "Board"	the board of Directors
"Business Day"	a day which is not a Saturday, a Sunday or a public holiday in Hong Kong and on which banks in Hong Kong are generally open for business
"BVI"	British Virgin Islands
"CAGR"	compound annual growth rate
"Capitalisation Issue"	the issue of 297,327,010 Shares to be made upon capitalisation of an amount of HK$2,973,270.1 standing to the credit of the share premium account of our Company as referred to in the paragraph headed "Written resolutions of our Shareholders passed on 7 November 2013" in Appendix VI to this prospectus
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant

"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"China Textiles Development Centre"	China Textiles Development Centre (國家紡織產品開發中心), a governmental organisation that works together with China Textile Information Centre and engages in activities including, amongst others, research and development in textile-related products, marketing and promotion of textile-related enterprises, textile industry quality control. Its major task is to lead textile-related enterprises in the PRC in research and development and enhance the competitiveness of Chinese textile-related products in the international market
"China Textile Information Centre"	China Textile Information Centre (中國紡織信息中心), a governmental intermediary organisation in the textile industry established through reorganising China Textile Information Institute and the Information Network Centre, the Textiles Development Centre and the Statistical Centre under the former State Textile Industry Bureau, and is affiliated to the Secretariat of China Textile Engineering Society and the Secretariat of China Fashion Colour Association. Its major tasks are, among others, introducing information technology to the textile industry, constructing the information bank of the textile industry and giving guidance to textile product development
"Companies Law"	the Companies Law (as revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time
"Companies Ordinance"	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong, as amended and supplemented from time to time
"Company" or "our Company"	Yongsheng Advanced Materials Company Limited (永盛新材料有限公司), a company incorporated in the Cayman Islands on 19 April 2012 as an exempted company with limited liability

"Controlling Shareholder(s)"	has the meaning ascribed under the Listing Rules and, in the context of this prospectus, means any one of Mr. Li and Ever Thrive
"Director(s)"	director(s) of our Company or any of them
"Dyeing Facilities"	the processing facilities for dyeing and processing of Yongsheng Dyeing
"Euro" or "EUR"	the Euro, the lawful currency of the member states of the European Union that have adopted the single currency of the Economic and Monetary Union of the European Union
"Ever Thrive"	Ever Thrive Global Limited (恒盛環球有限公司), a company incorporated in the BVI with limited liability on 11 January 2012, which principal activities are investment holding, one of the Controlling Shareholders interested in approximately 68.82% of the issued share capital of the Company as at the Latest Practicable Date, and whose issued share capital is owned as to approximately 79.61% by Mr. Li, and by his relatives, namely, Mr. Li WH, Ms. Li CY, Mr. Li ZH, Mr. Zhou, Ms. Li YQ and Mr. Li TF as to approximately, 4.29%, 4.29%, 4.29%, 3.22%, 2.58% and 1.72% respectively
"Fiber Facilities"	the production facilities for production of polyester filament yarn of Yongsheng Chemical Fiber
"GDP"	gross domestic product
"Green Application Form(s)"	the application form(s) to be completed by the HK eIPO White Form Service Provider designated by our Company
"Group", "our Group", "we" or "us"	our Company and its subsidiaries at the relevant time or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the present subsidiaries of our Company and the trading business operated by Yongsheng Group and Yongsheng Holdings prior to completion of the Reorganisation

"Hangzhou Yongsheng Trading"	Hangzhou Xiaoshan Yongsheng Foreign Trading Company Limited* (杭州蕭山永盛對外貿易有限公司) (formerly known as Xiaoshan Yongsheng Foreign Trading Company Limited* (蕭山永盛對外貿易有限公司)), a company established in the PRC with limited liability on 2 August 2000, an indirect wholly-owned subsidiary of our Company
"HK eIPO White Form"	the application for Public Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website of HK eIPO White Form Service Provider at www.hkeipo.hk
"HK eIPO White Form Service Provider"	the HK eIPO White Form Service Provider designated by our Company as specified on the designated website at www.hkeipo.hk
"HKD", "HK$" or "HK dollar(s)"	Hong Kong dollars, the lawful currency of Hong Kong
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Branch Share Registrar"	Tricor Investor Services Limited, the Hong Kong branch share registrar of our Company
"HUVIS"	HUVIS Corporation (株式會社HUVIS), a chemical fiber manufacturing company based in South Korea with operating manufacturing factories in Jeonju, Ulsan and China and a research and development centre in Daejeon, the shares of which are listed on the Korea Exchange; and a 30% shareholder of Yongsheng Chemical Fiber and therefore a connected person (as defined in the Listing Rules) of our Company; and a then shareholder of Yongsheng Dyeing prior to the Reorganisation
"IFRSs"	International Financing Reporting Standards

* *For identification purposes only*

"Independent Third Party(ies)"	a party or parties that is or are independent of and not connected with (within the meaning of the Listing Rules) any Directors, chief executive, Substantial Shareholders or any of our subsidiaries or any of their respective associates
"Ipsos Report" or "Industry Report"	an industry report prepared by Ipsos Hong Kong Limited which was commissioned by us in relation to, amongst other things, the global textile industry and the textile industry in the PRC
"Latest Practicable Date"	8 November 2013, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
"Listing"	listing of our Shares on the Main Board of the Stock Exchange
"Listing Committee"	the listing sub-committee of the board of directors of the Stock Exchange
"Listing Date"	the date on which trading of our Shares on the Main Board first commences, which is currently expected to be 27 November 2013
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
"Main Board"	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange and the options market
"Memorandum of Association" or "Memorandum"	the memorandum of association of our Company adopted on 7 November 2013, as amended from time to time
"Mr. Jin BH"	Jin Baohuo (金保和), one of the Shun Sheng Shareholders, an existing shareholder of Yongsheng Group and brother of Mr. Jin BW, save as the aforesaid, an Independent Third Party as at the Latest Practicable Date

"Mr. Jin BW"	Jin Baowang (金保旺), one of the Shun Sheng Shareholders, an existing shareholder of Yongsheng Group and brother of Mr. Jin BH, save as the aforesaid, an Independent Third Party as at the Latest Practicable Date
"Mr. Jin JL"	Jin Jialin (金加林), one of the Shun Sheng Shareholders and an existing shareholder of Yongsheng Group, save as the aforesaid, an Independent Third Party as at the Latest Practicable Date
"Mr. Jin ZF"	Jin Zhifang (金志芳), one of the Shun Sheng Shareholders and an existing shareholder of Yongsheng Group, save as the aforesaid, an Independent Third Party as at the Latest Practicable Date
"Mr. Li"	Li Cheng (李誠), one of the Controlling Shareholders and the controlling shareholder of Ever Thrive, an executive Director and chairman of the Board
"Mr. Li CH"	Li Conghua (李聰華), nephew of Mr. Li, an executive Director and a director of each of Hangzhou Yongsheng Trading and Yongsheng Chemical Fiber
"Mr. Li M"	Li Min (李敏), formerly known as Li Ming (李明), a director of Nantong Yongsheng, a senior management of our Group, one of the Shun Sheng Shareholders and as at the Latest Practicable Date, an existing shareholder of Yongsheng Group
"Mr. Li TF"	Li Tingfu (李廷福), brother of Mr. Li, a 1.72% shareholder of Ever Thrive and as at the Latest Practicable Date, an existing shareholder of Yongsheng Group
"Mr. Li WH"	Li Wenhua (李文華), nephew of Mr. Li, a director of Yongsheng Dyeing, a 4.29% shareholder of Ever Thrive and as at the Latest Practicable Date, a 5% shareholder of Yongsheng Holdings
"Mr. Li ZH"	Li Zhihong (李志洪), brother of Mr. Li, a 4.29% shareholder of Ever Thrive, a director of Yongsheng Group and as at the Latest Practicable Date, an existing shareholder of Yongsheng Group

"Mr. Liu XM"	Liu Xiaoming (劉曉明), the spouse of Ms. Wen, one of the Shun Sheng Shareholders, and as at the Latest Practicable Date, an existing shareholder of Yongsheng Group
"Mr. Ma"	Ma Qinghai (馬青海), an executive Director, a director of Yongsheng Dyeing, one of the Shun Sheng Shareholders and as at the Latest Practicable Date, an existing shareholder of Yongsheng Group
"Mr. Tao"	Tao Jiong (陶炯), one of the Shun Sheng Shareholders, an existing shareholder of Yongsheng Group, save as the aforesaid, an Independent Third Party as at the Latest Practicable Date
"Mr. Wang"	Wang Qimin (王琪敏), a director of Yongsheng Dyeing and a former shareholder of Yongsheng Group
"Mr. Wu"	Wu Ruhai (吳汝海), one of the Shun Sheng Shareholders and an existing shareholder of Yongsheng Group, save as the aforesaid, an Independent Third Party as at the Latest Practicable Date
"Mr. Zhao"	Zhao Jidong (趙繼東), an executive Director and chief executive officer of the Company, a former shareholder of Yongsheng Group and the spouse of Ms. Chen X
"Mr. Zhou"	Zhou Linping (周林平), brother-in-law of Mr. Li, a 3.22% shareholder of Ever Thrive and as at the Latest Practicable Date, an existing shareholder of Yongsheng Group
"Ms. Chen GP"	Chen Guoping (陳國萍), one of the Shun Sheng Shareholders and an existing shareholder of Yongsheng Group, save as the aforesaid, an Independent Third Party as at the Latest Practicable Date
"Ms. Chen X"	Chen Xi (陳曦), the spouse of Mr. Zhao, one of the Shun Sheng Shareholders and as at the Latest Practicable Date, an existing shareholder of Yongsheng Group
"Ms. Li CY"	Li Chunyan (李春妍), daughter of Mr. Li, a director of Yongsheng Trading (HK), a 4.29% shareholder of Ever Thrive and as at the Latest Practicable Date, a 5% shareholder of Yongsheng Holdings

"Ms. Li YQ"	Li Yueqin (李月琴), sister of Mr. Li, a 2.58% shareholder of Ever Thrive and as at the Latest Practicable Date, an existing shareholder of Yongsheng Group
"Ms. Liu XL"	Liu Xiaolin (劉曉霖), one of the Shun Sheng Shareholders and an existing shareholder of Yongsheng Group, save as the aforesaid, an Independent Third Party as at the Latest Practicable Date
"Ms. Wen"	Wen Yan (溫艷), a director of Yongsheng Chemical Fiber, one of the Shun Sheng Shareholders, the spouse of Mr. Liu XM and as at the Latest Practicable Date, an existing shareholder of Yongsheng Group
"Ms. Zhang"	Zhang Xiaoling (張曉玲), a director of Yongsheng Trading (HK), one of the Shun Sheng Shareholders and as at the Latest Practicable Date, an existing shareholder of Yongsheng Group
"Nantong Facilities"	the production facilities for production of polyester filament yarn of Nantong Yongsheng
"Nantong Yongsheng"	Nantong Yongsheng Fiber Advanced Materials Company Limited* (南通永盛纖維新材料有限公司), a company established in the PRC with limited liability on 28 June 2010 whose registered capital was, as at the Latest Practicable Date, owned as to 90% by Yongsheng Dyeing and 10% by Nantong Yongsheng Management Shareholders, and is an indirect non-wholly-owned subsidiary of our Company
"Nantong Yongsheng Management Shareholders"	the four individual shareholders of Nantong Yongsheng namely, Mr. Tao Jianjun (陶建軍), a director of Nantong Yongsheng, and Mr. Tao Zhijun (陶志均), Mr. Shi Hongxing (石紅星) and Mr. Yang Jiahua (楊加華), all being management of Nantong Yongsheng and owned 4%, 2%, 2% and 2% of the equity interest of Nantong Yongsheng respectively as at the Latest Practicable Date

* *For identification purposes only*

"Offer Price"	the final offer price per Offer Share (exclusive of brokerage, SFC transaction levy and Stock Exchange trading fee) at which the Shares are to be issued pursuant to the Share Offer, to be determined as described in the section headed "Structure and conditions of the Share Offer" in this prospectus
"Offer Share(s)"	the Public Offer Shares and the Placing Shares
"Over-allotment Option"	the option expected to be granted by our Company to the Sole Bookrunner (on behalf of the Placing Underwriters), pursuant to the Placing Underwriting Agreement, to require us to issue and allot up to an aggregate of 15,000,000 additional Shares at the Offer Price solely to cover over-allocations in the Placing, if any, exercisable at any time from the Listing Date until the 30th day from the Listing Date
"Over-allotment Shares"	up to an aggregate of 15,000,000 new Shares to be issued pursuant to the exercise of the Over-allotment Option, representing 15% of the number of Shares initially available under the Share Offer
"Placing"	the conditional placing of Placing Shares by the Placing Underwriters with professional and institutional investors at the Offer Price, as further described in the section headed "Structure and conditions of the Share Offer" in this prospectus
"Placing Shares"	the 90,000,000 Shares initially being offered by our Company for subscription under the Placing together, where relevant, with any additional Shares that may be issued pursuant to any exercise of the Over-allotment Option
"Placing Underwriters"	the underwriters of the Placing, who is/are expected to enter into the Placing Underwriting Agreement to underwrite the Placing
"Placing Underwriting Agreement"	the conditional placing underwriting agreement relating to the Placing to be entered into on or about 20 November 2013 by, among others, our executive Directors, Mr. Li, Ever Thrive, the Sole Sponsor, the Sole Bookrunner, the Placing Underwriters and our Company

"PRC", "China" or the "People's Republic of China"	the People's Republic of China, which for the purposes of this prospectus only (unless otherwise indicated) excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
"PRC Legal Advisers"	Tian Yuan Law Firm, a qualified PRC law firm acting as the PRC legal advisers to our Company in its application for listing on the Main Board of the Stock Exchange
"PRC Subsidiaries"	Yongsheng Chemical Fiber, Yongsheng Dyeing, Nantong Yongsheng and Hangzhou Yongsheng Trading
"Price Determination Agreement"	the agreement to be entered into between our Company and the Sole Bookrunner (for itself and on behalf of the Underwriters) on or before the Price Determination Date to fix and record the Offer Price
"Price Determination Date"	the date, expected to be on or about Wednesday, 20 November 2013, on which the Offer Price is expected to be fixed for the purposes of the Share Offer and in any event no later than 6:00 p.m. on Monday, 25 November 2013
"Public Offer"	the offer for subscription of the Public Offer Shares to the public in Hong Kong for cash (subject to adjustment as described in the section headed "Structure and conditions of the Share Offer" in this prospectus) at the Offer Price (exclusive of brokerage, SFC transaction levy, and Stock Exchange trading fee) on the terms and subject to the conditions described in this prospectus and the Application Forms, as further described in the section headed "Structure and conditions of the Share Offer" in this prospectus
"Public Offer Shares"	the 10,000,000 new Shares initially offered for subscription under the Public Offer subject to re-allocation as described in the section headed "Structure and conditions of the Share Offer" in this prospectus
"Public Offer Underwriter"	the public offer underwriter listed in the paragraph headed "Underwriters" in the section headed "Underwriting" in this prospectus

"Public Offer Underwriting Agreement"	the conditional public offer underwriting agreement dated 14 November 2013 relating to the Public Offer and entered into between, among others, our Company, Mr. Li, Ever Thrive, our executive Directors, the Sole Sponsor, the Sole Bookrunner and the Public Offer Underwriter
"Regulation S"	Regulation S under the U.S. Securities Act
"Renminbi" or "RMB"	Renminbi, the lawful currency of the PRC
"Reorganisation"	the corporate reorganisation of our Group in preparation for the Listing as described in the section headed "History and development" and the paragraph headed "Corporate Reorganisation" in Appendix VI to this prospectus
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	the ordinary share(s) of HK$0.01 each in the share capital of our Company
"Shareholder(s)"	holder(s) of the Share(s)
"Share Offer"	the Public Offer and Placing
"Share Option Scheme"	the share option scheme conditionally adopted by our Company on 7 November 2013, a summary of principal terms of which is set out under the paragraph headed "Share Option Scheme" in Appendix VI to this prospectus
"Shun Sheng"	Shun Sheng Global Limited (順盛環球有限公司), a company incorporated in the BVI with limited liability on 18 January 2012, which principal activities are investment holding, interested in approximately 31.18% of the issued share capital of the Company as at the Latest Practicable Date and whose issued share capital is owned by Shun Sheng Shareholders

"Shun Sheng Individual Shareholders"	the eight (8) individual shareholders of Shun Sheng after completion of the share transfers as described in the paragraph headed "Post-Reorganisation Shareholding Movements" in the section headed "History and development" in this prospectus, namely, Mr. Jin BW, Ms. Liu XL, Ms. Chen X, Mr. Wu, Mr. Jin BH, Mr. Jin JL, Ms. Chen GP and Mr. Tao, all being Independent Third Parties as at the Latest Practicable Date except Ms. Chen X
"Shun Sheng Management Shareholders"	the six (6) management shareholders of Shun Sheng after completion of the share transfers as described in the paragraph headed "Post-Reorganisation Shareholding Movements" in the section headed "History and development" in this prospectus, namely, Mr. Ma, Mr. Li M, Ms. Zhang, Ms. Wen, Mr. Liu XM and Mr. Jin ZF, all being employees of our Group as at the Latest Practicable Date
"Shun Sheng Shareholders"	Shun Sheng Management Shareholders and Shun Sheng Individual Shareholders, their respective shareholdings in Shun Sheng are set out in note 2 of the corporate chart headed "Corporate and shareholding structure upon completion of post-Reorganisation shareholding change" in the section headed "History and development" of this prospectus
"Sole Bookrunner" or "Sole Lead Manager"	Haitong International Securities Company Limited, a licenced corporation to carry on Type 1 (dealing in securities), Type 3 (leveraged foreign exchange trading) and Type 4 (advising on securities) regulated activities for the purpose of SFO, being the sole bookrunner and the sole lead manager of the Share Offer
"Sole Sponsor"	Haitong International Capital Limited, a licenced corporation to carry on Type 6 (advising on corporate finance) regulated activity for the purpose of SFO, being the sole sponsor to the Share Offer
"Stock Borrowing Agreement"	the stock borrowing agreement to be entered between the Sole Bookrunner and Ever Thrive, pursuant to which the stabilising manager may borrow up to 15,000,000 Shares to cover any over-allotment in the Placing
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"subsidiary(ies)"	has the meaning ascribed to it under the Companies Ordinance
"Substantial Shareholder(s)"	has/have the meaning ascribed to it under the Listing Rules
"Track Record Period"	the three financial years ended 31 December 2012 and the six months ended 30 June 2013
"Underwriting Agreements"	the Public Offer Underwriting Agreement and the Placing Underwriting Agreement
"US" or "United States"	the United States of America
"US$" or "US dollar(s)" or "USD"	United States dollars, the lawful currency of the United States
"Yongsheng (BVI)"	Yongsheng Advanced Materials (BVI) Limited (永盛新材料(BVI)有限公司), a company incorporated in the BVI with limited liability on 21 May 2012, a direct wholly-owned subsidiary of our Company
"Yongsheng Chemical Fiber"	Hangzhou Huvis Yongsheng Chemical Fiber Limited* (杭州滙維仕永盛化纖有限公司), a company established in the PRC with limited liability on 28 April 2004 whose registered capital was, as at the Latest Practicable Date, owned as to 70% by Yongsheng Dyeing and 30% by HUVIS, and is an indirect non-wholly-owned subsidiary of our Company
"Yongsheng Dyeing"	Hangzhou Huvis Yongsheng Dyeing and Finishing Company Limited* (杭州滙維仕永盛染整有限公司), a company established in the PRC with limited liability on 8 August 2003, an indirect wholly-owned subsidiary of our Company

* *For identification purposes only*

"Yongsheng Group"	Hangzhou Yongsheng Group Limited* (杭州永盛集團有限公司) (formerly known as Xiaoshan Yongsheng Chemical Fiber Company Limited* (蕭山市永盛化纖有限公司) and Hangzhou Yongsheng Chemical Fiber Company Limited* (杭州永盛化纖有限公司)), a company established in the PRC with limited liability on 13 November 1997 whose registered capital was, as at the Latest Practicable Date, owned by Yongsheng Holdings and Yongsheng Group Individual Shareholders as to approximately 58.33% and 41.67% respectively
"Yongsheng Group Individual Shareholders"	the 19 individual shareholders of (i) Yongsheng Group immediately before the Reorganisation and (ii) Shun Sheng immediately after completion of the Reorganisation but before the post-Reorganisation shareholding movements as described in the paragraph headed "Post-Reorganisation Shareholding Movements" in the section headed "History and development" in this prospectus, their respective shareholdings in Yongsheng Group are set out in note 1 of the corporate chart headed "Corporate and shareholding structure immediately before the Reorganisation" and note 2 of the corporate chart headed "Corporate and shareholding structure upon completion of the Reorganisation" in the section headed "History and development" of this prospectus
"Yongsheng Haiyi"	Hangzhou Yongsheng Haiyi Differential Fiber Fabric Limited* (杭州永盛海一差別化纖維織物有限公司), a company established in the PRC with limited liability on 1 December 2004 whose registered capital was, as at the Latest Practicable Date, owned as to 75% and 25% by Hangzhou Xiaoshan Yongyu Vegetable Products Company Limited* (杭州蕭山永裕蔬菜製品有限公司) and Haeil Corporation Ltd. (株式會社海一), an Independent Third Party as at the Latest Practicable Date
"Yongsheng (HK)"	Yongsheng Advanced Materials (HK) Limited (永盛新材料(香港)有限公司), a company incorporated in Hong Kong with limited liability on 31 May 2012, an indirect wholly-owned subsidiary of our Company

"Yongsheng Holdings"	Hangzhou Yongsheng Holdings Limited* (杭州永盛控股有限公司), a company established in the PRC with limited liability on 19 November 2004 whose registered capital was, as at the Latest Practicable Date, owned as to 90%, 5% and 5% by Mr. Li, Mr. Li WH and Ms. Li CY respectively
"Yongsheng Trading (HK)"	Yongsheng (HK) International Co., Limited (永盛(香港)國際有限公司), a company incorporated in Hong Kong with limited liability on 29 November 2005, an indirect wholly-owned subsidiary of our Company
"Yongsheng Trading (HK) Management Shareholders"	the directors of Yongsheng Trading (HK) and its previous individual shareholders before completion of the Reorganisation, namely, Mr. Zhang Peidong (張沛東), Ms. Poon Mei Yuk (潘美玉), Ms. Zhang, Ms. Li CY and Ms. Chen Jun Shang (陳君賞)
"Yongsheng Weaving"	Hangzhou Yongsheng Weaving Limited* (杭州永盛紡織有限公司), a company established in the PRC with limited liability on 11 June 1999 and deregistered on 22 March 2013
"Yongzhuo Chemical Fiber"	Hangzhou Yongzhuo Chemical Fiber Limited* (杭州永卓化纖有限公司), a company established in the PRC with limited liability on 4 December 2001 and deregistered on 22 March 2013
"%"	per cent

* *For identification purposes only*

This glossary contains explanations of certain terms used in this prospectus in connection with our Company and our business. These terminologies and their given meanings may not correspond to those standard meanings and usage adopted in the industry.

"CEY"	classic elite yarn, a form of differentiated polyester filament yarn with added latent crimp stretch and sensitivity of dry wool, which could be used by fabric and textile manufacturers for production of, among others, suits, jackets, skirts, trousers, blouses and dresses
"denier" or "linear density" or "D"	a unit of measuring fines of yarn; and one denier means the yarn weighs one gram per 9,000 metres, which directly affects the hand feel of the textile produced. The higher the denier number, the coarser the fabric, and the lower the denier number, the finer the fabric
"denim"	a kind of fabric woven from coloured warp and white weft used for trousers, work clothes, etc.
"differentiated polyester fabric"	fabric made from differentiated polyester filament yarn
"differentiated polyester filament yarn"	a term recognised by the textile and polyester filament yarn industry, which means polyester filament yarn with special properties and functionalities, of which the differentiation is achieved through diversifying the chemical components of the filament or through changing the shape or linear density of the filament. It is less commonly produced and consumed in the market than regular polyester filament yarn and typically have higher prices than regular polyester filament yarn. It can be used to make functional polyester fabric such as ultra-bright fabric, micro denier fabric and fine denier fabric which can be applied to different consumer products, such as suits and undergarments. When used in the description of our business, operations or production, we classify differentiated polyester filament yarn as those polyester filament yarn produced by us other than regular polyester filament yarn
"drawing" or "drawn"	stretching, i.e. the physical process of arranging macromolecular polyester in order under external force

"DTY"	drawn textured yarn, a type of polyester filament yarn with cotton-like texture, which has among other qualities, comfortable hand feel and quick drying function. It is typically used to produce consumer products such as high-end apparel, sports shoes and home furnishings
"DW"	drawn winder, a type of polyester filament yarn with wool-like texture, which has among other qualities, high elasticity and drape well. It is typically used to produce consumer products such as high-end women apparel
"fabric"	semi-product made by, among others, weaving or knitting
"FDY"	fully drawn yarn, a type of highly drawn polyester filament yarn with silk-like or leather-like texture, which can be used to produce strength fabric. It is typically used to produce consumer products such as high-end undergarments, sportswear and home furnishings
"fiber"	filaments collectively, or matter or material composed of filaments
"filament"	a single fibril of natural or synthetic textile fiber, of indefinite length
"filament count" or "f"	represents the number of filaments composing a polyester filament yarn, which directly affects the softness of the textile produced. The higher the filament count, the softer the fabric
"ISO9001"	the international standards of quality management and quality assurance formulated by ISO Technical Committee 176 (ISO/TC 176)
"ISO14001"	the international standards of environmental management formulated by ISO Technical Committee 207 (ISO/TC 207)
"MEG"	mono ethylene glycol, an organic compound which is used as a main raw material in producing polyester
"nylon"	a lightweight, quick-drying, stretchy, durable and easy-care synthetic fiber

"nylon chips"	nylon in the form of particles and chips
"OTEX-100"	a globally uniform testing and certification system for textile raw materials, intermediate and end products at all stages of production. There are four Oeko-Tex product classes based on a product's intended use. The more intensively a product comes into contact with the skin, the stricter the human ecological requirements it must satisfy. Manufacturers are entitled to mark successfully tested products or article groups with the Oeko-Tex label and to advertise in other forms as long as it has been proven within the extensive laboratory tests that all components, including accessories, comply with the specified test criteria without exception. A certificate, once issued, is valid for one year and can be renewed as often as required
"PET"	polyethylene terephthalate, an organic compound which is used in producing polyester filament yarn and other products such as plastic containers and bottles
"PET chips"	PET in the form of particles and chips
"polyester"	synthetic polymer formed by the reaction between two petrochemical derivatives, namely PTA, an organic acid and MEG, an organic alcohol
"polyester filament yarn"	polyester filament yarn is synthetic yarn formed through the spinning process or spinning and texturing process by using PET chips. When used in the description of our business, operations or productions, the term refers to all of the polyester filament yarn produced by us, including DTY, FDY and POY
"polyester melt"	PET chips in molten form, which is to be used for spinning
"POY"	partially oriented yarn, a type of polyester filament yarn yet to be processed through the drawing process, which is a semi-product and can be used to produce DTY and FDY

"PTA"	purified terephthalic acid, an organic compound which is used as a main raw material in producing polyester
"regular polyester filament yarn"	a term recognised by the textile and polyester filament yarn industry, which means polyester filament yarn directly spun from polymerising melt without adding any extra chemical component or changing the shape or linear density of the filament
"REN"	a form of differentiated polyester filament yarn, with the appearance and touch of wool and features softness, proper volume, elasticity and drapes well, which could be used by fabric and textile manufacturers for production of, among others, men's suits and women's dresses
"SPH"	a form of differentiated polyester filament yarn, which could be used by fabric and textile manufacturers for production of, among others, men's dress shirts and pants and women's dresses
"spinning" or "spinning process"	in the context of polyester filament yarn production, refers to the process of extrusion of polyester melt through a spinnerette and solidification of filaments
"spinnerette"	the component of a spinning machine which is a metal nozzle having fine holes on it through which polyester melt is extruded to form polyester filaments which are further drawn and combined into polyester filament yarn
"SSY"	a form of differentiated polyester filament yarn, which could be used by fabric and textile manufacturers for production of, among others, tailoring suits, jackets, trousers, casual jackets and knit apparel
"synthetic yarn"	yarn produced from synthetic fibers
"textile industry"	activities primarily concerned with the production of yarn and cloth, and the subsequent design or manufacture of garment and home furnishing product

"texturing process"	a process used to produce DTY from POY, which gives DTY a fluffy appearance by drawing and twisting the yarn and gives it the properties of elasticity and stretchy
"tonne"	metric tonne(s)
"tpa"	tonne(s) per annum
"yarn"	a long, continuous length of interlocked fibers used to construct fabric. As used in this prospectus, yarn includes natural yarn and synthetic yarn

This prospectus contains forward-looking statements that state our Group's intention, belief, expectation or prediction for the future that are, by their nature, subject to significant risks and uncertainties.

These forward-looking statements include, without limitation, statements relating to:-

– the industry regulatory environment as well as the industry outlook in general;

– the amount and nature of, and potential for, future development of our Group's business;

– our Group's business objectives and strategies;

– our Group's capital expenditure plans;

– our Group's operations and business prospects; and

– our Group's future plans.

The words "believe", "intend", "anticipate", "estimate", "plan", "potential", "will", "would", "may", "should", "expect", "seek" and similar expressions, as they relate to our Group, are intended to identify a number of these forward-looking statements. All statements (other than statements of historical facts included in this prospectus), including statements regarding our Group's strategy, plans and objectives of management for future operations, are forward-looking statements. These forward-looking statements reflect our current view with respect to future events, but they are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risks factors as disclosed under the section headed "Risk Factors" and elsewhere in this prospectus. One or more of these risks or uncertainties may materialise, or the underlying assumptions may prove to be incorrect. Although our Directors believe that our current views as reflected in those forward-looking statements based on currently available information are reasonable and that our Directors have exercised due care in expressing our vies, including the forward-looking statements, in this prospectus, we can give no assurance that those views will prove to be correct, and the investors are cautioned not to place undue reliance on such statements.

Subject to the requirements of the Listing Rules or the applicable laws, we undertake no obligation to publicly update or revise any forward-looking statements contained in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

Potential investors should consider carefully all the information set out in this prospectus and, in particular, should evaluate the following risks associated with an investment in our Company before making any investment decision regarding our Company. You should pay particular attention to the fact that our Company is incorporated in the Cayman Islands and our Group has operations conducted outside Hong Kong and is governed by a legal and regulatory environment which in some respects may differ from that in Hong Kong. Any of the risks and uncertainties described below could have a material adverse effect on our business, results of operations, financial condition or on the trading price of our Shares, and could cause you to lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

Our financial performance in our trading business may be negatively affected by fluctuations in prices of textile-related products

Our business and profitability in the trading business may be affected by fluctuation in the prices of textile-related products that we trade. Cost of sales of our trading business mainly comprise of the cost of textile-related products, which includes cotton, PET chips/nylon chips, PTA and MEG. Cost of sales of our trading business accounted for approximately 78.9%, 77.1%, 81.7% and 83.9%, respectively, of our Group's total cost of sales for each of the three years ended 31 December 2012 and the six months ended 30 June 2013. The market price of cotton is affected by the various factors including domestic and foreign demand and harvest. As PET chips/nylon chips, PTA and MEG are downstream semi-products derived from crude oil in the supply chain, prices of these raw materials would be affected by the fluctuations in price of crude oil. Certain other factors may also impact the prices of the aforesaid raw materials, including market demand, global economic and financial conditions and the PRC governmental policy on the aforesaid raw materials. For the fluctuation in the historical price and the estimated price trend of (i) cotton, PET chips/nylon chips, PTA and MEG; and (ii) crude oil, please refer to the sub-paragraphs headed (i) "Price trend of cotton, MEG, PTA, nylon chips and PET chips in China" and (ii) "Price of crude oil in China" respectively in the section headed "Industry overview".

Average market prices of cotton, MEG, PTA, nylon chips and PET chips (further details are set out in the sub-paragraph headed "Price trend of cotton, MEG, PTA, nylon chips and PET chips in China" under the section headed "Industry Overview" in this prospectus) and our Group's revenue and gross profit generated from our trading business during the Track Record Period are summarised as follows:

	2010	2011	Compared to 2010	2012	Compared to 2011
Average market price *(RMB/tonne)*					
Cotton	19,374	23,844	23.1%	18,916	-20.7%
MEG	7,380	9,167	24.2%	7,763	-15.3%
PTA	8,053	9,875	22.6%	8,313	-15.8%
Nylon chips	22,154	29,218	31.9%	21,973	-24.8%
PET chips	10,093	12,341	22.3%	10,190	-17.4%
Trading Business *(RMB million)*					
Revenue	1,232	1,559	26.6%	1,755	12.6%
Gross profit	105	76		37	
Gross profit margin (%)	*8.5%*	*4.8%*		*2.1%*	

Impact on revenue of trading business

As illustrated in the table above, our Group's revenue from trading business increased in 2011, which was in line with the rise in average market price of cotton and other textile-related products in the same period.

Average unit sales price of our Group's various textile-related products dropped in 2012, which was again in line with the drop in average market price of textile-related products in the same period. However, the drop in average unit sales price was offset by the increase in quantity sold for PTA and PET chips/nylon chips. The revenue of PTA and PET chips/nylon chips accounted for approximately 34.4% and 11.5%, respectively, of our Group's trading revenue in 2012. As such, our Group's trading revenue in 2012 rose moderately, despite the drop in average unit sales price.

Impact on gross profit margin of trading business

Market prices of textile-related products rose in the first half of 2011 and then dropped in the second half of the year. Since part of our inventory was purchased in the first half of 2011 at higher prices, the drop in market prices in the second half of the year resulted in narrower gross profit margin of our trading business.

Market price of textile-related products continued to drop in the first half of 2012 and then stabilised in the second half of the year. The drop in gross profit margin of our trading business in 2012 was consistent with the movement of market price of textile-related products in the same period.

For our trading business, there exists a risk that we purchase the textile-related products at peak market price, while the market price for such products subsequently slump due to factors beyond our control including change of market trend and demand. In these circumstances, we may not be able to sell the textile-related products with profits or at all. We may record negative profit margin for our textile-related products for our sales at loss. In such event, our business, financial condition, results of operations and growth prospects may be materially and adversely affected.

Our financial performance in our production and processing segments may be affected by fluctuations in raw material prices as we may not always be able to pass on the increase in raw material costs to our customers

Our business and profitability in our production and processing segments may be affected by fluctuations in the prices of raw materials. In relation to our polyester filament yarn production, POY, FDY, PET chips and nylon chips are our primary raw materials for the production of polyester filament yarn. The total cost of raw materials of our polyester filament yarn production business accounted for approximately 85.9%, 84.5%, 79.6% and 82.6% of our total cost of sales of the aforesaid segment for each of the three years ended 31 December 2012 and the six months ended 30 June 2013, respectively. For the fluctuation in historical price and the estimated price trend of PET chips and nylon chips, please refer to the sub-paragraph headed "Price trend of cotton, MEG, PTA, nylon chips and PET chips in China" in the section headed "Industry overview" in this prospectus. Certain other factors may also impact the prices of the aforesaid raw materials, including market demand, global economic and financial conditions and the PRC governmental policy on the aforesaid raw materials. For illustration purposes, as disclosed in the paragraph headed "Sensitivity analysis for net profit" under the section headed "Financial information" in this prospectus, in the event the prices of our raw materials used in production of polyester filament yarn increase/decrease by 34% but assuming constant selling price, our net profit would decrease/increase by approximately RMB66.1 million, RMB101.7 million, RMB82.2 million and RMB36.2 million for each of the three years ended 31 December 2012 and the six months ended 30 June 2013 respectively, representing a decrease/increase in net profit of approximately 79.7%, 169.5%, 249.3% and 187.7%. During the Track Record Period, the average cost of raw materials used in production of polyester filament yarn increased by approximately 33.7% in 2011, decreased by approximately 15.8% in 2012, and increased by approximately 1.8% from the six months ended 30 June 2012 to the six months ended 30 June 2013.

Our primary raw material for dyeing and processing business is differentiated polyester fabric. For each of the three years ended 31 December 2012 and the six months ended 30 June 2013, the cost of raw materials accounted for approximately 29.6%, 18.7%, 16.2% and 24.2%, respectively, of our total cost of sales of the aforesaid segment. The price of differentiated polyester fabric is affected by the costs of the polyester filament yarn, product quality, demand and supply of the products.

If the market prices of our products and services fail to timely respond to the change of raw material prices, we may not be able to pass on the increase in the prices of raw materials to our customers and sell our products or provide our services at prices acceptable to our customers. There is no guarantee that we will be able to pass all or any of the increased raw materials costs to our customers in a timely manner or at all. An increase in raw material prices that we are unable to pass to our customers will increase our cost of sales and materially and adversely affect our profit margin. In such event, our business, financial condition, results of operations and growth prospects may be materially and adversely affected.

Deteriorating business performance of regular polyester filament yarn production and trading segment may affect our financial conditions

During the Track Record Period, our Group's sales of regular polyester filament yarn accounted for approximately 13%, 14%, 8% and 3% of our total revenue respectively, with gross profit margin of 0.3%, -1.1%, -1.9% and 2.1% respectively. Although we expect to expand into the differentiated polyester filament yarn business which generates higher gross profit margin, the sales of differentiated polyester filament yarn accounted for approximately 2%, 4%, 7% and 11% of our Group's total revenue during the Track Record Period. During the Track Record Period, trading revenue represented approximately 78.7%, 76.5%, 79.4% and 80.6% of our Group's total revenue. Our Group's trading gross profit and gross profit margin decreased from RMB104.9 million and 8.5% in 2010 to RMB75.6 million and 4.8% in 2011, and to RMB37.1 million and 2.1% in 2012. Trading gross profit and gross profit margin decreased from RMB17.9 million and 1.7% for the six months ended 30 June 2012 to RMB14.1 million and 1.6% for the six months ended 30 June 2013. For further details of the revenue breakdown of each of our business segment, please refer to the section headed "Financial Information" in the prospectus.

Although our Group is aiming to focus our sales on differentiated polyester filament yarn rather than regular polyester filament yarn, we cannot assure that our focus on sales of differentiated polyester filament yarn could be successful, and that we may continue to rely on sales of regular polyester filament yarn which yields lower profit margin and have yielded negative gross margin during the Track Record Period, and which gross profit margin may fluctuate. Further, our trading of textile-related products is subject to the market trend and price fluctuation of raw materials, which would affect the gross profit margin of our trading segment, and we cannot assure you that gross profit and gross profit margin of our trading segment may not continue to decline. In the event that we would need to continue to focus on sales of regular polyester filament yarn, which yields lower profit margin, and that trading gross profit margin continues to decline due to market trend, our operations, financial and business conditions may be adversely affected.

We generally do not enter into long-term contracts with our customers and are thus subject to uncertainty and potential volatility with respect to our revenue from time to time

In general, we enter into individual sales and processing orders with our customers for sales of our products or provision of processing service and we do not have long-term contracts with them. If our customers decide not to purchase any of our products, change any of their suppliers or propose new terms unacceptable to us, change their business models, change the raw materials or processing service used in their production, sales of our products or our processing services may significantly decrease if we are unable to find alternative customers in a timely manner. In such event, our business, financial condition, results of operations and growth prospects may be adversely affected.

Our research and development of new types of differentiated polyester filament yarn and dyeing and processing techniques may not be successful and our newly-developed products may fail to achieve our desired results

The constant development of new differentiated polyester filament yarn with various features and applications and dyeing and processing techniques is crucial to our ability to adjust to changes in market demands and trends and to enhance our competitiveness in the future. Please refer to the paragraph headed "Research and development" in the section headed "Business" in this prospectus for further details.

We rely on our research and development team to develop these new products or techniques. However, we cannot assure you that we will be successful in developing products or techniques for producing new products with the desired features or market demand, or that such research and development plans may be completed within our desired time frame and budget. In addition, by the time a new product or technique is developed, the market demand for such new product or technique may already have changed and our new product or technique may not be popular. If we fail to achieve successful results in our research and development efforts, or if the market demand for our new products or technique falls short of our expectation, we may have to stop producing such products or using such processing technique. The decrease in our sales of such products or processing services may also lead to lower profit. In such event, our financial condition, results of operations and growth prospects may be materially and adversely affected.

Reliance on key management personnel may impose risks on our Group

We believe that our performance and success is, to a certain extent, attributable to the extensive industry knowledge and experience of our management team. Most of our senior management team and executive Directors have an average of more than 10 years experience in the textile industry. In particular, Mr. Li and Mr. Zhao, our executive Directors, have over 20 years of experience in the textile and trading industry and over 25 years of experience in the textile industry respectively. For further details regarding the experience of our management team, please refer to the section headed "Directors, senior management and employees" in this prospectus.

Our continued success is dependent, to a large extent, on the ability to attract and retain the services of the key management team. We believe that an experienced management team as well as dedicated staff members will contribute significantly to our future growth. However, competition for senior management and key personnel in our industry is intense and the pool of qualified candidates is limited. We may not be able to retain the services of our Directors and members of senior management or other key personnel, or attract and retain high-quality personnel in the future. We cannot assure you that we will not experience difficulty in retaining key management in the future. If any of our key management personnel departs from us, and we are not able to recruit a suitable replacement with comparable experience and qualifications to join us on a timely basis, our business, operations and financial condition may be materially and adversely affected.

We may not be successful in effectively and efficiently implementing our business plans and we may not achieve our desired results from the implementation of such plans

We seek to maintain our position in the trading of textile-related products business, the dyeing and processing of differentiated polyester fabric business as well as the regular and differentiated polyester filament yarn production business in China and continue to increase our market share. Please refer to the paragraph headed "Business strategies" in the section headed "Business" in the prospectus for further details.

The implementation of these business plans requires us to effectively and efficiently manage our sales, marketing, procurement, construction and other aspects of our operations. If we fail to effectively and efficiently implement our business plans, or if we fail to anticipate customers' needs and market demand accurately, we may not be successful in achieving desirable and profitable results. Even if we effectively and efficiently implement our business plans, we may still be subject to various operational risks and we cannot guarantee that there will not be (i) any failure to operate at the expected designed capacity or efficiency; (ii) any insufficiency in purchase or processing orders for our products or service or supply for the raw materials for our additional production capacity; (iii) any difficulties in recruiting and retaining adequate skilled and experienced staff with technical expertise; or (iv) any other unexpected events or factors beyond our control. Any event of such kind may prevent us from achieving the desirable and profitable results from the implementation of our business plans and may have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Our inability to adequately protect our proprietary technology and intellectual property rights could have a material adverse effect on our business

We value intellectual property rights and strive to protect our patents, trademarks, and unregistered intellectual property rights, such as trade secrets, technologies, know-how, processes and other intellectual property rights developed by us. The success of our business depends on our ability to protect our know-how and our intellectual property portfolio. To protect our intellectual property rights, we have registered and applied for the PRC patents and registered trademarks. However, we cannot assure you that our efforts to protect our intellectual property rights are sufficient, that our trademarks application will be granted, or that our intellectual property rights will not be misappropriated or otherwise infringed by third parties in the future in any or all jurisdictions in which we operate our business. In addition, the intellectual property laws in the PRC, where most of our business is carried out, are still developing and may not protect intellectual property rights to the same extent as similar laws of Hong Kong. If we do not effectively protect our know-how and intellectual property, our business and operating results could be adversely affected.

Our trading business is reliant on third parties on provision and purchase of textile-related products and any termination on the provision or purchase of textile-related products could have a material adverse effect on our business

In relation to our trading business, we mainly source textile-related products including cotton, PET chips/nylon chips, PTA, MEG, wood pulp and cotton pulp from suppliers, and sell these materials to our customers. We are reliant on our suppliers and customers on provision and purchase of these textile-related products. If our suppliers fail to or delay the supply or our customers terminate agreements with us, we might not be able to provide textile-related products to our customers on time or at all or we may not be able to sell our textile-related products. Even though we are involved in the production of polyester filament yarn, substantial amount of the textile-related products sourced and sold by us in our trading business, i.e. cotton, PTA, MEG, wood pulp and cotton pulp are not raw materials of polyester filament yarn and cannot be used in our production. Hence, any termination or breach of agreements between our suppliers or customers and us could have an adverse effect on our business, results of operations and financial condition.

Our insurance coverage may be insufficient to cover for all the risks related to our operations

Our operations are subject to various operational risks beyond our control that could result in material disruptions and adversely affect our results of operations, including:

- interruptions caused by operational errors, electricity outages, raw materials shortages, the failure of equipment and other production risks;
- operating limitations imposed by environmental or other regulatory requirements;
- social, political and labour unrest;
- environmental or industrial accidents; and
- catastrophic events such as wars, riots, power outage, public disorder, civil commotions, fires, earthquakes, floods and other natural calamities, epidemics, terrorism, whether locally or nationwide, or incidents such as industrial accidents, strikes or other labour disputes and disruptions of public infrastructure, such as roads, ports or utilities.

As of the Latest Practicable Date, we maintain comprehensive property insurance on primarily all of our production and processing facilities in our sites and the vehicles used in our operations. We also cannot assure you that casualties or accidents will not occur or that our insurance coverage would be sufficient to cover all our potential losses associated with major accidents. In the event that our insurance policies cannot sufficiently compensate for our losses sustained as a result of damage to items covered or howsoever incurred, we would have to pay for the difference ourselves and our cash flow and liquidity could be adversely affected.

Failure to maintain an effective quality control system may result in loss of profit

The performance and quality of our products are critical to the success of our business. These factors depend significantly on the effectiveness of our quality control systems, which in turn, depend on a number of factors, including the design of the systems, the quality of the training programme, and our ability to ensure that our employees adhere to our quality control policies and guidelines. Any significant failure or deterioration of our quality control systems could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

We believe the recognitions and certifications we have received relating to our environmental and quality management standards, including ISO9001:2008 and ISO14001:2004, have been significant contributor to our overall success. Accordingly, any significant failure or deterioration of our quality control systems could result in us losing such recognitions and certifications, which in turn could have a material adverse effect on our reputation and growth prospects.

An increase in the cost of labour may adversely affect our business, financial condition, results of operations and growth prospects

We rely on our employees to carry out production and provision of services and other operating activities. The labour costs in the PRC have been gradually increasing in recent years and may continue to increase in the future. There is no guarantee that our supply of labour and labour cost will continue to be stable. If we fail to retain our existing labour and/or recruit sufficient labour in a timely manner, we may not be able to accommodate sudden increase in demand for our products, services or our expansion plans. If we are not able to carry out production or provision of services on schedule or if we are unable to implement our expansion plans, our business, financial condition, results of operations and prospects would be materially and adversely affected. Furthermore, if there is a significant increase in labour cost, the cost of our business operation would increase and our profitability would be adversely affected.

We may face disruptions in our production or processing

Our revenue is dependent on the continued operation of our production and processing facilities. Our production and processing operations are subject to operational risks beyond our control including, amongst others, fire, breakdown, failure or substandard performance of our equipment and machinery, power shortage, labour strikes, natural disasters and any interruption in our operations as a result of any failure to comply with all applicable laws, regulations and standards in the PRC. Frequent or prolonged occurrence of any of the aforesaid events may have a material adverse effect on our business, financial condition and results of operation. If there is any damage to our production or processing facilities, we may not be able to remedy such situations in a timely and proper manner, and our production or processing operations and hence our ability to provide our services in a timely manner could be materially and adversely affected. Any breakdown or malfunction of any of our equipment could cause a material disruption of our operations. Any such disruption in our operations could cause us to reduce or halt our operations, adversely affect our business reputation, increase our costs of production or processing or require us to make unplanned capital expenditures, any one of which could materially and adversely affect our business, financial condition and results of operations.

We have had net current liabilities at times during the Track Record Period

Our net current liabilities as at 31 December 2010 were approximately RMB47.9 million, primarily due to the additional investment in property, plant and equipment of approximately RMB44.9 million as we established Nantong Yongsheng and made substantial investment in fixed assets during 2010. Please see the paragraph headed "Working capital" under the section headed "Financial information" in this prospectus for further details. We cannot assure you that we will not experience periods of net current liabilities in the future. A net current liabilities position would expose us to liquidity risks. There can be no assurance that we will not record a net current liabilities position in the future due to other reasons, including the risk factors disclosed under this section of this prospectus. If we have net current liabilities in the future, our working capital may be constrained and we may be forced to seek additional external financing, which may not be available at commercially reasonable terms or at all. Any such development could materially and adversely affect our business, results of operations and financial condition.

We invested in wealth management products in RMB and had bank borrowings denominated in USD and Euro during the Track Record Period

During the Track Record Period, our Group invested in wealth management products. The offering of wealth management products with high interest rate from PRC commercial banks is to encourage our Group to borrow loans denominated in foreign currency to settle our trade payable balance. Our Group also recorded significant net foreign exchange loss in 2012 due to the bank borrowings denominated in USD and Euro. For further details, please refer to the section headed "Financial Information" in the prospectus.

The value of our RMB deposit will be subject to the risk of exchange rate fluctuation. If we choose to convert our RMB deposit to other currencies at an exchange rate that is less favourable than the exchange rate in which we made our original conversion to RMB, we may suffer loss in principal. Furthermore, RMB is not freely convertible and subject to regulatory restrictions (which might be changed from time to time). We also face the risk of borrowing in a foreign currency by that we must pay the loan back in the foreign currency. In the event we borrow in a foreign currency and our own currency (i.e. RMB) weakens against the currency in which we have borrowed, in other words, when the local currency depreciates against the one in which we have borrowed, paying back the borrowed money would be more expensive. We would need to raise money in the borrowed currency to pay it back. In the event that there is any exchange rate fluctuation and depreciation of RMB against foreign currencies, our financial conditions may be adversely affected.

We have previously entered into certain bill arrangements with PRC commercial banks and such arrangements were not in compliance with the relevant PRC laws

During the Track Record Period, six commercial banks in the PRC ("**Endorsing Banks**") requested Yongsheng Group (the trading business of which is part of our business operations at the relevant time prior to the completion of the Reorganisation), Hangzhou Yongsheng Trading and Yongsheng Chemical Fiber ("**Depositors**") to deposit certain amount as fixed deposit ("**Fixed Deposit**") in the Endorsing Banks in order to increase the business amount of the Endorsing Banks. Due to the Depositors' intention to maintain a long term business relationship with the Endorsing Banks, the Depositors have agreed to the arrangement and the Depositors had deposited the Fixed Deposit in the Endorsing Banks.

As the Fixed Deposit placed at the Endorsing Banks could not be utilised for a certain period by the Depositors, the Depositors decided to enter into non-compliant bill arrangement in order to gain access to the Fixed Deposit. Details of these arrangements are set out in the paragraph headed "Non-compliant Bill Arrangement" in the section headed "Business" of this prospectus.

We have ceased entering into any further non-compliant bill arrangement transactions since October 2011 and all related bank acceptance notes involved in such non-compliant bill arrangement were fully settled on or before April 2012. However, we cannot assure you that the relevant regulatory authorities will not impose penalties and/or sue us retrospectively for the previous non-compliant bill arrangements. Any such penalties and/or fines could adversely affect our business, financial condition and results of operations.

Non-compliance with PRC social insurance and housing provident fund contribution requirements could lead to the imposition of fines or penalties

According to the relevant PRC laws and regulations, we are required to contribute to employee social welfare schemes, such as basic pension insurance, basic medical insurance, unemployment insurance, maternity insurance, occupational injury insurance and housing provident fund for our employees. During the Track Record Period, we did not make full social insurance and housing provident fund contributions for all of our employees. We estimate that the aggregate underpaid amount by our Group to the housing provident fund authority for each of the three years ended 31 December 2012 and the six months ended 30 June 2013 would be approximately RMB593,000, RMB812,000, RMB768,000 and RMB90,000, respectively. For each of the three years ended 31 December 2012 and the six months ended 30 June 2013, the estimated aggregate underpaid amounts of social insurance contributions payable by our Group were approximately RMB528,000, RMB629,000, RMB574,000 and RMB122,000, respectively.

There is no assurance that we will not be required to make up for any historical underpaid contributions or will not be subject to penalties imposed by local authorities in accordance with the relevant PRC laws and regulations which, in either or both cases, could adversely affect our financial results. We may also face proceedings or claims brought by our employees concerned for the outstanding payments. We cannot assure you that there will be no claims by the relevant employees regarding payment of the social insurance and housing provident fund contributions, or there will be no imposition of fines or penalties by the relevant government authorities relating to disputes about payment of these insurances in the future, and that we will not be required to pay such social insurance and housing provident fund or any related damages in the future. For further details, please refer to the paragraph headed "Non-compliance with PRC social insurance and housing provident fund contribution requirements" under the section headed "Business" of this prospectus.

RISKS RELATING TO OUR INDUSTRY

The polyester filament yarn industry, fabric dyeing and processing industry and textile-related products trading industry can be affected by the market demand for products manufactured in downstream industries and macroeconomic conditions

The performance of the polyester filament yarn industry, fabric dyeing and processing industry and textile-related products trading industry are affected by the performance of the textile industry in general. If there is a decrease in the market demand in the products of the textile industry or otherwise it faces difficulties, such would lead to a lower demand for our polyester filament yarn, dyeing and processing service and our textile-related products, hence the sales and prices of our products and service may be negatively affected. In addition, the polyester filament yarn industry, fabric dyeing and processing industry and textile-related products trading industry, like other industries, may be affected by macroeconomic conditions, and may experience a slowdown in growth during economic downturn. In such event, our financial condition, results of operations and growth prospects may be materially and adversely affected.

We operate in a highly competitive industry and failure to compete efficiently could materially and adversely affect our business

We operate in a highly competitive industry. In particular, competition among polyester filament yarn manufacturers in the PRC is intense. Our competitors include domestic and international manufacturers of differentiated polyester filament yarn and numerous companies which produce more common types of polyester filament yarn. We expect that competition in the polyester filament yarn market will continue to be intense. Some of these competitors may have stronger brand names, greater access to capital, longer operating histories, longer or more established relationships with their customers, and greater marketing and other resources than we do. Furthermore, some of these competitors may be able to adapt to changes in the industry more quickly than we can by adopting more aggressive pricing policies or by developing technology and services that gain wider market acceptance. Due to the evolving markets in which we compete, additional competitors with significant market presence and financial resources may enter those markets, and thereby intensify the competition. Increased competition from existing and potential competitors could result in material price reductions in the products we sell or a decrease in our market share. In such event, if we fail to maintain or improve our market position or fail to respond successfully to changes in the competitive landscape, our business, financial condition, results of operations and growth prospects may be materially and adversely affected.

Our polyester filament yarn and processed differentiated polyester fabric may be rendered less competitive or obsolete by other yarn products and processed fabric

Polyester filament yarn is synthetic yarn made from chemical compounds which are primarily derived from crude oil. It is used primarily in the production of fabric and textile which is then sold to manufacturers of textile consumer goods. With its improved wrinkle resistance, durability and high colour retention, they have been used in many areas which were traditionally dominated by natural yarn in the past decades. Polyester filament yarn competes with natural yarn, such as that made from cotton, wool and silk. However, changes in consumer preferences or a rise in the prices and/or a decline in the availability of crude oil, a key material used to manufacture polyester filament yarn, could have a negative impact on the demand for our polyester filament yarn. As our processed differentiated polyester fabric is being dyed and processed from fabric that are made from differentiated polyester filament yarn, a negative impact on the demand in the polyester filament yarn industry would subsequently have an adverse impact on our processed differentiated polyester fabric as well. In addition, if the prices for natural yarn decline or if there are significant technological advances in the weaving and spinning of natural yarn, our polyester filament yarn as well as processed differentiated polyester fabric could be rendered less competitive or even obsolete. In the event that our polyester filament yarn as well as processed differentiated polyester fabric are rendered less competitive or obsolete by other yarn and other fabric, our financial condition, results of operations and growth prospects may be materially and adversely affected.

The PRC environmental laws and regulations may change and our environmental compliance liabilities and costs may increase

Our Group generates certain level of pollutants and wastes in its production and processing process, its operations are subject to periodic inspections by the relevant PRC environmental protection authority. The discharge, storage and disposal of pollutants and wastes are subject to prevailing market environmental laws and regulations in the PRC. The PRC laws and regulations relating to environmental protection at both national and local levels impose fines for over-discharge of pollutants, levy fines for causing pollution, and require closure of any facility which causes serious environmental problems. Non-compliance with such PRC laws and regulations relating to environmental protection may, depending on the seriousness of the circumstances, result in an order for rectification from the authorities, penalties or an order to suspend production.

RISKS RELATING TO CONDUCTING OUR OPERATIONS IN THE PRC

The political, social and economic conditions in the PRC may adversely affect our business

The PRC economy differs from the economies of most developed countries in many respects, including structure, government involvement, level of development, economic growth rate, control over foreign exchange, allocation of resources and balance of payment position. We cannot predict whether changes in the economic, political and social conditions in the PRC will lead to continued growth or whether any such growth will be in a geographic region or economic sector beneficial to us. As we derive our revenue mainly from the PRC, we depend heavily on general economic conditions in the PRC for our continued growth. Therefore, if the PRC's economic growth slows down or if the PRC economy experiences a recession, the growth in demand for our products or services may be reduced or become minimal, and thus may have a material and adverse effect on our business, financial condition and results of operations.

Demand for our products or services may be affected by a variety of social and economic factors, some of which may be beyond our control, including:

- political instability or changes in social conditions in the PRC;
- changes in laws and regulations or in the interpretation of laws and regulations;
- measures introduced to control inflation or deflation;
- changes in the rate or method of taxation;
- imposition of additional restrictions on currency conversion and remittances abroad; and
- fluctuations in the foreign exchange rate.

Any significant change in any of the above or other factors may have a material adverse effect on our business, financial condition and results of operations. For more information on the relevant PRC regulations, please refer to the section headed "Regulatory Overview" in this prospectus.

There are uncertainties associated with the implementation, interpretation and enforcement of the PRC legal system

Our PRC Subsidiaries are governed by the PRC laws. The PRC is a civil law jurisdiction based on written codes and statutes. The implementation, interpretation and enforcement of these statutes may involve greater uncertainty compared to those in the common law jurisdictions due to a relatively short legislative history and the limited number and non-binding nature of court cases. In addition, litigation in the PRC may be protracted and result in substantial legal costs and the diversion of our resources and the attention of our management. Similarly, legal uncertainty in the PRC may limit the legal protections available to potential investors. We cannot predict the effects of future legal developments in the PRC, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws. As a result, there is substantial uncertainty as to the legal protection available to potential investors.

Our revenue is denominated in Renminbi, which is not freely convertible for capital account transactions and may be subject to exchange rate volatility

We require access to foreign currency to pay dividends to our Shareholders. However, our revenue is substantially denominated in Renminbi, which currently is not a freely convertible currency. Under the PRC foreign exchange rules and regulations, payments of current account items, including profit distributions, interest payments and expenditures related to business operations, are permitted to be made in foreign currencies without prior government approval but are subject to some procedural requirements. Strict foreign exchange controls continue to apply to capital account transactions. Pursuant to the Foreign Exchange Control Regulations of the PRC (中華人民共和國外匯管理條例), only foreign exchange receipts for capital account transactions are to be retained at or sold to financial institutions engaged in settlement or sale of foreign exchange shall be subject to approval of foreign exchange control. Domestic institutions or individuals that make direct investment abroad or are engaged in distribution or deal of overseas valuable securities or derivative products or borrow external debts or provide external guaranty or any other capital account transactions shall be subject to filing application or approval. As a result of these controls, we cannot assure you that we will be able to meet all of our foreign currency obligations or to remit profits to our Shareholders in the form of dividends.

The value of the Renminbi depends to a large extent on the PRC's domestic and international economic, financial and political conditions and government policies, as well as the local and international currency markets. On 21 July 2005, the People's Bank of China announced that it ceased to peg the Renminbi solely to the US dollar. Instead, the Renminbi is now pegged to a basket of currencies as determined by the People's Bank of China, the components of which are adjusted based on market changes and according to a set of systematic principles. On 23 September 2005, the PRC government widened the daily trading band for the Renminbi against non-US dollar currencies from 1.5% to 3.0% to improve the flexibility of the new foreign exchange system. On 21 May 2007, the People's Bank of China widened the daily trading band for the Renminbi against US dollar currencies from 0.3% to 0.5%. As a consequence, the RMB fluctuated significantly during that period against other freely traded currencies, in tandem with the US dollar. In June 2010, the PRC government announced that it would increase RMB exchange rate flexibility. In April 2012, the People's Bank of China widened the daily trading band for the Renminbi against the US dollars from 0.5% to 1.0%. However, there remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in a further and more significant appreciation of the Renminbi against the US dollar, the Hong Kong dollar or other foreign currency.

In the future, the Renminbi may be revalued further against the US dollar or other currencies or may be permitted to enter into a full or limited free float, any of which may result in the appreciation or depreciation of the Renminbi against the US dollar or other currencies. Any change in PRC foreign exchange policies may give rise to uncertainties in our financial condition and results of operations. Since our income and profits are substantially denominated in Renminbi, any appreciation in the Renminbi may subject us to increased competition from imports while a devaluation of the Renminbi may adversely affect the value of our net assets, earnings and declared dividend in foreign currency terms, as well as our ability to meet our foreign currency obligations.

Our global income and the dividends we may receive from our PRC Subsidiaries may be subject to PRC tax under the PRC Enterprise Income Tax Law ("EIT Law"), which would have a material adverse effect on our results of operations

Under the EIT Law and its implementing rules, both of which became effective from 1 January 2008, an enterprise established outside of the PRC with "de facto management bodies" situated within the PRC could be considered a resident enterprise and will be subject to the enterprise income tax at the rate of 25% on its global income with any relevant foreign tax paid available to be claimed as a foreign tax credit. The implementing rules of the EIT Law define the term "de facto management bodies" as "establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise." The State Administration of Taxation issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies ("**Guo Shui Fa [2009] No. 82**", or "**Circular 82**") (關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知，國稅發[2009]82號), on 22 April 2009. Circular 82 provides certain specific criteria for determining whether the "de facto management body" of a Chinese-controlled offshore-incorporated enterprise is located in China. Although Circular 82 only applies to offshore enterprises controlled by PRC enterprises, not those controlled by PRC individuals or foreigners, like our Company, the determining criteria set forth in Circular 82 may reflect the State Administration of Taxation's general position on how the "de facto management body" test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises or individuals. If the PRC authorities were to subsequently determine that we should be so treated, a 25% enterprise income tax on our global income could significantly increase our tax burden and materially and adversely affect our cash flow and profitability. Further, if we are regarded as a PRC resident enterprise, dividends that we receive from the subsidiaries which are considered as PRC resident enterprises would be exempt from EIT and no withholding tax would be applied either. However, as there is still uncertainty as to how the EIT Law and its implementation rules will be interpreted and implemented, we cannot assure you that we are eligible for such PRC enterprise income tax exemptions or reductions.

We are a Cayman Islands holding company and substantially all of our income may come from dividends from our PRC Subsidiaries. To the extent these dividends are subject to withholding tax, the amount of funds available to us to meet our cash requirements will be reduced.

In addition, because there remains uncertainty regarding the interpretation and implementation of the EIT Law and its implementing rules, it is uncertain whether, if we are regarded as a PRC resident enterprise, dividends we pay with respect to our ordinary shares, or the gain you may realise from the transfer of our ordinary shares, would be treated as income derived from sources within the PRC and be subject to a 10% withholding income tax, unless any such foreign corporate shareholder is qualified for a preferential withholding rate under a tax treaty. For example, under the Arrangement between the Mainland and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排》) effective on 1 January 2007, dividends declared after 1 January, 2007 and distributed to our Hong Kong subsidiaries by our PRC Subsidiaries are subject to a 5% withholding tax, provided that our Hong Kong subsidiary is deemed by the relevant PRC tax authorities to be a "non-resident enterprise" under the EIT Law and holds at least 25% of the equity interest of our PRC Subsidiaries. The Notice on How to Understand and Define the "Beneficial Owner" Stipulated in the Tax Arrangements (《關於如何理解和認定稅收協定中"受益所有人"的通知》), or SAT Circular 601, on 27 October, 2009, which provides guidance for determining whether a resident of a jurisdiction with tax treaties with the PRC is the "beneficial owner" of an item of income under PRC tax treaties and tax arrangements. According to SAT Circular 601, a beneficial owner generally must engage in substantive business activities. An agent or conduit company will not be regarded as a beneficial owner and, therefore, will not qualify for treaty benefits. A conduit company normally refers to a company that is set up for the purpose of avoiding or reducing taxes or transferring or accumulating profits. Although we may use our Hong Kong subsidiaries as a platform to expand our business in the future, they currently do not engage in any substantive business activities and thus it is possible that our Hong Kong subsidiaries may not be regarded as a "beneficial owner" for the purposes of SAT Circular 601 and the dividends they receive from our PRC Subsidiaries would be subject to withholding tax at a rate of 10%.

PRC regulations on loans to and direct investment by offshore holding companies in PRC entities may delay or prevent us from using the proceeds of this offering to make loans or additional capital contributions to our PRC Subsidiaries

As an offshore holding company of our PRC Subsidiaries, we may make loans to our PRC Subsidiaries, or we may make additional capital contributions to our PRC Subsidiaries. Any loans to our PRC Subsidiaries are subject to PRC regulations and foreign exchange loan registrations. For example, loans by us to any of our PRC Subsidiaries to finance its activities cannot exceed the difference between total investment and registered capital of our relevant subsidiary and must be registered with the State Administration of Foreign Exchange of the PRC (the "**SAFE**") or its local counterpart. We may also determine to finance our PRC Subsidiaries by means of capital contributions. These capital contributions must be approved by the PRC Ministry of Commerce or its local counterpart. We cannot assure you that we can obtain these government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to finance any of our PRC Subsidiaries. If we fail to receive relevant registrations or approvals, our ability to use the proceeds of this offering and to capitalise our PRC operations would be negatively affected which would adversely and materially affect our liquidity and our ability to expand our business.

PRC regulations relating to acquisitions of PRC domestic companies by foreign entities may limit our ability to acquire PRC companies and adversely affect the implementation of our strategy as well as our business and prospects

The Rules on the Acquisition of Domestic Enterprises by Foreign Investors (2009 Revision) (關於外國投資者併購境內企業的規定) ("**M&A Rules**"), which were promulgated in August 2006, became effective from 8 September 2006 and were amended on 22 June 2009, provide the rules with which foreign investors must comply if they are seeking to acquire shares in a non-foreign funded enterprise in the PRC, whether through a purchase agreement with existing shareholders or through a direct subscription from a company, that would result in that company becoming a foreign-funded enterprise. The M&A Rules further require that the business scope of the resultant foreign-funded enterprise conform to the Catalogue of Industries for Guiding Foreign Investment (外商投資產業指導目錄). The M&A Rules also provide the takeover procedures for the acquisition of equity interests in domestic enterprises.

There are uncertainties as to how the M&A Rules will be interpreted or implemented. If we decide to acquire a PRC domestic company in the future, there is no assurance that we or the owners of such PRC company can successfully complete all necessary approval requirements under the M&A Rules. This may restrict our ability to implement our expansion and acquisition strategy and could materially and adversely affect our future growth.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may adversely affect our business operations

Pursuant to the Circular of the SAFE on Relevant Issues concerning Foreign Exchange Administration of Financing and Return Investments Undertaken by Domestic Residents through Overseas Special Purpose Vehicles (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) ("**Circular No. 75**"), issued on 21 October, 2005, which became effective on 1 November, 2005, (i) a PRC resident, including a PRC resident natural person or a PRC company, must register with the local branch of SAFE when he establishes or controls an overseas special purpose vehicle ("**SPV**") for the purpose of overseas equity financing (including convertible debt financing); (ii) when a PRC resident contributes his assets of or equity interests in a domestic enterprise into a SPV, or engages in overseas financing after contributing such assets or equity interests into a SPV, such PRC resident must register his interest in the SPV and the change thereof with the local branch of SAFE; and (iii) when the SPV undergoes a material event outside of China, such as a change in share capital or merger and acquisition, the PRC resident must, within 30 days from the occurrence of such event, register such change with the local branch of SAFE.

SAFE subsequently issued relevant guidance to its local branches with respect to the operational process for SAFE registration under Circular No. 75, which standardised more specific and stringent supervision on the registration relating to Circular No. 75 and imposed obligations on onshore subsidiaries of a SPV to coordinate with and supervise the beneficial owners of such SPV who are PRC residents to complete the SAFE registration process. Our PRC Legal Advisers have advised us that our current beneficial owners who are PRC citizens or residents have registered with the local SAFE branch for the purpose of the Reorganisation and have undergone the registration of alteration as a result of the acquisition of Yongsheng Dyeing by Yongsheng (HK) and the acquisition of Yongsheng Trading (HK) by Yongsheng (BVI), as required under Circular 75. Such registration of alteration has been completed on 28 April, 2013. However, we may not be aware or informed of the identities of all of our beneficial owners who are PRC citizens or residents, nor can we compel our beneficial owners to comply with Circular 75. Moreover, even if such beneficial owners choose to apply for registration, they may not be successful. The failure or inability of our PRC resident beneficial owners to make any required registrations or comply with these requirements may subject such beneficial owners and our PRC Subsidiaries to fines and legal sanction. Payment of such fines or imposition of legal sanctions could (i) restrict our cross-border cash flows; (ii) restrict our PRC Subsidiaries' ability to distribute dividends, repay foreign loans or make other outbound payments; (iii) restrict our ability to make capital contributions, foreign exchange denominated loans to our PRC Subsidiaries or other inbound payments; or (iv) otherwise adversely affect our business. Moreover, failure to comply with SAFE registration requirements under Circular No. 75 could result in liabilities under PRC laws for evasion of foreign exchange restrictions.

Inflation in the PRC could materially and adversely affect our profitability and growth

While the PRC economy as a whole has experienced rapid growth, such growth has become uneven among various sectors of the economy and in different geographical areas of the country. Rapid economic growth may lead to growth in the money supply and accordingly inflation. If our product price or service fees go up at a rate that is insufficient to compensate for the rise in our costs, our business may be materially and adversely affected. In order to put the inflation rate under manageable levels, the PRC Government has in the past imposed controls on bank credits, limits on loans for fixed assets and restrictions on state bank lending. Such an austere policy may lead to a slowdown in economic growth.

RISKS RELATING TO THE SHARE OFFER

Because there has been no prior public market for our Shares, their market price may be volatile and an active trading market in our Shares may not develop

Prior to the Share Offer, there has been no public market for our Shares. The initial issue price range of our Shares is negotiated among the Sole Bookrunner, on behalf of the Underwriters, and us. The Offer Price may differ significantly from the market price of our Shares following the Share Offer. We have applied for listing and permission to trade our Shares on the Stock Exchange. A listing on the Stock Exchange, however, does not guarantee that an active trading market for our Shares will develop, or if it does develop, that it will be sustainable following the Share Offer or that the market price of our Shares will not decline after the Share Offer. Furthermore, the price and trading volume of our Shares may be volatile.

The following factors, among others, may cause the market price of our Shares after the Share Offer to vary significantly from the Offer Price:

- variations in our revenue, earnings and cash flow;
- unexpected business interruptions resulting from natural disasters or power shortages;
- major changes in our key personnel or senior management;
- our inability to compete effectively in the market;
- political, economic, financial and social developments in the PRC and in the global economy;
- fluctuations in stock market prices and volume;
- changes in analysts' estimates of our financial performance; and
- involvement in material litigation.

We cannot assure you that we will declare dividends in the future

We declared dividends of approximately RMB90.3 million for the year ended 31 December 2012. Other than the declaration of such dividends, we did not declare or pay any dividends during the Track Record Period. For further details of our dividend policy, please refer to the paragraph headed "Dividend policy" under the section headed "Financial information" in this prospectus. We cannot assure you that future dividends will be declared or paid in an amount equivalent to or exceeding historical dividends. Therefore, investors are cautioned not to use historical dividends as an indication of the amount of future dividends. The declaration, payment and amount of any future dividends are subject to the discretion of our Directors depending on, among other considerations, our results of operations, earnings, financial condition, cash requirements and availability, our constitutional documents and applicable law.

You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles or disseminated through other media relating to us and/or the Share Offer, certain of which may not be consistent with the information contained in this prospectus

Prior to the publication of this prospectus, there may be press and media coverage regarding us and/or the Share Offer including certain financial information, financial projections and other information about us that do not appear in this prospectus, the disclosure of which was not authorised by us (the "**Unauthorised Information**"). We wish to emphasise to potential investors that we do not accept any responsibility for any such Unauthorised Information. The Unauthorised Information was not sourced from or approved by us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the Unauthorised Information. To the extent that any of the Unauthorised Information is inconsistent with, or is in conflict with, the information contained in this prospectus, we disclaim it. Accordingly, prospective investors are cautioned to make their investment decisions based solely on the information contained in this prospectus and should not rely on any of the Unauthorised Information.

Shareholders' interests in the share capital of our Company may be diluted in the future

We may in the future expand our capabilities and business through acquisition, joint venture and strategic partnership with parties which can add value to our business. We may require additional equity funding after the Share Offer and the equity interest of our Shareholders will be diluted should our Company issue new Shares to finance future acquisitions, joint ventures and strategic partnerships and alliances.

Any exercise of the options to be granted under the Share Option Scheme in the future and issuance of Shares thereunder would also result in the reduction in the percentage ownership of our Shareholders. There may also be a dilution in the earnings per Share and net asset value per Share as a result of the increase in the number of Shares outstanding after the issue of such additional Shares. Under the IFRS 2, the costs of share options to be granted to employees under the Share Option Scheme will be charged to our income statement over the vesting period by reference to the fair value at the date at which the share options are granted. As a result, our profitability may be adversely affected.

Termination of the Public Offer Underwriting Agreement

Prospective investors of the Offer Shares should note that the Public Offer Underwriter is entitled to terminate their obligations under the Public Offer Underwriting Agreement by the Sole Bookrunner (on behalf of the Public Offer Underwriter) giving notice in writing to our Company upon the occurrence of any of the events stated in the sub-section headed "Grounds for termination" under the section headed "Underwriting" in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Such events include, without limitation, any acts of God, wars, riots, public disorder, civil commotion, fire, flood, explosions, epidemic, terrorism, strikes or lock-outs.

Reliance on forward-looking statements contained in this prospectus are subject to risks and uncertainties

This prospectus contains forward-looking statements with respect to our business strategies, operating efficiencies, competitive positions, growth opportunities for existing operations, plans and objectives of management, certain pro forma information and other matters.

The words "anticipate", "believe", "could", "predict", "potential", "continue", "expect", "intend", "may", "plan", "seek", "will", "would", "should" and the negative of these terms and other similar expressions identify a number of these forward-looking statements. These forward looking statements, including, amongst others, those relating to our future business prospects, capital expenditure, cash flows, working capital, liquidity and capital resources are necessarily estimates reflecting the best judgement of our Directors and management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. As a consequence, these forward-looking statements should be considered in light of various important factors, including those set out in this section in this prospectus. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

RISKS RELATING TO STATEMENTS IN THIS PROSPECTUS

We cannot guarantee the accuracy of facts and other statistics with respect to certain information obtained from research reports and supplied by other parties contained in this prospectus

Certain facts and statistics cited in this prospectus are based on various official government publications, including the Industry Report. We cannot guarantee the quality or reliability of such facts and statistics. Such information has not been independently verified by us and may be inconsistent, inaccurate, incomplete or out-of-date. None of our Company, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriter(s), their respective directors and advisors or any other parties involved in the Share Offer makes any representation as to the accuracy or completeness of such facts and statistics. Such facts and statistics may not be consistent with other information compiled within or outside the PRC. Furthermore, the facts and statistics may be incomparable to statistics on the economies of other nations and there can be no assurance that the statistics are stated or compiled on the same basis or with the same degree of accuracy as compared to those stated or compiled by other nations. Accordingly, such facts and statistics should not be unduly relied upon.

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, our Company must have a sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resided in Hong Kong. Given that the business and operations of our Group are primarily located, managed and conducted in the PRC and none of our executive Directors are ordinarily resided in Hong Kong, our Company does not and will not, in the foreseeable future, have a management presence in Hong Kong.

Accordingly, our Company has applied to the Stock Exchange for a waiver from compliance with the requirements under Rule 8.12 of the Listing Rules. The Stock Exchange has granted the requested waiver to our Company from strict compliance with the requirements under Rule 8.12 of the Listing Rules on condition that our Company would adopt the following arrangements to maintain regular communication with the Stock Exchange:

(a) our Company has appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our Company's principal channel of communication with the Stock Exchange. The two authorised representatives appointed are Mr. Li, the Chairman of the Board and an executive Director and Mr. Leung Ho Yan, Julian, our company secretary and financial controller who is ordinarily resided in Hong Kong. Each of the authorised representatives will be available to meet with the Stock Exchange in Hong Kong upon reasonable short notice and will be readily contactable by telephone, facsimile or email. Each of the two authorised representatives is authorised to communicate on behalf of our Company with the Stock Exchange;

(b) all the authorised representatives have the means to promptly contact all members of the Board (including our independent non-executive Directors) and of the senior management team at all times as and when the Stock Exchange wishes to contact them or any of them for any matters. To enhance the communication between the Stock Exchange, the authorised representatives and our Directors, our Company will implement a number of policies that (i) each executive Director and independent non-executive Director shall provide his/her mobile phone numbers, residential phone numbers, office phone numbers, fax numbers (if available) and email addresses (if available) to the authorised representatives; (ii) in the event that an executive Director or an independent non-executive Director expects to travel and be out of office, he/she shall provide the phone number of the place of his/her accommodation to the authorised representatives; and (iii) all our Directors and authorised representatives will provide their respective mobile phone numbers, residential phone numbers, office phone numbers, fax numbers (if available) and email addresses (if available) to the Stock Exchange;

(c) if the circumstances require, meetings of the Board can be convened and held in such manner as permitted under the Articles of Association at short notice to discuss and address any issue with which the Stock Exchange is concerned in a timely manner;

(d) a compliance advisor will be appointed by our Company before Listing pursuant to Rule 3A.19 of the Listing Rules to provide our Company with professional advice on continuing obligations under the Listing Rules, and to act at all times, in addition to the two authorised representatives of our Company, as our Company's additional channel of communication with the Stock Exchange for the period commencing on the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of our Company's financial results for the first full financial year commencing after the Listing Date;

(e) meetings between the Stock Exchange and our Directors can be arranged through the authorised representatives or the compliance advisor, or directly with our Directors within a reasonable time frame. Our Company will inform the Stock Exchange promptly of any change in the authorised representatives or the compliance advisor; and

(f) all our Directors have confirmed that they possess or can apply for valid travel documents to travel freely to Hong Kong and would be able to come to Hong Kong and meet with the Stock Exchange upon reasonable short notice.

We have received from the Stock Exchange a waiver from compliance with Rule 8.12 of the Listing Rules subject to the above arrangements being put in place.

NON-EXEMPT CONNECTED TRANSACTIONS

Our Group has business transactions with connected person (as defined in the Listing Rule) that are expected to continue after the Listing, one of which will constitute non-exempt continuing connected transaction of our Company under the Listing Rules upon Listing. We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from the strict compliance with the relevant requirements in respect of such non-exempt continuing connected transaction under Chapter 14A of the Listing Rules. The details of such waiver are set out in the section headed "Continuing connected transactions" on page 276 in this prospectus.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the SFO, the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purpose of giving information to the public with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement in this prospectus misleading.

The Share Offer is made solely on the basis of the information contained and the representations made in this prospectus and the Application Forms. No person is authorised in connection with the Share Offer to give any information or to make any representation not contained in this prospectus and the Application Forms, and any information or representation not contained herein must not be relied upon as having been authorised by us, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters, any of their respective directors or affiliates of any of them or any other persons or parties involved in the Share Offer. You should only rely on the information contained in this prospectus and the Application Forms to make your investment decision.

UNDERWRITING

This prospectus is published in connection with the Public Offer, which forms part of the Share Offer, which is sponsored by the Sole Sponsor and managed by the Sole Lead Manager. The Public Offer is fully underwritten by the Public Offer Underwriter subject to the terms and conditions of the Public Offer Underwriting Agreement, including the Sole Bookrunner (on behalf of the Underwriters) and us agreeing to the Offer Price. Information relating to the underwriting arrangements is set out in the section headed "Underwriting" on page 406 in this prospectus. The Placing will be fully underwritten by the Placing Underwriters under the terms of the Placing Underwriting Agreement. Further details about the Underwriters and the Underwriting Agreements are contained in the section headed "Underwriting" on page 406 in this prospectus.

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which is expected to be determined by the Sole Bookrunner (on behalf of the Underwriters) and us on or around Wednesday, 20 November 2013, or such later date as may be agreed between the Sole Bookrunner (on behalf of the Underwriters) and us but in any event not later than 6:00 p.m. (Hong Kong time) on Monday, 25 November 2013.

If the Sole Bookrunner (on behalf of the Underwriters) and us are unable to reach an agreement on the Offer Price on or before the Price Determination Date, the Share Offer will not become unconditional and will lapse.

PROCEDURES FOR APPLICATION FOR THE PUBLIC OFFER SHARES

The application procedures for the Public Offer Shares are set out in the section headed "How to apply for the Public Offer Shares" on page 423 in this prospectus and on the relevant Application Forms.

SELLING RESTRICTIONS

No action has been taken to permit a public offering of the Offer Shares, other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, and without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

The Offer Shares are offered to the public in Hong Kong for subscription solely on the basis of the information contained and the representation made in this prospectus and the related Application Forms. No person is authorised to give any information or to make any representation not contained in this prospectus and the related Application Forms, and any information or representation not contained herein must not be relied upon as having been authorised by our Company, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters, any of their respective directors or affiliates of any of them or any other person or party involved in the Share Offer.

Each person acquiring the Offer Shares will be required to, or be deemed by his acquisition of Offer Shares, to confirm, that he is aware of the restrictions on offers and sale of the Offer Shares described in this prospectus and that he is not acquiring, and has not been offered any Offer Shares in circumstances contravene any such restrictions.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue, Shares to be issued pursuant to the Share Offer, and any Shares to be issued upon the exercise of the Over-allotment Option, and any Shares, up to 10% of the Shares to be in issue as at the Listing Date, to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, on the Main Board.

Save as disclosed herein, no part of the Shares or loan capital of our Company is listed or dealt in on the Main Board or on any other stock exchange and at present, no such listing or permission to deal is being or is proposed to be sought on the Main Board or any other stock exchange in the near future.

HONG KONG BRANCH SHARE REGISTER AND STAMP DUTY

All Shares to be issued pursuant to the Share Offer will be registered on our Company's register of members in Hong Kong to be maintained by Tricor Investor Services Limited. The principal register of members will be maintained in the Cayman Islands. Only Shares registered on the register of members of our Company in Hong Kong may be traded on the Stock Exchange.

Dealings in Shares registered on the register of members in Hong Kong will be subject to Hong Kong stamp duty. The current rate of stamp duty in Hong Kong is 0.2% of the consideration or, if higher, the market value of the Shares being sold or transferred.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of subscribing for, purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to, the Offer Shares, you should consult an expert.

We, our Directors, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters, any of their respective directors, agents or advisers or any other persons or parties involved in the Share Offer do not accept responsibility for any tax effects on or liabilities resulting from the subscription for, purchase, holding, disposing of, dealing in, or the exercise of any rights in relation to, the Offer Shares.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the approval for listing of, and permission to deal in, the Shares on the Stock Exchange and our compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading days. Investors should seek the advice of their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

OVER-ALLOTMENT AND STABILISATION

Details of the arrangements relating to stabilisation and Over-allotment Option are set out in the section headed "Structure and conditions of the Share Offer" on page 414 in this prospectus.

STRUCTURE OF THE SHARE OFFER

Details of the structure of the Share Offer, including its conditions, are set out in the section headed "Structure and conditions of the Share Offer" on page 414 in this prospectus.

CURRENCY TRANSLATIONS

Unless otherwise specified, amounts denominated in United States dollars and RMB have been translated, for illustration purposes only, into Hong Kong dollars in this prospectus at the following rates:

US$1	:	HK$7.7509
RMB0.7915	:	HK$1

No representation is made that any amounts in US$, RMB or HK$ can be or could have been at the relevant dates converted at the above rates or any other rates, or at all.

LANGUAGE

The English names of the PRC nationals, entities, departments, facilities, certificates, titles, laws, regulations and the like are translations of their Chinese names and are included for identification purposes only. If there is any inconsistency, the Chinese name prevails.

ROUNDING

Certain amounts and percentage figures included in this prospectus are subject to rounding adjustments. Any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Main Board are expected to commence at 9:00 a.m. on Wednesday, 27 November 2013. Shares will be traded in board lots of 2,500 each.

DIRECTORS

Name	Residential address	Nationality
Executive Directors		
Mr. Li Cheng (李誠)	Room 701, Unit 1, Block 1, Meihua Sansheng Apartment, Youshengguan Road, Shangcheng District, Hangzhou City, Zhejiang Province, PRC	Chinese
Mr. Zhao Jidong (趙繼東)	Room 806, No.7, Shunfa Jiajing Tiancheng, Shixin North Road, Xiaoshan District, Hangzhou City, Zhejiang Province, PRC	Chinese
Mr. Li Conghua (李聰華)	Block 13, Tianle Yundu Cuizhuyuan, Suoqian Town, Xiaoshan District, Hangzhou City, Zhejiang Province, PRC	Chinese
Mr. Ma Qinghai (馬青海)	7-2-502, Laiyinyuan Beigan 4 Residential District, Xiaoshan District, Hangzhou City, Zhejiang Province, PRC	Chinese
Independent non-executive Directors		
Mr. Duan Xiaoping (端小平)	Room 802, Entrance 2, Block 2, Yard 10, Youanmen Inner Main Street, Xuanwu District, Beijing City, PRC	Chinese
Ms. Wong Wai Ling (黃慧玲)	Flat B, 17/F, Block 5, Cavendish Heights, 33 Perkins Road, Jardine's Lookout, Hong Kong	Chinese
Mr. Shiping James Wang	Room 313, No. 26 Jian Gua Road, Shanghai, PRC	American

PARTIES INVOLVED IN THE SHARE OFFER

Sole Sponsor	Haitong International Capital Limited 22/F Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
Sole Bookrunner and Sole Lead Manager	Haitong International Securities Company Limited 22/F Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
Co-Lead Managers to the Placing	Halcyon Securities Limited 11/F, 8 Wyndham Street Central Hong Kong Yue Xiu Securities Company Limited 24/F, Siu On Center, 188 Lockhart Road Wanchai Hong Kong
Public Offer Underwriter	Haitong International Securities Company Limited 22/F Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
Legal advisers to our Company	*As to Hong Kong law:* Loong & Yeung Suites 2001 – 2005 20th Floor, Jardine House 1 Connaught Place Hong Kong *As to PRC law:* Tian Yuan Law Firm 10th Floor, China Pacific Insurance Plaza No. 28 Fengsheng Hutong, Xicheng District Beijing 100032 The PRC *As to Cayman Islands law:* Appleby 2206-19 Jardine House 1 Connaught Place Central Hong Kong

Legal advisers to the Sole Sponsor and the Underwriters	*As to Hong Kong law:* Chiu & Partners 40th Floor, Jardine House 1 Connaught Place Hong Kong *As to PRC law:* Zhong Lun Law Firm 36-37/F, SK Tower 6A Jianguomenwai Avenue Beijing 100022 The PRC
Reporting accountant	PricewaterhouseCoopers *Certified Public Accountants* 22/F Prince's Building Central Hong Kong
Professional surveyor	DTZ Debenham Tie Leung Limited 16/F, Jardine House 1 Connaught Place Central Hong Kong
Receiving bank	Bank of China (Hong Kong) Limited 1 Garden Road Hong Kong

Registered office	Clifton House 75 Fort Street PO Box 1350 Grand Cayman KY1-1108 Cayman Islands
Headquarter and principal place of business in Hong Kong	Office 1616, 16th Floor, Tower Two Lippo Centre, No. 89 Queensway, Hong Kong
Authorised representatives	Mr. Li Cheng (李誠) Mr. Leung Ho Yan, Julian (梁浩仁)
Company secretary	Mr. Leung Ho Yan, Julian (梁浩仁)
Audit committee	Ms. Wong Wai Ling (黃慧玲) *(Chairlady)* Mr. Duan Xiaoping (端小平) Mr. Shiping James Wang
Remuneration committee	Ms. Wong Wai Ling (黃慧玲) *(Chairlady)* Mr. Zhao Jidong (趙繼東) Mr. Duan Xiaoping (端小平)
Nomination committee	Mr. Li Cheng (李誠) *(Chairman)* Mr. Duan Xiaoping (端小平) Mr. Shiping James Wang
Compliance adviser	Haitong International Capital Limited 22/F Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
Website address	www.chinaysgroup.com *(The content of the website does not form part of this prospectus.)*

Principal share registrar and transfer office in the Cayman Islands	Appleby Trust (Cayman) Ltd. Clifton House 75 Fort Street PO Box 1350 Grand Cayman KY1-1108 Cayman Islands
Hong Kong branch share registrar and transfer office	Tricor Investor Services Limited 26/F., Tesbury Centre No. 28, Queen's Road East Wanchai Hong Kong
Principal bankers	Bank of China Hangzhou Xiaoshan Branch No. 288, Renmin Road Hangzhou Xiaoshan District Zhejiang Province
	The Agricultural Bank of China Hangzhou Xiaoshan Branch No. 156, Renmin Road Hangzhou Xiaoshan District Zhejiang Province
	China CITIC Bank Hangzhou Xiaoshan Branch No. 173 Shixinnan Road Hangzhou Xiaoshan District Zhejiang Province

This section contains certain information which is derived from official government publications as well as commissioned report from Ipsos Hong Kong Limited, an Independent Third Party. We believe that the sources of the information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. While we have exercised reasonable care in compiling and reproducing such information from official government publications, it has not been independently verified by us, or any of our affiliates or advisors, nor by the Sole Sponsor, the Sole Lead Manager, the Sole Bookrunner, the Underwriters or any of their affiliates or advisors or any other party involved in the Share Offer. The information from official government publications may not be consistent with information available from other sources within or outside the PRC. Neither our Group, its affiliates or advisors, the Underwriters or their affiliates or advisors, nor any other party involved in the Share Offer make any representation as to the accuracy, completeness or fairness of such information from official government publications.

The information extracted from the commissioned report from Ipsos Hong Kong Limited reflects estimates of market conditions based on samples, and is prepared primarily a market research tool. Research to Ipsos Hong Kong Limited should not be considered as the opinion of Ipsos Hong Kong Limited as to the value of any security or the advisability of investing in our Group. Our Directors believe that the sources of information extracted from the commissioned report from Ipsos Hong Kong Limited are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information extracted from the commissioned report from Ipsos Hong Kong Limited has not been independently verified by us, the Sole Sponsor, the Sole Lead Manager, the Sole Bookrunner, the Underwriters or any other party involved in the Share Offer and no representation is given as to its accuracy.

REPORT COMMISSIONED FROM IPSOS

We commissioned Ipsos Hong Kong Limited ("**Ipsos**"), an independent market research and consulting company, to conduct an analysis of, and to report on, market overview of the textile industry in the PRC for the period from 2006 to 2017. The report prepared by Ipsos is independent from our influence. Ipsos received a total commission of HK$574,800 for the research and preparation of the Ipsos Report. The payment of such amount was not conditional on our successful listing or on the results of the Ipsos Report.

Founded in Paris France, in 1975 and publicly-listed on the NYSE Euronext Paris in 1999, Ipsos SA acquired Synovate Ltd. in October 2011. After the combination, Ipsos became one of the largest research company in the world, which employs approximately 16,000 personnel worldwide across 85 countries. Ipsos conducts research on market profiles, market sizes and market share and performs segmentation analyses, distribution and value analyses, competitor tracking and corporate intelligence.

The Ipsos Report includes information on the textile industry, polyester filament yarn industry, textile-related products trading industry and dyeing and processing fabric service in China, competitive analysis of polyester filament yarn production, textile-related products trading and dyeing and processing fabric in China. The information contained in the Ipsos Report is derived by means of data and intelligence gathering which include: (i) client consultation; (ii) desk research; and (iii) primary research conducted through face-to-face or phone interviews with key stakeholders and industry experts including, but not limited to, filament yarn manufacturers, dyeing and processing fabric service providers, textile-related products providers, fabric and garment manufacturers, OEMs and ODMs and government officials. According to Ipsos, this methodology guaranteed a full circle/multi-level information sourcing process, where information gathered was able to cross-referenced to ensure accuracy. The intelligence gathered by Ipsos was analysed, assessed and validated using their in-house analysis models and techniques.

Analyses in the Ipsos Report are based on the assumption that there is no external shock such as natural disasters or the wide outbreak of diseases to affect the demand and supply of the manufacturing of polyester filament yarn, trading of raw materials for yarn, textile, and dyeing and processing fabric service in China.

Specific basis and assumptions adopted in the preparation of the forecast numbers include:

1. added value of chemical fiber industry will grow at an annual rate of approximately 8.0% between 2011 and 2015;

2. expenditure per capita on clothing of Chinese urban resident and rural resident would grow at approximately 12.5% and 15.0% annually respectively, while the industrial output value for textile enterprises will grow at an annual rate of approximately 12.5% between 2011 and 2020;

3. the industrial output value of dyeing and processing service providers will grow at an annual rate of approximately 12.5% between 2011 and 2015;

4. the raw material price is expected to increase at a CAGR of approximately 3.0% between 2013 and 2017;

5. export of Chinese textile is expected to grow at a CAGR of approximately 7.5% between 2013 and 2017;

6. share of differentiated polyester filament yarn will reach more than 60.0% between 2011 and 2015, in terms of volume, while the share of differentiated polyester yarn would reach approximately 71.0% in 2017;

7. price of polyester filament yarn including POY, FDY and DTY will increase by approximately 2.5% between 2013 and 2017 at an annual rate;

8. industrial output value of dyeing and processing service providers will increase at approximately 12.5% between 2011 and 2015;

9. production volume of fiber processing in China will grow at an annual rate of approximately 4.5% between 2011 and 2015;

10. consumption volume of fiber will grow at an annual rate of approximately 3.0% between 2011 and 2015;

11. growth of China's economy is expected to slow down from 2013 to 2017 at an average growth rate of approximately 7.0% between 2011 and 2015;

12. population in China is expected to increase at a CAGR of approximately 0.5% from 2013 to 2017;

13. urbanisation rate in China is expected to increase approximately 4.0% between 2011 and 2015;

14. average annual household disposable income for urban residents in 2020 is expected to be doubled compared to 2010, according to the Income-Doubling Plan;

15. international energy agency forecasted that crude oil price will decrease from about US$99 per barrel in 2013 to US$89 per barrel in 2017;

16. it is assumed there is no external shock such as natural disasters or the wide outbreak of diseases to affect the demand and supply of the manufacturing of polyester filament yarn, trading of raw materials for yarn, textile, and fabric dyeing and processing fabric service in China;

17. local production of apparel and home furnishing fabric in China is expected to increase due to technology improvement while import volume decrease in the future;

18. the domestic textile demand will exceed the export market, supported by rapid urbanisation and increasing disposable income, as well as change in lifestyle of the Chinese, and industry upgrade will drive the textile manufacturers to use more high-end material which will boost the value of textile raw materials;

19. imported cotton price is expected to be lower than local cotton price in China in the future;

20. domestic production of PTA is expected to further increase along with technology improvement, such will reduce reliance of imported PTA in the future, and oversupply of PTA is expected to drive the price down in the future;

21. with no technology breakthrough for MEG production in China, local consumption is expected to continue to rely on import; and

22. the average price of major textile raw materials is expected to remain in gradual increase from 2013 to 2017 due to the gradual improvement and growth of the global economy which boost the demand for textile products.

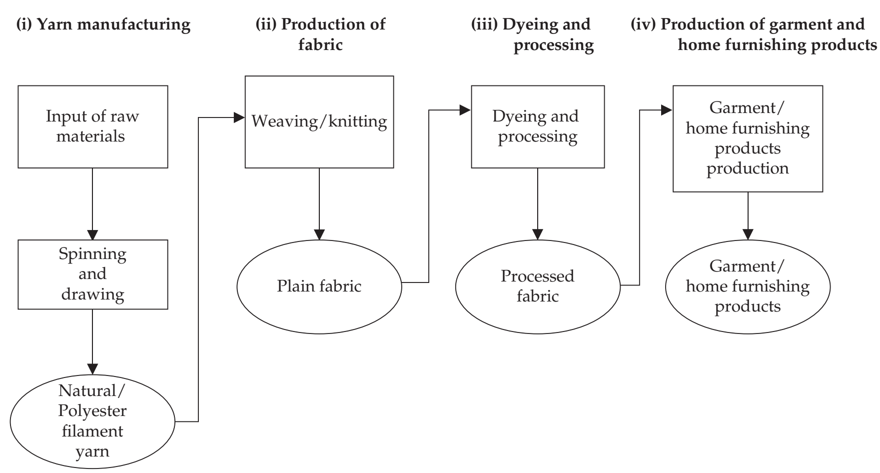
Analyses in the Ipsos Report have taken into account of the following parametres:

- GDP in Global and China from 2007 to 2012;
- inflation rate in China from 2007 to 2012;
- price of polyester filament yarn from 2007 to 2012;
- price of textile-related products including cotton, MEG, PTA, PET chips, nylon chips, cotton pulp and wood pulp respectively from 2007 to 2012;
- international trading value of cotton, cotton linters pulp, MEG, filament yarn of nylon or other polyamides, terephthalic acid etc. from 2007 to 2012;
- export and import value of cotton, MEG, PTA, PET chips, nylon chips, polyester silk, polyamides, cotton pulp and wood pulp from 2007 to 2012; and
- government policies including, among others,「中華人民共和國國民經濟和社會發展第十二個五年規劃綱要」(the "Twelfth Five Year Plan" of the People's Republic of China and the National Economy for Social Development),「蕭山區"十二五"工業發展規劃」(Industrial Development Plan in Xiaoshan Twelfth Five Year Plan),《浙江省化纖產業"十二五"布局規劃》(Man-made Fiber Industry Development Plan in Zhejiang Twelfth Five Year Plan),《建設紡織强國綱要(2011－2020年)》(the Outline for the Construction of Top Textile-related Country*),《中國家用紡織品行業"十二五"發展規劃綱要》(the Twelfth Five Year Plan for home textile industry in the PRC*),《化纖工業"十二五"發展規劃》(the Twelfth Five Year Plan for polyester filament yarn industry*).

INTRODUCTION

The textile industry has always been fundamental to China's economy since China started to develop in international textile manufacturing and trading in the early 1980s. According to the National Bureau of Statistics of China, as at 31 December 2012, the aggregate investment amount in the textile industry in China from January 2012 to December 2012 was approximately RMB8.0 trillion, representing approximately 6.4% of the aggregate investment amount in the manufacturing industry in China for the same year. According to the Ipsos Report, the output value of the main textile manufacturers in the PRC accounted for approximately 11.1% of the total GDP in China in 2012. According to the Ipsos Report, as at 2012, the production volume of yarn manufacturing and fabric manufacturing in China have accounted for approximately 63.7% and 46.5% of the global market share respectively, whereby China has become the largest production house for global textile industry.

The following chart shows the general value chains of the textile industry in China:



Source: Ipsos Report

(i) Yarn manufacturing:

- yarn manufacturers first source raw materials such as nylon chips and PET chips for polyester filament yarn manufacturers or cotton for natural fiber yarn manufacturers in the market;
- PET chips are semi-products of PTA and MEG which are petrochemical derived from crude oil;
- raw materials will go through process such as spinning and drawing and turned into yarn, such as polyester filament yarn; and
- manufacturing of differentiated polyester filament yarn and natural fiber yarn require different special know-how and expertise.

(ii) Production of fabric:

- finished yarn will be knitted or weaved into fabric and ready for dyeing and processing (if necessary).

(iii) Dyeing and processing:

- plain fabric would then go through dyeing and processing, whereby colours and textures are added to produce processed fabric, such as synthetic chamois leather; and

- dyeing and processing factories require different process, machineries, know-how and expertise in order to be able to dye and process fabric or cloth produced by polyester filament yarn and natural fiber yarn.

(iv) Production of garment/home furnishing products:

- processed fabric will be used for garmenting and be turned into consumer products, such as garment and home furnishing products.

POLICY RELATED TO TEXTILE INDUSTRY IN CHINA

Under the framework of the Tenth Five Year Plan and the Eleventh Five Year Plan, significant investments were made by the PRC government which provided funding for the restructuring of China's textile industry, particularly in terms of phasing out obsolete equipment and upgrading machinery. Reform had focused on revamping the unprofitable textile section by increasing efficiency in the production of polyester filament yarn and transforming cotton spinning and weaving facilities. Furthermore, players in the textile industry in the PRC were encouraged to strengthen research and development in products and design, as well as developing a new growth model for complete, coordinated and sustained development. Its goal was to build a powerful textile and apparel sector whereby textile industry players in China would become more responsive to the market in order to enhance the overall competitiveness of the textile industry in the international market.

As the textile industry will remain a main support to China's economy, the major tasks of the Twelfth Five Year Plan related to textile industry include optimising industry structure and develop advanced, clean, safe, high-value-added modern industry system. According to the Ipsos Report, there is no particular policy specifically for dyeing and processing fabric service industry as well as textile-related products trading industry. The following sets forth the respective developing targets for the textile industry as a whole and polyester filament yarn industry under the guidelines of the Twelfth Five Year Plan:

	Textile industry as a whole	**Polyester filament yarn**
Stable growth:	• the industrial added value of above-scale textile enterprises shall increase by approximately 8.0% per year; • by 2015, the industry's export amount shall reach approximately US$300 billion and increase at a yearly growth rate of approximately 7.5%; and • the gross fiber/yarn processing volume shall be up to approximately 51.5 million tpa and increase at a yearly growth rate of approximately 4.5%.	• by 2015, the production volume of chemical fiber, including polyester filament yarn, shall reach approximately 41 million tpa, accounting for approximately 76.0% of the whole yarn production in China; and • the implementation of《千億產業發展工程》(Development Plan for Hundred Billion Industry*) in Xiaoshan encouraged the development of polyester filament yarn production industry in the area, whereby the regional total sales value of polyester filament yarn is expected to reach approximately RMB200 billion by 2015.
Industrial restructuring:	• the types of product shall be diversified; and • there shall be over 20 enterprises in China with yearly output value of more than RMB10 billion.	• the production of differentiated polyester filament yarn should account for approximately 60.0% of the whole production of polyester filament yarn in the PRC, whereby approximately 85.0% of the high-end apparels and home furnishing should be produced by differentiated polyester filament yarn by 2015.

OVERVIEW OF GLOBAL AND CHINA TEXTILE INDUSTRY

Total revenue of yarn, fabric and garment and home furnishing product manufacturing and dyeing and processing service in the global market

According to the Ipsos Report, the total revenue of yarn, fabric, garment and home furnishing product manufacturing and dyeing and processing service in the global market grew at CAGR of approximately 5.4%, 6.9%, 4.4% and 10.3% respectively between 2006 and 2012, whereby they are expected to grow at CAGR of approximately 10.0%, 13.5%, 8.5% and 13.8% respectively from 2013 to 2017. The following table shows the historical and estimated total revenue of yarn, fabric, garment and home furnishing product manufacturing and dyeing and processing service in the global market:

	2006	2007	2008	2009	2010	2011	2012	2013F	2014F	2015F	2016F	2017F
Yarn manufacturing *(RMB in billion)*	2,466	2,604	2,697	2,436	2,719	3,112	3,378	3,727	4,112	4,531	4,984	5,459
Dyeing and processing service *(RMB in billion)*	418	475	568	611	623	678	754	817	915	1,037	1,189	1,370
Fabric manufacturing *(RMB in billion)*	4,648	4,974	5,156	5,447	5,335	6,093	6,955	7,319	8,146	9,209	10,546	12,154
Garment and home furnishing product manufacturing *(RMB in billion)*	4,501	5,435	5,537	5,124	5,110	5,544	5,836	5,984	6,359	6,854	7,487	8,289

Source: Ipsos Report

Total revenue of yarn, fabric and garment and home furnishing product manufacturing and dyeing and processing service in China

According to the Ipsos Report, the total revenue of yarn, fabric, garment and home furnishing product manufacturing and dyeing and processing service in China grew at CAGR of approximately 11.5%, 13.2%, 12.6% and 15.4% respectively between 2006 and 2012, whereby they are expected to grow at CAGR of approximately 11.3%, 15.0%, 10.7% and 15.0% respectively from 2013 to 2017. The following table shows the historical and estimated total revenue of yarn, fabric, garment and home furnishing product manufacturing and dyeing and processing service in China:

	2006	2007	2008	2009	2010	2011	2012	2013F	2014F	2015F	2016F	2017F
Yarn manufacturing *(RMB in billion)*	1,063	1,151	1,227	1,206	1,509	1,827	2,047	2,277	2,533	2,818	3,135	3,488
Dyeing and processing service *(RMB in billion)*	166	194	235	247	304	358	392	450	518	595	685	788
Fabric manufacturing *(RMB in billion)*	1,385	1,507	1,619	1,656	2,070	2,608	2,921	3,301	3,796	4,365	5,020	5,773
Garment and home furnishing product manufacturing *(RMB in billion)*	1,886	2,310	2,453	2,470	2,969	3,476	3,840	4,243	4,693	5,195	5,750	6,366

Source: Ipsos Report

Market share in terms of revenue of yarn, fabric and garment and home furnishing product manufacturing and dyeing and processing service of China in the global market between 2006 and 2017

According to the Ipsos Report, China has been the leader in global yarn, fabric and garment and home furnishing product manufacturing and provision of dyeing and processing service. The total revenue of yarn, fabric and garment and home furnishing product manufacturing and dyeing and processing service in China accounted for approximately 43.1%, 29.8%, 41.9% and 39.7% share to the global revenue respectively in 2006. The global market share of yarn, fabric and garment and home furnishing product manufacturing and dyeing and processing service in China increased to approximately 60.6%, 42.0%, 65.8% and 52.0% respectively in 2012. According to the Ipsos Report, China will continue to be the world's largest textile production house. The following table shows the historical and estimated market share in terms of revenue of yarn, fabric and garment and home furnishing product manufacturing and dyeing and processing service of China in the global market between 2006 to 2017:

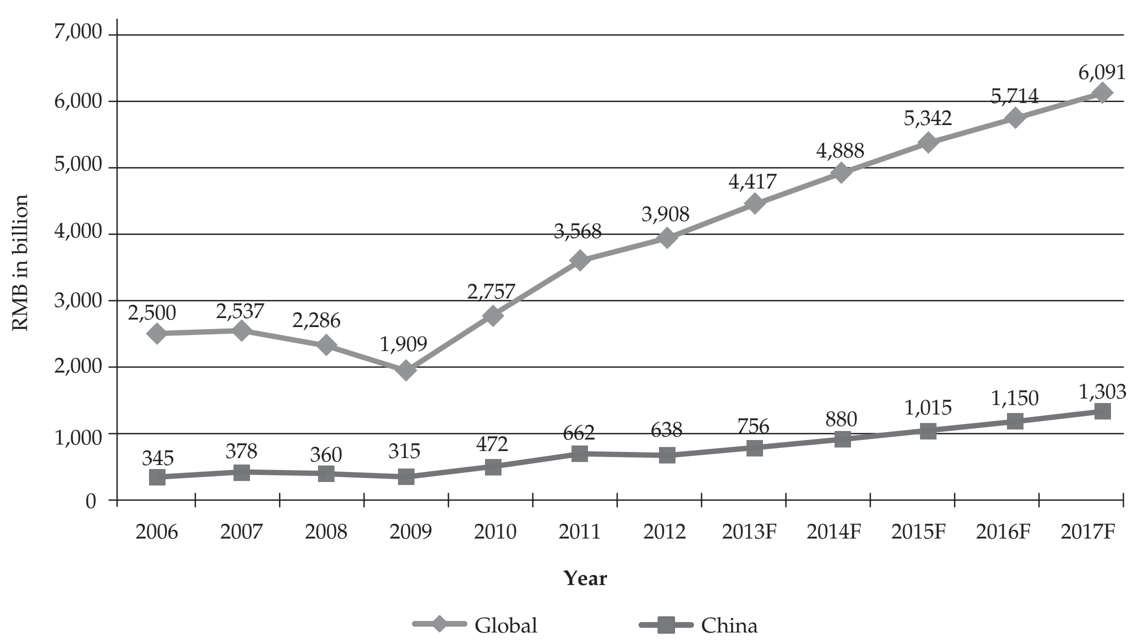
	2006	2007	2008	2009	2010	2011	2012	2013F	2014F	2015F	2016F	2017F
Yarn manufacturing revenue *(%)*	43.1	44.2	45.5	49.5	55.5	58.7	60.6	61.1	61.6	62.2	62.9	63.9
Dyeing and processing service revenue *(%)*	39.7	40.8	41.4	40.4	48.8	52.8	52.0	55.1	56.6	57.4	57.6	57.5
Fabric manufacturing revenue *(%)*	29.8	30.3	31.4	30.4	38.8	42.8	42.0	45.1	46.6	47.4	47.6	47.5
Garment and home furnishing product manufacturing revenue *(%)*	41.9	42.7	44.3	48.2	58.1	62.7	65.8	70.9	73.8	75.8	76.8	76.8

Source: Ipsos Report

TEXTILE-RELATED PRODUCTS TRADING INDUSTRY

Trading revenue of major textile-related products in the global market and in China

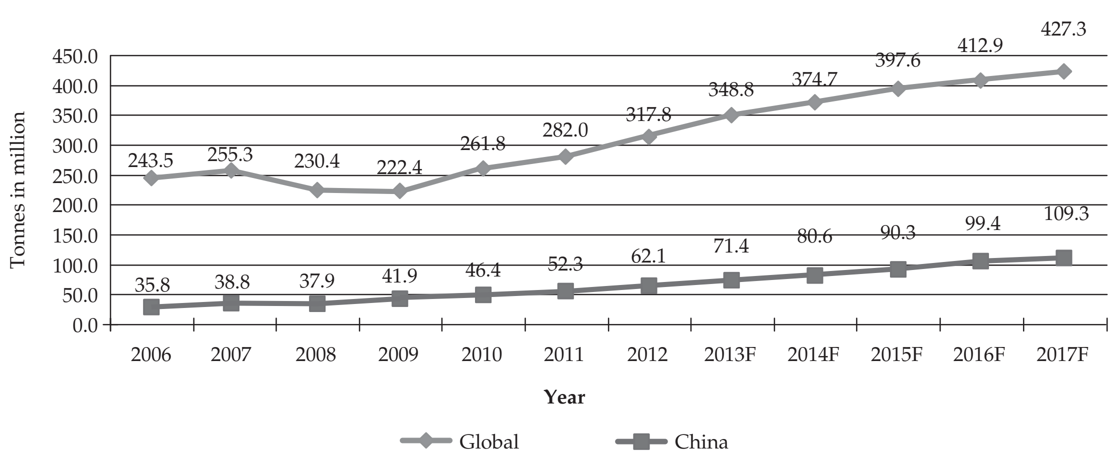
According to the Ipsos Report, cotton, MEG, nylon chips, PTA, PET chips, polyester yarn, cotton pulp and wood pulp are commonly traded in the market, (together as "**Major Textile-related Products**"). According to the Ipsos Report, trading companies in China usually do not enter into long-term sales contracts, which would last for one year or more, with their customers due to volatility of market prices of trading products. Instead, the trading companies in China would normally enter into monthly sales contracts with their customers to set forth the estimated delivery amount and price, whereby the trading companies would deliver the trading products to their customers within one month after entering into the contracts. The trading revenue of Major Textile-related Products is highly correlated with the global economic performance. The trading revenue of Major-Textile-related Products in China decreased by approximately 4.8% from 2007 to 2008 due to RMB appreciation which was up approximately 9.2% during the same period. Due to global financial crisis in 2008, the total trading revenue of Major Textile-related Products both in the global market and in China decreased from approximately RMB2,286 billion and RMB360 billion in 2008 to approximately RMB1,909 billion and RMB315 billion in 2009 respectively. As the global economy recovered gradually afterwards, the total trading revenue of Major Textile-related Products in the global market increased to approximately RMB3,908 billion in 2012, while the total trading revenue of Major Textile-related Products in China increased to approximately RMB638 billion in 2012. Despite the growth in total global trading revenue of Major Textile-related Products between 2011 and 2012, due to the European debt crisis which resulted in the significant decrease in the price of Major Textile-related Products in 2012, the total trading revenue of Major Textile-related Products in China decreased by approximately 3.6% under the same period, from approximately RMB662 billion in 2011 to approximately RMB638 billion in 2012. The CAGR of trading revenue of Major Textile-related Products in the global market and in China from 2006 to 2012 were approximately 7.7% and 10.8% respectively. The CAGR of estimated trading revenue of Major Textile-related Products in the global market and in China from 2013 to 2017 are approximately 8.4% and 14.6% respectively. The following chart shows the historical and estimated total trading revenue of Major Textile-related Products in the global market and in China from 2006 to 2017:



Source: Ipsos Report

Trading consumption volume of Major Textile-related Products

As a result of the implementation of several policies between 2005 and 2007, such as removal of textile quotas among the members of the World Trade Organisation since 2005, 《關於加快紡織行業結構調整促進產業升級若干意見的通知》(the Circular in relation to acceleration of structural adjustment and industrial upgrade of textile industry*), along with the abundant supply of low-cost and skilled labour in China, there are more apparel manufacturers from all over the world setting up production bases in China with increasing production capacity. Hence, the total trading consumption volume of Major Textile-related Products in China increased from approximately RMB35.8 million tonnes in 2006 to approximately RMB62.1 million tonnes in 2012. On the other hand, according to the Ipsos Report, the total trading consumption volume of Major Textile-related Products in the global market increased from approximately 243.5 million tonnes in 2006 to approximately 317.8 million tonnes in 2012 at a CAGR of about 4.5%, with interim decrease from approximately 255.3 million tonnes in 2007 to approximately 222.4 million tonnes in 2009 due to the global financial crisis. As the global economy recovered gradually afterwards, the total trading consumption volume of Major Textile-related Products in the global market increased from approximately 222.4 million tonnes in 2009 to approximately 317.8 million tonnes in 2012. The CAGR of trading consumption volume of Major Textile-related Products in the global market and in China from 2006 to 2012 were approximately 4.5% and 9.6% respectively. The CAGR of estimated trading consumption volume of Major Textile-related Products in the global market and in China from 2013 to 2017 are approximately 5.2% and 11.2% respectively. According to the Ipsos Report, as there are many companies engaged in the trading of textile-related products business in the market, it is therefore common for market players to sell and purchase the same or similar products among themselves in order to meet the demand of their customers taken into account the price of the textile-related products offered by different market players at the relevant time. The following chart shows the historical and estimated total trading consumption volume of Major Textile-related Products in the global market and in China from 2006 to 2017:



Source: Ipsos Report

Import and export of Major Textile-related Products in China

The international financial crisis in 2008 and the European debt crisis between 2011 and 2012 greatly affected the economy of developed countries, especially the US and Europe. The slow economic recovery, together with high unemployment rate in these countries has resulted in low level of consumer confidence. Therefore, the export demand for textiles and apparels and hence the textile-related products in China has been negatively affected. Details regarding import and export of cotton, PTA and MEG, which are the major materials of our Group for trading purposes, in China are set out below:

Import and export of cotton in China

As China is a leading manufacturer of textile products, it has a high demand for cotton. According to the Ipsos Report, China was the largest consumer for cotton globally and accounted for approximately 40.0% of the global cotton consumption in 2012. The import volume of cotton increased from approximately 3.6 million tonnes in 2006 to approximately 5.1 million tonnes in 2012. However, the export volume of cotton only accounted for approximately 13,000 tonnes in 2006 and approximately 18,000 tonnes in 2012. The total import volume of cotton accounted for approximately 33.0% of the total consumption volume of cotton in China in 2006 and the share further increased to approximately 43.0% in 2012 which was mainly due to the relevant PRC governmental authority promulgated the activation of the cotton reserve policy to stabilise the price of cotton. Further details of the cotton reserve policy in China are set out in the paragraph headed "Price trend of cotton, MEG, PTA, nylon chips and PET chips in China" in this section of this prospectus. Due to the increasing demand for textile products in China, the import volume of cotton is expected to reach approximately 6.6 million tonnes in 2017.

Import and export of PTA in China

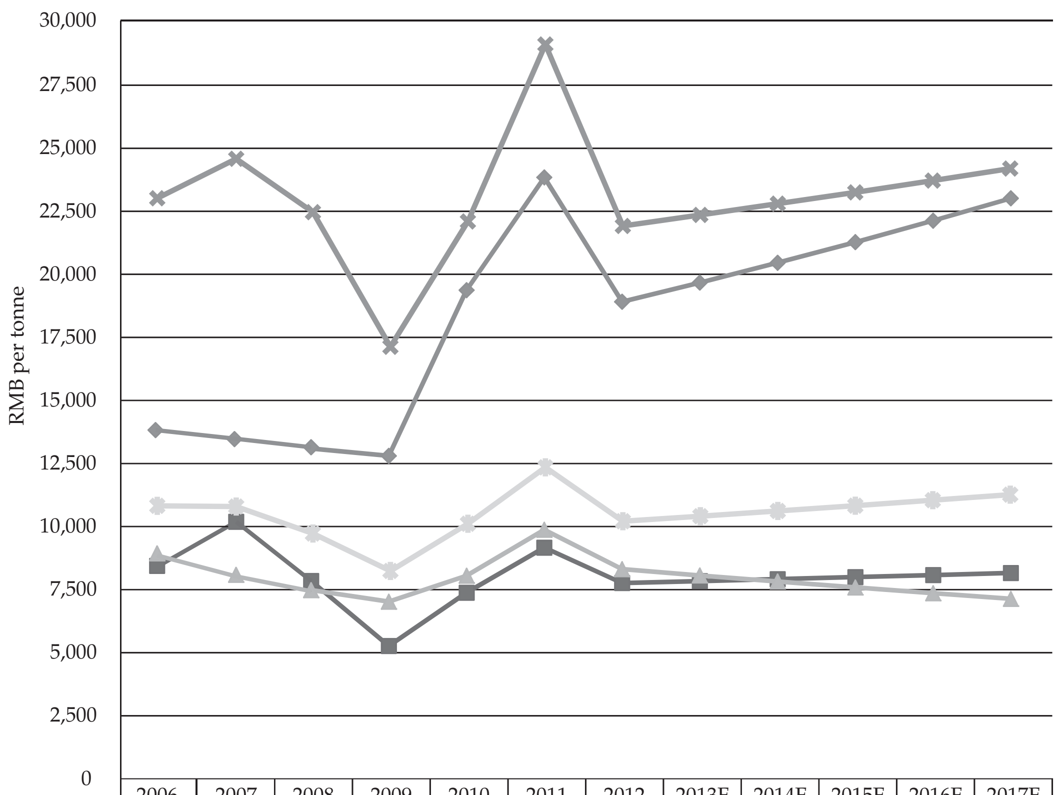
According to the Ipsos Report, the total import volume of PTA decreased from approximately 6.0 million tonnes in 2006 to approximately 5.0 million tonnes in 2008 as the total production volume of PTA in China in 2007 increased by approximately 20.0%, as compared to 2006, which increased the local supply thereby subsequently restrained the import growth of PTA. However, as the huge demand for PTA from the downstream polyester manufacturing industry caused a shortage in the domestic PTA market in China, China imported PTA to fulfill the demand of the downstream industries, in which the total import volume of PTA increased from approximately 5.0 million tonnes in 2008 to approximately 5.4 million tonnes in 2011. As the domestic production volume of PTA has increased rapidly, the dependency of imported PTA has decreased. The domestic production volume of PTA increased from approximately 20.1 million tonnes in 2011 to approximately 32.5 million tonnes in 2012. Hence, the import volume of PTA decreased from approximately 5.4 million tonnes in 2011 to approximately 4.2 million tonnes in 2012. With the expected increase in domestic PTA production to reach approximately 52.0 million tonnes in 2014, the import volume of PTA is expected to decrease from approximately 3.8 million tonnes in 2013 to approximately 2.0 million tonnes in 2017, while the export volume of PTA is expected to increase from approximately 36,000 tonnes in 2013 to approximately 868,000 tonnes in 2017.

Import and export of MEG in China

The consumption of MEG in China relies heavily on import as the technological breakthrough for MEG production in China cannot catch up with the increase in demand of MEG in China. According to the Ipsos Report, the import volume of MEG in China increased from approximately 4.1 million tonnes in 2006 to approximately 8.0 million tonnes in 2012. With the limited oil resources in China and the huge demand for MEG from downstream industries, the import volume of MEG is expected to further increase from approximately 8.6 million tonnes in 2013 to approximately 11.9 million tonnes in 2017. Middle East countries are expected to remain as the largest exporter of MEG to China.

Price trend of cotton, MEG, PTA, nylon chips and PET chips in China

Cotton, MEG, PTA, nylon chips and PET chips are the key textile-related products in China, as well as the major materials traded by our Group. The average price of cotton increased from approximately RMB13,770 per tonne in 2006 to approximately RMB18,916 per tonne in 2012; while the average price of MEG, PTA, PET chips and nylon chips decreased slightly from approximately RMB8,400 per tonne, RMB8,800 per tonne, RMB10,800 per tonne and RMB23,005 per tonne in 2006 to approximately RMB7,763 per tonne, RMB8,313 per tonne, RMB10,190 per tonne and RMB21,973 per tonne respectively in 2012. The following chart shows the historical and estimated average price of cotton, MEG, PTA, nylon chips and PET chips in China from 2006 to 2017:



	2006	2007	2008	2009	2010	2011	2012	2013F	2014F	2015F	2016F	2017F
Cotton	13,770	13,446	13,097	12,804	19,374	23,844	18,916	19,673	20,460	21,278	22,129	23,014
MEG	8,400	10,148	7,850	5,268	7,380	9,167	7,763	7,841	7,919	7,998	8,078	8,159
PTA	8,800	7,985	7,483	7,024	8,053	9,875	8,313	8,063	7,821	7,587	7,359	7,138
Nylon chips	23,005	24,561	22,526	17,153	22,154	29,218	21,973	22,413	22,861	23,318	23,785	24,260
PET chips	10,800	10,799	9,700	8,206	10,093	12,341	10,190	10,393	10,601	10,813	11,030	11,250

Source: Ipsos Report

Cotton

The average price of cotton in China increased from approximately RMB13,770 per tonne in 2006 to approximately RMB18,916 per tonne in 2012, at a CAGR of about 5.4%. The average cotton price dropped from 2008 to 2009 as a result of the global financial crisis. Driven by strong domestic and foreign demand, the average price of cotton started to rise since 2009. Strong demand from downstream industries including the textile and garment industry caused the price of cotton rise to its peak in March of 2011 at approximately RMB30,733 per tonne. In order to stabilise the severe market price fluctuation of cotton in China, the relevant PRC governmental authority promulgated the activation of 2011年度棉花臨時收儲預案 (Temporary Plan for Cotton Reservation 2011*), whereby the government will purchase cotton from the market at a fixed price for government reserve and then resell them at a standard fixed price in order to stabilise the price of cotton. After the implementation of such policy from September 2011 to March 2012, according to the Ipsos Report, the average price of cotton decreased from approximately RMB23,844 per tonne in 2011 to approximately RMB18,916 per tonne in 2012. In view of this policy, according to the Ipsos Report, it is expected that the trading of cotton in China would be less affected by the price fluctuation of cotton because of government policy to maintain stability of cotton. According to the Ipsos Report, the average price of cotton in China for the first half of 2013 increased slightly by approximately 0.7%, as compared to the same period in 2012. On the contrary, the international price trend of cotton was different from the price trend in China. According to the National Cotton Council in U.S., the average price of cotton of different quality and grades decreased by approximately 1.1% to 4.2% in the first half of 2013, as compared to the same period of 2012. It is expected that the cotton price will increase or slightly increase for the second half of 2013, which is expected to lead to a slight to moderate growth for the whole year of 2013, because of the tension in the Middle East causing the crude oil price to rise and slightly revert to the increasing demand for cotton. It is expected that the average price of cotton would grow steadily at CAGR of approximately 4.0% from 2013 and 2017.

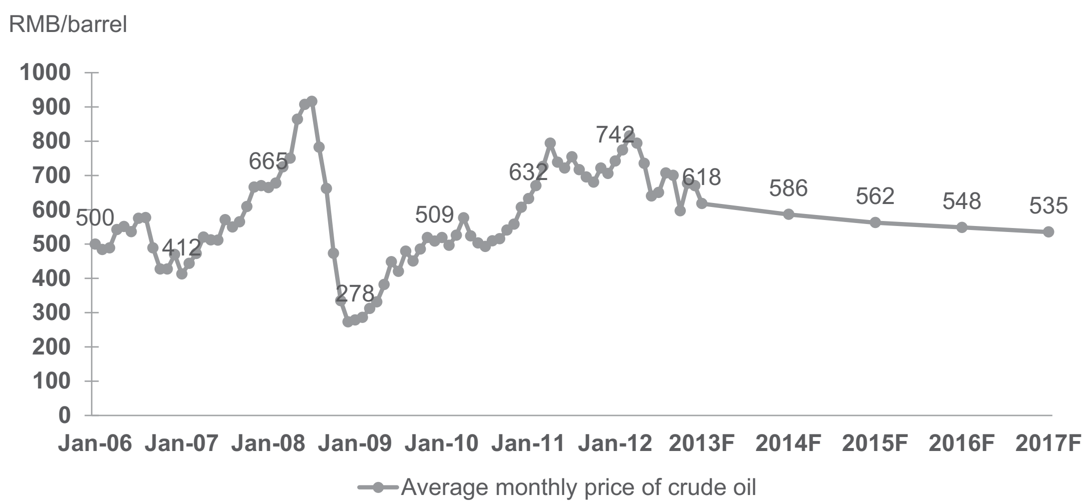
MEG, PTA, nylon chips and PET chips

As MEG, PTA, nylon chips and PET chips are downstream products derived from crude oil in the supply chain, prices of these raw material would be affected by the fluctuations in the price of crude oil. The average prices of MEG, PTA, nylon chips, and PET chips declined at CAGRs of approximately -1.3%, -0.9%, -0.8%, and -1.0% from 2006 to 2012. After the slump in the price of crude oil in 2008 due to the global financial crisis, the price of crude oil increased between 2009 and 2011, and the price of MEG, PTA, nylon chips and PET chips in China increased from approximately RMB5,268 per tonne, RMB7,024 per tonne, RMB17,153 per tonne and RMB8,206 per tonne in 2009 to approximately RMB9,167 per tonne, RMB9,875 per tonne, RMB29,218 per tonne and RMB12,341 per tonne respectively in 2011. However, as the price of crude oil decreased between 2011 and 2012, the price of MEG, PTA, nylon chips and PET chips were also affected accordingly, whereby the price of MEG, PTA, nylon chips and PET chips decreased to approximately RMB7,763 per tonne, RMB8,313 per tonne, RMB21,973 per tonne and RMB10,190 per tonne respectively in 2012. According to the Ipsos Report, the average price of PTA and PET chips in China decreased by approximately 4.5% and 3.1%

respectively in the first half of 2013, as compared to the same period in 2012; while the average price of MEG in China increased by approximately 2.3% in the first half of 2013, as compared to the same period in 2012. It is expected that the price of MEG, nylon chips and PET chips would increase or slightly increase for the second half of 2013, which is expected to lead to a slight to moderate growth for the whole year of 2013, because of the tension in the Middle East causing the crude oil price to rise, and would grow steadily from 2013 to 2017. However, it is expected that the price of PTA would decrease steadily in the future due to the fast growing production capacity of the PTA industry in China.

Price of crude oil in China

The following chart shows the historical and estimated average monthly price of crude oil in China from 2006 to 2017:



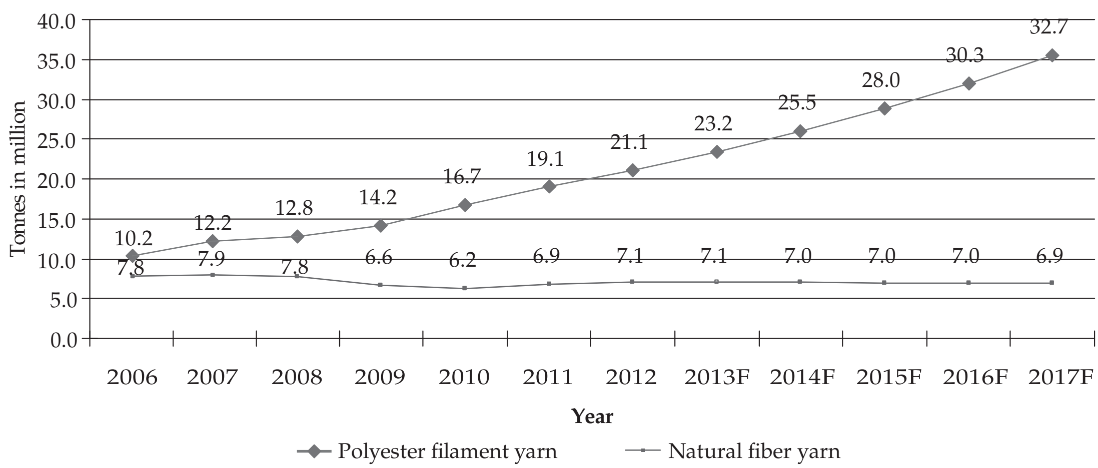
Source: Ipsos Report

In general, the price of crude oil is mainly affected by (i) the global economy; (ii) fluctuation in value of U.S. dollars; (iii) supply chain of crude oil; (iv) downstream demand for crude oil and (v) governmental policies. The price of crude oil in China remained fluctuated in 2007 due to the political instability in Middle East Area, political instability in Iraq and the depreciation of the US Dollar. Between 2008 and 2009, price of crude oil slumped due to the global financial crisis, whereby average annual price of crude oil slashed from approximately RMB669 per barrel in 2008 to RMB408 per barrel in 2009. In order to minimise the impact of the global financial crisis, crude oil was underpinned by the PRC government's stimulus package, and average annual price of crude oil gradually increased to approximately RMB530 per barrel in 2010. As the global economy gradually recovered in 2011, along with the introduction of quantitative easing by several developed countries that led to an inflation, average annual price of crude oil increased to approximately RMB713 per barrel in 2011. However, the growth did not sustain in 2012 due to the European debt crisis.

YARN INDUSTRY

Trends of yarn

There are various types of yarn, mainly including, (i) polyester filament yarn, which is made from synthetic materials such as petrochemicals, and used in textile products and apparels, carpets, home furnishings as well as industrial products; and (ii) natural fiber yarn, which are made from plant and animal and mostly used in the production of textile products and apparels. According to the Ipsos Report, the annual production volume of polyester filament yarn in China increased from approximately 10.2 million tonnes in 2006 to approximately 21.1 million tonnes in 2012, while the annual production volume of natural fiber yarn in China decreased from approximately 7.8 million tonnes in 2006 to approximately 7.1 million tonnes in 2012. The CAGR of annual production volume of polyester filament yarn and natural fiber yarn in China from 2006 to 2012 were approximately 12.9%, and -1.6% respectively. The CAGR of estimated annual production volume of polyester filament yarn and natural fiber yarn in China from 2013 to 2017 are approximately 9.0% and -0.7% respectively. The following chart shows the historical and estimated annual production volume of polyester filament yarn and natural fiber yarn in China from 2006 to 2017:



Source: Ipsos Report

Natural fiber yarn

Cotton is one of the major raw materials for natural fiber yarn. The decrease in the production volume of natural fiber yarn in China was mainly due to the great fluctuation in cotton price from 2006 to 2012 and the limited local and global supply. Further details of fluctuation in cotton price between 2006 and 2012 are set out in the paragraph headed "Price trend of cotton, MEG, PTA, nylon chips and PET chips in China" in this section of the prospectus.

Polyester filament yarn

The annual production volume of polyester filament yarn is expected to increase from approximately 23.2 million tonnes in 2013 to approximately 32.7 million tonnes in 2017. It is expected that the demand for polyester filament yarn will continue to be strong and the market will continue to use polyester filament yarn as a partial substitute for natural fiber yarn as (i) there are limited land resources for growing cotton, while the supply of crude oil is relatively reliable; (ii) cotton is expected to continue to be in short supply both globally and domestically in China in the coming years; and (iii) polyester filament yarn has similar quality and characteristics as natural fiber yarn. Furthermore, the technological improvement in the production of polyester filament yarn will continue to add features to polyester filament yarn and allow it to enjoy product advantage over natural fiber yarn. Therefore, according to the Ipsos Report, it is expected that the polyester filament yarn market would be difficult to be replaced by the natural fiber yarn market in the future.

POLYESTER FILAMENT YARN INDUSTRY

Main types of polyester filament yarn

Polyester filament yarn is generally classified into regular and differentiated polyester filament yarn:

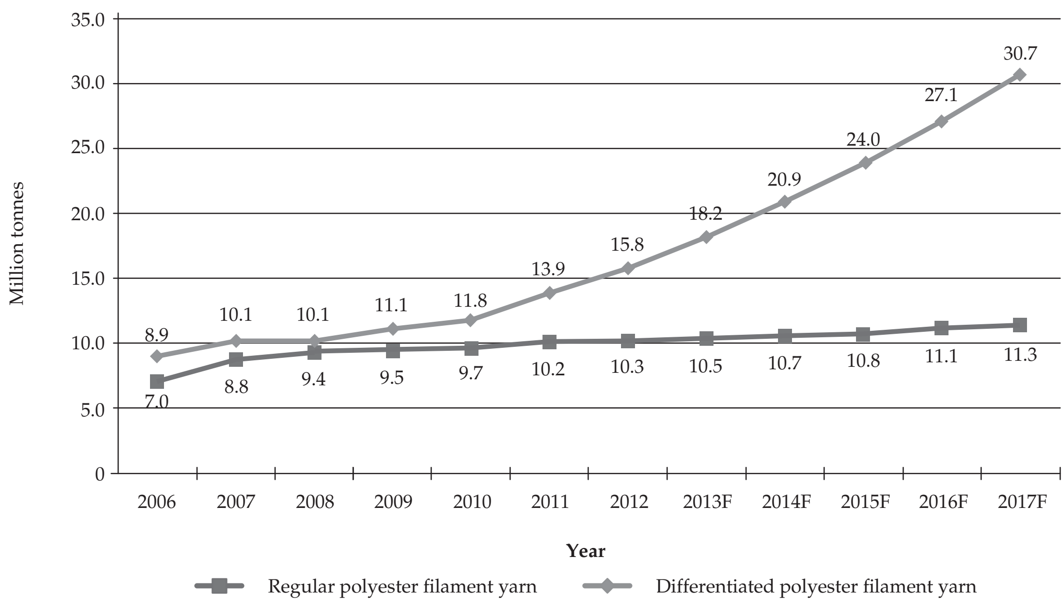
1. **Regular polyester filament yarn** is generally spun from polymerising melt without adding any extra chemical component or changing the shape or linear density of the filament. It is generally sold at lower prices than differentiated polyester filament yarn. Regular polyester filament yarn can be used in weaving to make polyester fabric such as consumer fabric and home furnishings such as curtains, bed sheets, bed spreads and draperies. They can be also used for packing application such as polyester film and insulation tapes.

2. **Differentiated polyester filament yarn** is generally custom-made for specific texture or qualities, high in unit value, less sensitive to raw material prices, and involve the use of advanced technology and production experience. The differentiation is achieved through diversifying the chemical components of the filament or through changing the shape or linear density of the filament. Differentiated polyester filament yarn can be used in weaving to make functional polyester fabric such as ultra-bright fabric, micro denier fabric and fine denier fabric which can be applied to different consumers products, such as suits and undergarments.

Market size of polyester filament yarn

Production volume of polyester filament yarn in the global market

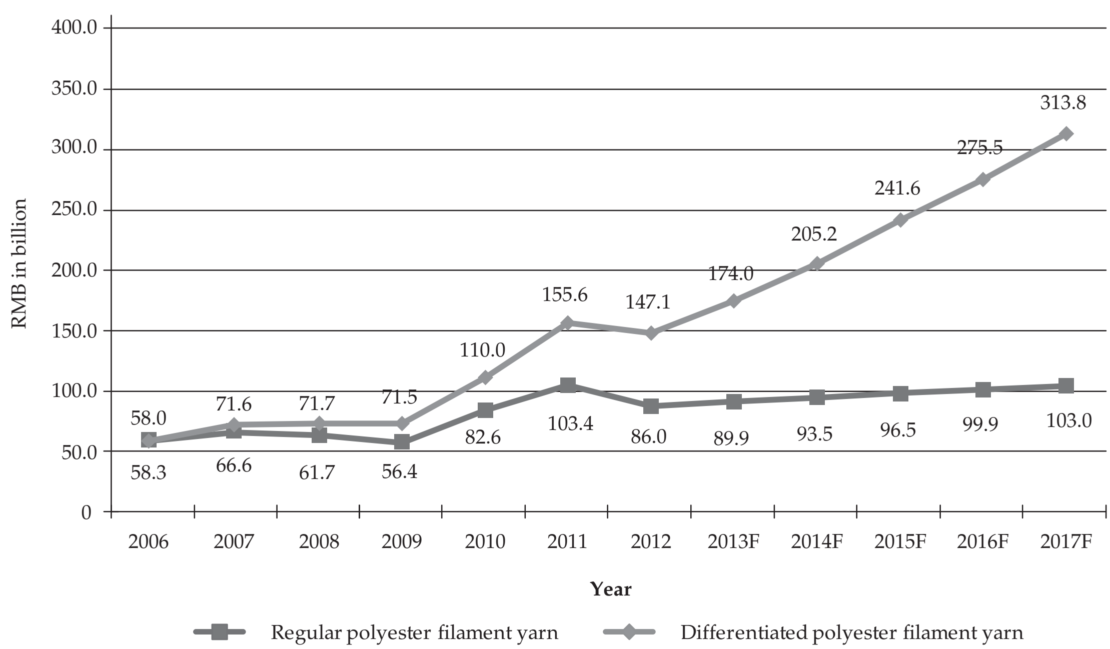
According to the Ipsos Report, the total production volume of regular polyester filament yarn and differentiated polyester filament yarn in the global market grew from approximately 7.0 million tonnes and 8.9 million tonnes in 2006 to approximately 10.3 million tonnes and 15.8 million tonnes in 2012 respectively. The CAGR of total global production volume of regular polyester filament yarn and differentiated polyester filament yarn from 2006 to 2012 were approximately 6.6% and 10.0% respectively. The CAGR of total estimated production volume of regular polyester filament yarn and differentiated polyester filament yarn in the global market from 2013 to 2017 are approximately 1.9% and 14.0% respectively. The following chart shows the historical and estimated total global production volume of regular polyester filament yarn and differentiated polyester filament yarn from 2006 to 2017:



Source: Ipsos Report

Market size of polyester filament yarn in China

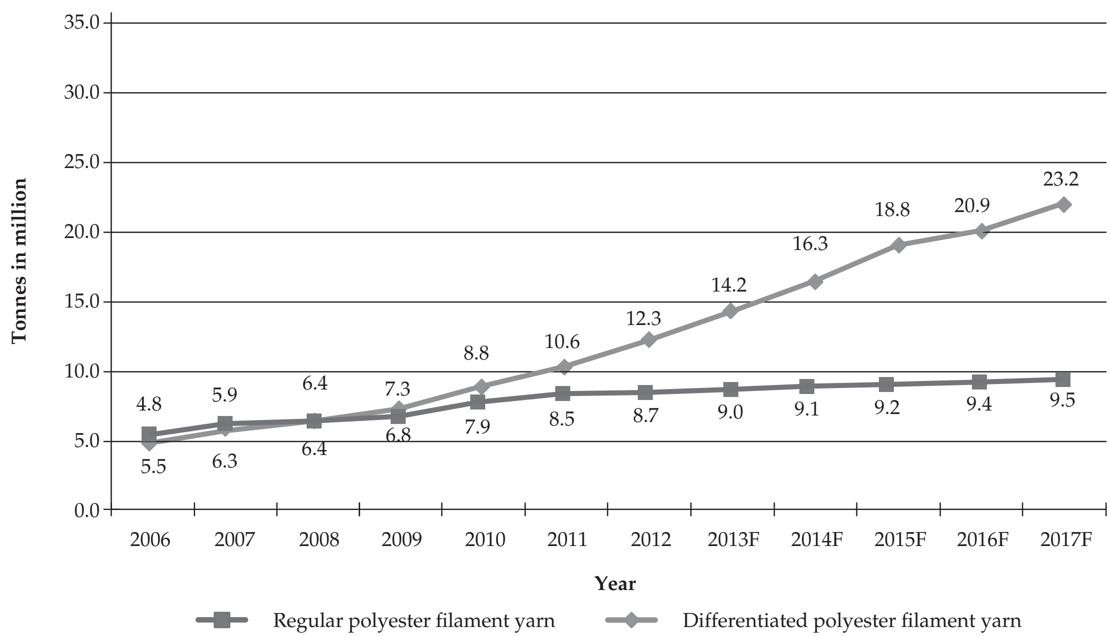
As the fabric and textile manufacturers in China began to launch their own brands in recent years, there were increasing number of Chinese domestic apparel brands in China and this caused the demand for polyester filament yarn to surge in China. Hence, the increase in revenue of polyester filament yarn was driven by the increasing demand for garment export and the growth of domestic consumption due to the stable growth of garments in China. In particular, the market demand of differentiated polyester filament yarn in China was driven by the increasing popularity and demand of SSY and CEY. The total revenue of regular polyester filament yarn and differentiated polyester filament yarn in China increased from approximately RMB58.3 billion and RMB58.0 billion to approximately RMB86.0 billion and RMB147.1 billion respectively between 2006 and 2012. The CAGR of total revenue of regular polyester filament yarn and differentiated polyester filament yarn in China from 2006 to 2012 were approximately 6.7% and 16.8% respectively. For the first half of 2013, due to the slight decrease in the price of cotton and polyester filament yarn in the first half of 2013, the price of finished garment has lowered the export price of garments from China which would be favourable to export of garments from China. The CAGR of total estimated revenue of regular polyester filament yarn and differentiated polyester filament yarns in China from 2013 to 2017 are approximately 3.5% and 15.9% respectively. The following chart sets forth the historical and estimated total revenue of regular polyester filament yarn and differentiated polyester filament yarn in China from 2006 to 2017:



Source: Ipsos Report

Production volume of polyester filament yarn in China

According to the Ipsos Report, China is the major producer of polyester filament yarn with production volume amounted to approximately 80.5% of the global production volume in 2012. The total production volume of regular polyester filament yarn and differentiated polyester filament yarn in China increased from approximately 5.5 million tonnes and 4.8 million tonnes in 2006 to approximately 8.7 million tonnes and 12.3 million tonnes respectively in 2012. The CAGR of total production volume of regular polyester filament yarn and differentiated polyester filament yarn in China from 2006 to 2012 were approximately 7.9% and 17.0% respectively. The CAGR of total estimated production volume of regular polyester filament yarn and differentiated polyester filament yarn in China from 2013 to 2017 are approximately 1.4% and 13.1% respectively. The following chart sets forth the historical and estimated production volume of regular polyester filament yarn and differentiated polyester filament yarn in China from 2006 to 2017:



Source: Ipsos Report

Geographic distribution of polyester filament yarn production in China

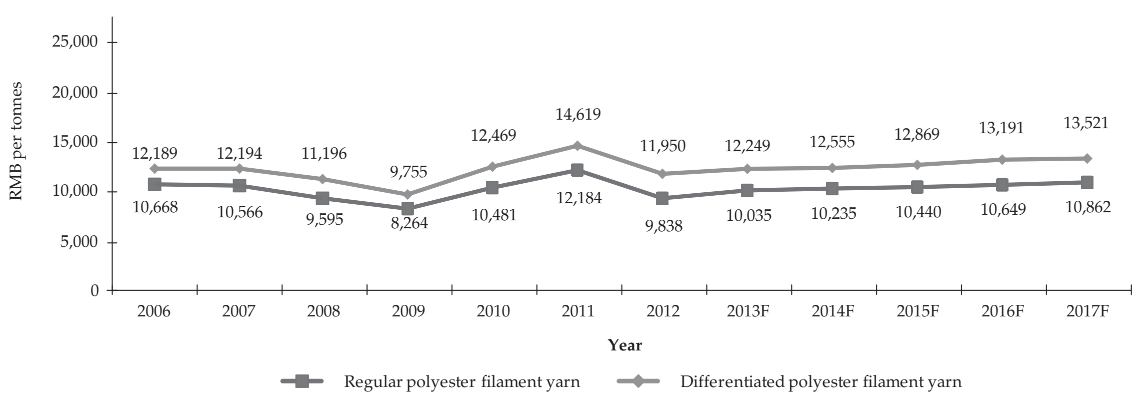
According to the Ipsos Report, Zhejiang Province was the key production base for polyester filament yarn in China which accounted for approximately 52.6%, 44.8% and 52.1% of the revenue, consumption volume and production volume of polyester filament yarn in China in 2012. In particular, Hangzhou Xiaoshan District (杭州蕭山區), Shaoxing (紹興), Jiaxing (嘉興), Huzhou (湖州) and Ningbo (寧波) of Zhejiang Province accounted for approximately 60.0% of the total differentiated polyester filament yarn production in China. Between 2006 and 2010, during the implementation period of the Eleventh Five Year Plan, Xiaoshan, located in Zhejiang Province has become the largest polyester filament industry base in China and the world since 2010. According to the Ipsos Report, the revenue, consumption volume and production volume of polyester filament yarn in Zhejiang Province is continuing its growth momentum at the CAGR of approximately 12.3%, 9.2% and 9.2% respectively from 2013 to 2017. The following table sets forth the historical and estimated revenue, consumption volume and production volume of polyester filament yarn in Zhejiang Province from 2006 to 2017:

Year	Revenue in the region	Percentage share to total China	Consumption volume in the region	Percentage share to total China	Production volume in the region	Percentage share to total China
	(RMB billion)	*(%)*	*(million tonnes)*	*(%)*	*(million tonnes)*	*(%)*
2006	55.0	47.1%	4.0	40.0%	4.8	46.6%
2007	66.0	47.9%	4.7	40.7%	5.8	47.4%
2008	67.0	49.9%	5.1	42.5%	6.3	49.4%
2009	62.0	48.4%	5.6	41.2%	6.8	47.9%
2010	98.0	50.7%	6.9	43.2%	8.4	50.2%
2011	131.0	50.6%	7.9	43.1%	9.6	50.1%
2012	123.0	52.6%	9.1	44.8%	11.0	52.1%
2013F	139.0	52.7%	10.0	44.9%	12.1	52.2%
2014F	157.7	52.8%	11.0	45.0%	13.3	52.3%
2015F	178.9	52.9%	12.1	45.1%	14.7	52.4%
2016F	198.9	53.0%	13.1	45.1%	15.9	52.5%
2017F	221.3	53.1%	14.2	45.2%	17.2	52.6%

Source: Ipsos Report

Price trend of regular and differentiated polyester filament yarn in China

According to the Ipsos Report, the average price of differentiated polyester filament yarn is generally higher than regular polyester filament yarn in China, which is mainly due to the production of differentiated polyester filament yarn involves a relatively more complicated and technical manufacturing process. The average prices of both regular polyester filament yarn and differentiated polyester filament yarn in China had been fluctuated during 2006 to 2012 and both are expected to continue to grow from 2013 to 2017 mainly due to the increasing demand. The slight drop in the price of both regular polyester filament yarn and differentiated polyester filament yarn in 2009 and 2012 was mainly due to the decrease in the price of raw materials such as nylon chips and PET chips. Further details of fluctuation in of the upstream raw materials of polyester filament yarn are set out in the paragraph headed "Price trend of cotton, MEG, PTA, nylon chips and PET chips in China" in this section of the prospectus. According to the Ipsos Report, the price range of differentiated polyester filament yarn manufactured in China was approximately RMB10,000 per tonne to RMB30,000 per tonne from 2006 to 2012. Despite the decrease in average price of polyester filament yarn in China by approximately 2 to 3% for the first half of 2013, as compared to the same period in 2012, according to the Ipsos Report, as the average price of crude oil is expected to increase in the second half of 2013 due to the political tension in the Middle East and the regions around, it is also expected that the average price of polyester filament yarn in China would increase in the second half of 2013. The following chart shows the historical and estimated average price trend of regular polyester filament yarn and differentiated polyester filament yarn in China from 2006 and 2017:



Source: Ipsos Report

DYEING AND PROCESSING FABRIC SERVICE INDUSTRY

Apart from the polyester filament yarn production industry, the dyeing and processing fabric service is also another key process in the textile industry.

Dyeing and processing

Depending on the finished differentiated polyester fabric that is required to be dyed or processed, the dyeing and processing process mainly involves the following steps:

1. filtering the excess irrelevant elements of the fabric by boiling it (commonly known as fiber opening);

2. pre-setting the fabric to stabilise and set the shape of the fabric;

3. raising and sanding the fabric through computer-controlled machines which the fabric is rubbed and tensioned to give an additional thickened and fluffy appearance and texture feel of fleece;

4. dyeing process involves placing the fabric in dyeing tanks for treatment with the relevant colour dyes up to a specified period and temperature, depending on the colour intensity required;

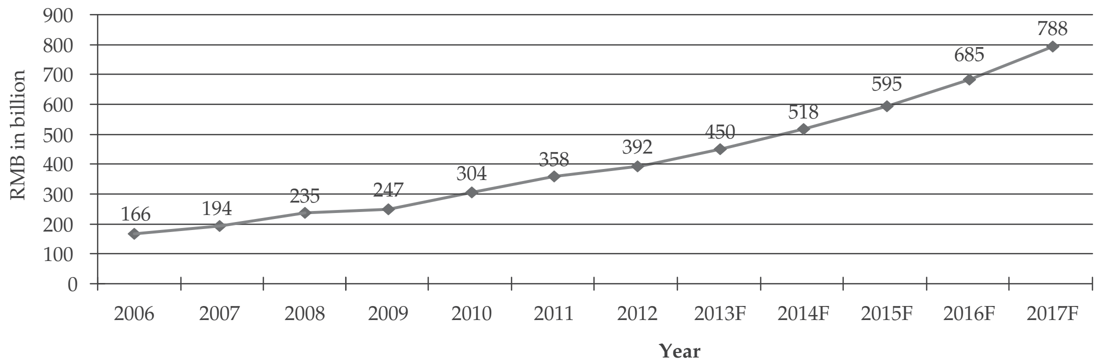
5. dyed fabric is then dehydrated and dried in the drying machines;

6. fabric is carded and brushed to smooth out the fluffy fleece layer of fabric; and

7. the dyed and processed fabric is treated again by the setting machines which extend the fabric under high temperature to enhance its smoothness and to stabilise the size, shape and colour fastening of the fabric.

Market size of dyeing and processing fabric service industry in China

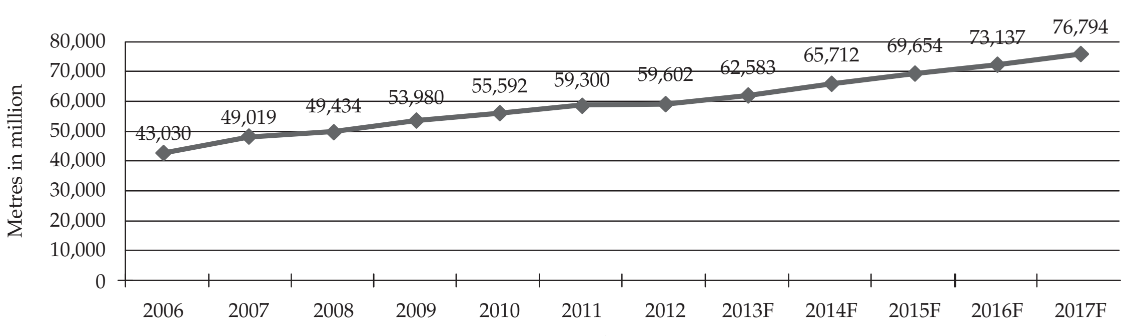
The revenue of dyeing and processing fabric service in China mainly comprised of processing fee as well as revenue from sales of dyed and processed fabric, and had increased from approximately RMB166 billion in 2006 to approximately RMB392 billion in 2012, at a CAGR of approximately 15.4%. The CAGR of estimated revenue of dyeing and processing fabric service in China from 2013 to 2017 is approximately 15.0%. The following chart shows the total historical and estimated revenue of dyeing and processing fabric service in China from 2006 to 2017:



Source: Ipsos Report

Production volume for dyeing and processing service in China

According to the Ipsos Report, the production volume for dyeing and processing service in China increased from approximately 43,030 million metres in 2006 to approximately 59,602 million metres in 2012. The CAGR of production volume of dyeing and processing service in China from 2006 to 2012 is approximately 5.6%. The CAGR of estimated production volume of dyeing and processing fabric service in China from 2013 to 2017 is approximately 5.3%. The following chart shows the historical and estimated production volume of dyeing and processing fabric service in China between 2006 and 2017:

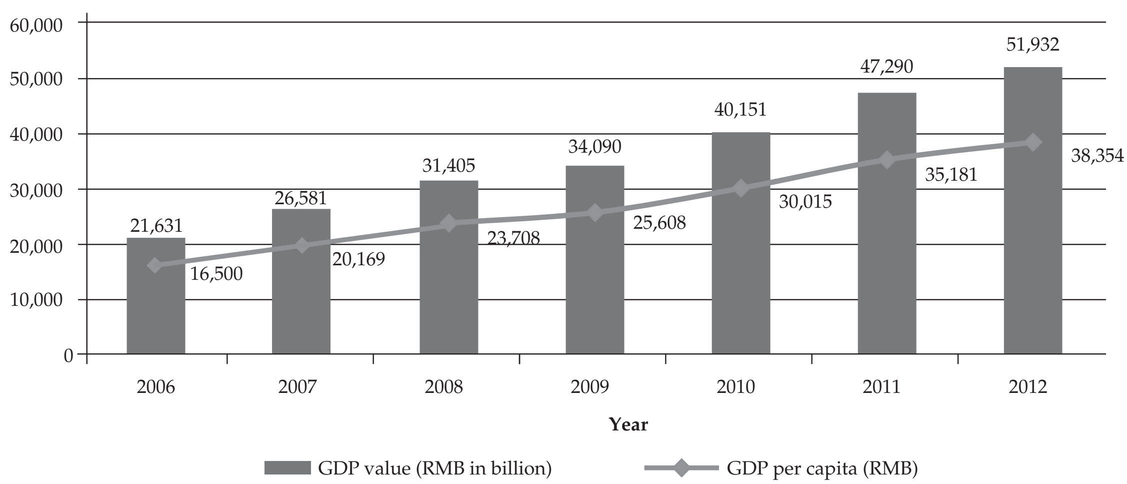


Source: Ipsos Report

FACTORS AFFECTING THE PERFORMANCE OF THE TEXTILE INDUSTRY

Economic growth in China

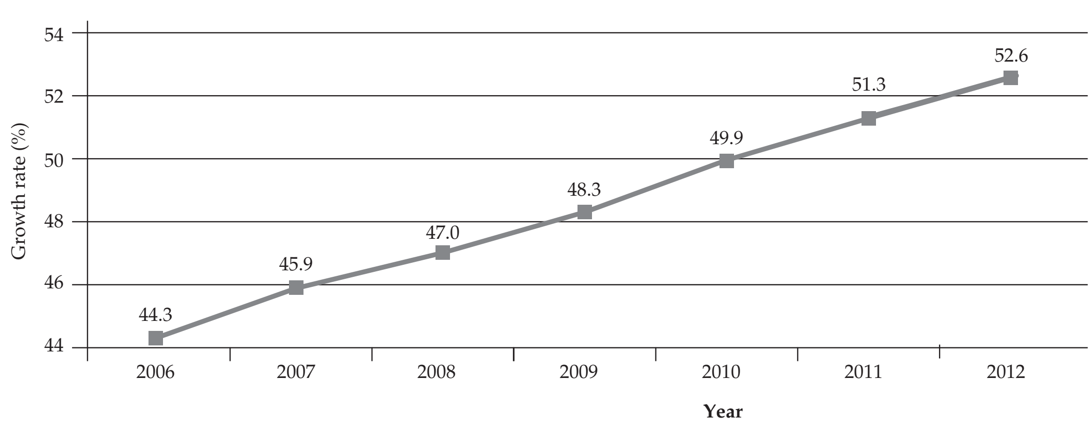
According to the National Bureau of Statistics of China, the GDP of China increased from approximately RMB21,631 billion in 2006 to approximately RMB51,932 billion in 2012. From 2006 to 2012, the GDP per capita of China also increased from approximately RMB16,500 to approximately RMB38,354. The following chart shows the GDP and GDP per capita of China from 2006 to 2012:



Source: National Bureau of Statistics of China

Growth of urban population in China

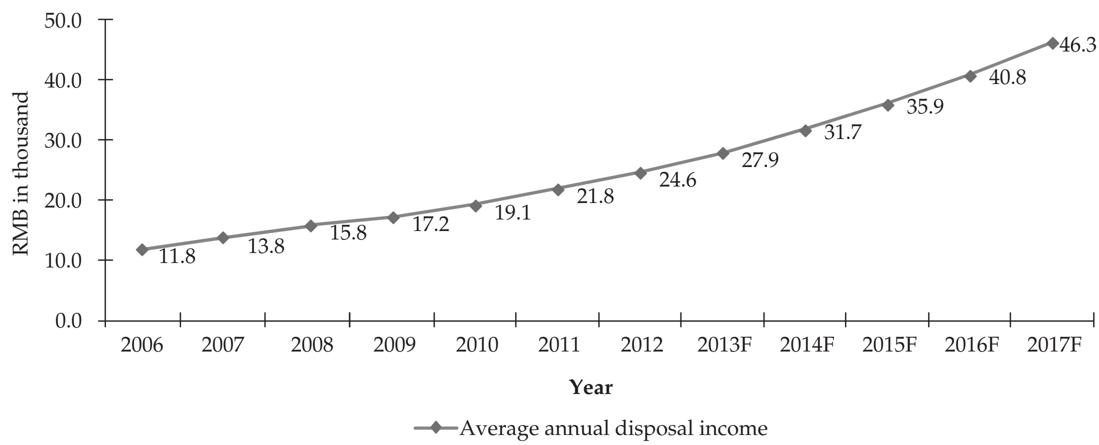
According to the National Bureau of Statistics of China, the urban population growth rate has increased from approximately 44.3% in 2006 to approximately 52.6% in 2012. The following chart shows the urban population growth rates of China from 2006 to 2012:



Source: National Bureau of Statistics of China

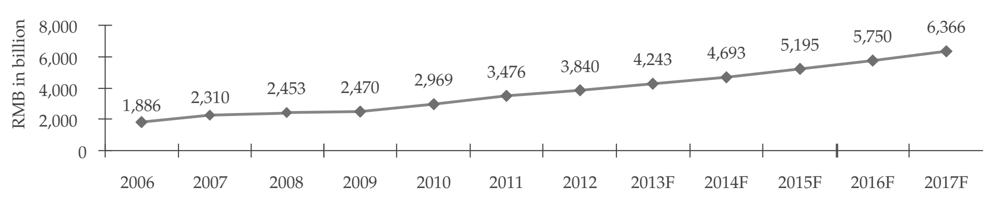
Growth in disposable income in China

The prosperous growth of China's economy has contributed to the growing level of disposable income in China. According to the National Bureau of Statistics of China, the average annual disposable income per capita for urban households in China grew from approximately RMB11.8 thousand in 2006 to approximately RMB24.6 thousand in 2012. According to the Ipsos Report, in light of the "Income-Doubling plan" launched by the PRC government in order to raise the income level of Chinese residents, it is expected that the average annual disposable income per capita will boost in China. The following chart shows the historical and estimated average annual disposable income in urban area in China from 2006 to 2017:



Source: National Bureau of Statistics of China

With the increase in disposable income, consumers in China now seek after apparel products with better quality, design, style and functionality. It is expected that consumers in China will gradually increase their demand for garment and home furnishings products with more diversified properties. Hence, the demand for polyester filament yarn is expected to increase accordingly. The following chart shows the historical and estimated total revenue of garment and home furnishings products in China from 2006 to 2017:



Source: "Twelfth Five Year Development Plan" of Textile Industry《紡織工業"十二五"發展規劃》

COMPETITION

Textile-related products trading industry in China

In general, the textile-related products trading industry in China has a low barrier of entry. Relationship with clients, product portfolio, as well as sales and logistic and industry network coverage are the key factors that affect the competitiveness of textile-related products trading companies in China. In particular, company that exposed to different aspects of the value chain of the textile industry in China could accumulate extensive and comprehensive textile industry knowledge. According to the Ipsos Report, there were more than 20,000 textile-related products trading companies in China in 2012. The domestic trading companies in China mainly operates as reserving inventories to sell when the price increase.

In the past, the textile-related products trading industry was dominated by international and state-owned trading companies. However, with the increase in number of domestic trading companies, the market share of domestic middle and small scale trading companies increase in China. International trading companies usually have more experience in the international trading of textile-related products, and also develop a more mature operation and inventory management system, which remain competitive in the textile-related products trading industry in China. Unlike international trading companies, domestic trading companies in China remain in the operation model of reserving inventories to sell when the price increase.

As our Group is located in Hangzhou, our proximity to the hub of the textile industry allow us to have available access to the industry news and market information, more exposure to downstream textile industry players. Moreover, by being engaged in the production of polyester filament yarn as well as the provision of dyeing and processing fabric service, our Group has great insight of market trend of textile-related products. Accordingly, according to the Ipsos Report, our Group has competitive advantage in the textile-related products trading business in China.

Polyester filament yarn production industry in China

In general, the polyester filament yarn manufacturers compete on a variety of factors, such as product variety, pricing and geographic location. On one hand, competitive advantage of regular polyester filament yarn is gained through market share, economies of scale, and cost advantages of raw materials and logistics. On the other hand, the competitive advantage of differentiated polyester filament yarn is achieved through product differentiation, customised service, industry experience and operational excellence.

According to the Ipsos Report, the polyester filament yarn industry in China is highly fragmented with over 600 polyester filament yarn manufacturers in 2012. The top ten polyester filament yarn manufacturers in China, namely Tong Kun Group Co., Ltd. (桐昆集團股份有限公司), 恒力集團有限公司 (Hengli Group*), 恒逸集團 (Zhejiang Hengyi Group Co., Ltd.*), 盛虹集團 (Shenghong Corporation*), 榮盛化纖 (Zhejiang Rongsheng Holding Group*), 新鳳鳴集團 (Xin Feng Ming Group*), 紹興億豐化纖有限公司 (ShaoXing

YiFeng Chemical Fiber Co., Ltd.*), 杭州翔盛紡織有限公司 (Xangsheng Group*), 開氏集團（天元化纖）(Tianyuan Chemical Fiber Co., Ltd.) and 江蘇華亞化纖有限公司 (Jiangsu Huaya Fiber Co., Ltd.*), collectively accounted for approximately 38.4% of the market share of polyester filament yarn manufacturing in China in terms of revenue in 2012 . Our Group accounted for approximately 0.2% and 0.3% of the total market share of polyester filament yarn manufacturing in China and Zhejiang Province respectively in terms of revenue in 2012. Given that (i) our Group has developed over 20 types of differentiated polyester filament yarn, including the SPH; and (ii) our Group is one of 11 polyester filament yarn related companies that were accredited as 國家紡織產品開發基地 (Fabrics China Pioneer Plant) in China as of 31 December 2012, our Directors consider that we have competitive advantage in polyester filament yarn production industry in China in terms of our strength in research and development in polyester filament yarn, especially in differentiated polyester filament yarn.

As (i) the construction of polyester filament yarn production facilities requires substantial investments to achieve production capacities that provide a reasonable economic return; and (ii) the production of high quality and differentiated polyester filament yarn require technical knowledge and significant investment in research and development, according to the Ipsos Report, new entrants with weak capital and technical capability would usually face difficulties to produce quality products.

In addition, new entrants in the market would find it harder to gain business, as they may need to spend more effort on marketing and business development to build a strong track record and client portfolio to expand their customer base. Further details in relation to threat(s) faced by new entrants of polyester filament yarn manufacturers are set out in the paragraph headed "market growth drivers and market threats" under this section of the prospectus.

Dyeing and processing fabric service industry in China

In general, dyeing and processing fabric service providers in China compete on product diversity, reputation, product quality as well as production efficiency. According to the Ipsos Report, the dyeing and processing fabric service industry in China is very fragmented and there were over 2,300 dyeing and processing fabric service providers in China in 2012, in which the top ten players accounted for less than 5.0% of the total market share in China. Zhejiang was the top production region which accounts for more than 59.0% of the total production in 2012. Most of the dyeing and processing fabric service providers in Zhejiang Province focus on synthetic fabric dyeing and processing.

The dyeing and processing fabric service industry involves complicated process which requires high level of technical standard as well as high quality of workers. In addition, such industry consumes a huge amount of water which creates water pollution. The Eleventh Five Year Plan of textile industry proposed the implementation of environmental protection, energy saving, clean production, printing and dyeing and processing technology, while the Twelfth Five Year Plan of textile industry further refined the entry requirements into dyeing and processing fabric service industry in China. Accordingly, not only new entrants would be required to fulfill entry requirements, but all existing enterprises must also obtain approval for expanding production scale and build new production lines. As such, operating costs for dyeing and processing fabric service providers would increase. With the increasing difficulty in obtaining approval for new and expansion projects, new entrants would find it more difficult to enter into the dyeing and processing fabric service industry in China. Further details in relation to industry requirements are set out in the paragraph headed "Summary of relevant laws and regulations on textile dyeing and printing and fabric industry" under the section headed "Regulatory overview" in this prospectus.

Since our Group has integrated the know-how in the production of differentiated polyester filament yarn with the techniques in dyeing and processing differentiated fabric, our Directors consider that we are more experienced in handling differentiated polyester filament yarn and products produced by differentiated polyester filament yarn, such as differentiated polyester fabric.

MARKET GROWTH DRIVERS AND MARKET THREATS

Textile-related products trading industry in China

On one hand, in relation to export of textile-related products, due to the economic recovery of developed countries and increase in export to emerging markets, according to the Ipsos Report, the export market of textile-related products in China is expected to grow at a CAGR of approximately 7.5% during the period of Twelfth Five Year Plan.

On the other hand, regarding import of textile-related products in China, as there is a rapid growth in the textile-related product market in China, there is a huge demand for textile-related products, such as cotton. In addition, since domestic textile manufacturers highly rely on imported textile-related products, the appreciation of RMB which lowers the price of foreign textile-related products creates market opportunity for textile-related products trading industry in China.

Further, according to the Ipsos Report, the PRC government imposed a quota system for imported cotton, whereby cotton trading is restricted not to be more than 33.0% of the total amount of state trading. Hence, such restriction would directly affect the trading volume of cotton conducted by trading companies in China.

Apart from domestic policy restraint, slowdown in market demand from Europe, the US and Japan will pose threats to the future development of textile-related products export trading industry in China. Especially with RMB appreciation, coupled with the rising operating cost including raw materials, such would weaken China's position as a low cost producer in the world and pose threat to textile-related products trading companies in China.

Polyester filament yarn production industry in China

Strong economy in China is driving domestic demand for polyester filament yarn in China, while the heightened cotton price drives the demand for polyester filament yarn as a substitution for cotton yarn. According to the Ipsos Report, it is expected that the price of cotton will increase from approximately RMB19,673 per tonne in 2013 to approximately RMB23,014 per tonne in 2017.

According to the Ipsos Report, as (i) there are limited land resources for growing cotton, while the supply of crude oil is relatively reliable; (ii) cotton is expected to continue to be in short supply both globally and domestically in China in the coming years; and (iii) polyester filament yarn has similar quality and characteristics as natural fiber yarn, it is expected that the demand for polyester filament yarn will continue to be strong and the market will continue to use polyester filament yarn as a partial substitute for natural fiber yarn, and the price of polyester filament yarn is expected to continue to increase.

Moreover, polyester filament yarn is synthetic yarn which is made from petrochemical primarily derived from crude oil. With the cost of raw materials accounted for approximately 85.0% of the total cost of production, the increase in prices and/or a decrease in the supply of crude oil, being a key material used to manufacture polyester filament yarn, could raise the operating cost of polyester filament yarn manufacturers, in particular, small-scale manufacturers with limited capital. Hence, those small-scale manufacturers might be driven out of market. If the prices of natural fiber yarn decline or if there are significant technological advances in weaving and spinning of natural yarn, polyester filament yarn could be rendered less competitive or even obsolete.

In addition, as compared with foreign polyester filament yarn manufacturers, domestic polyester filament yarn manufacturers in China with lower capability in research and development, lack new product portfolios in which they could hardly meet the market demand. Further, as Europe, United States, Japan, India and Turkey imposed anti-dumping tax on Chinese produced man-made fiber, textile and apparels, such trade protectionism has negatively affected the export volume of polyester filament yarn in China.

Dyeing and processing fabric service industry in China

According to the Ipsos Report, with the increasing difficulty in obtaining approval for new or expansion projects, new entrants would find it more difficult to enter into the dyeing and processing fabric service industry in China which limits the growth capacity of dyeing and processing industry. As a result, the dyeing and processing industry cannot accommodate the growing demand of customers. Also, the PRC government encourage to improve the environmental standards of the dyeing service industry, which increased the operating cost for dyeing and processing service providers in China. Further, increase in raw material and labour costs in China also contributed to the rising operating costs and improvement in technology level and value added products also caused the price of dyeing and processing service in China to grow. Hence, the price of dyeing and processing services is expected to increase from 2013 to 2017.

However, with the appreciation of RMB, implementation of labour law in China and rising raw material costs, there has been an increase in operational cost of textile manufacturing industry in China. In addition, developing countries, such as India, Pakistan, and Indonesia, are working vigorously to expand their textile industry. With increasing environmental concern in China, we believe that these will post major threats on dyeing and processing fabric service industry in China. Further details of environmental concern are set out in the sub-paragraph headed “Dyeing and processing fabric service industry in China” in the paragraph headed “Competition” in this section of the prospectus.

SUMMARY OF THE HISTORICAL AND FUTURE PERFORMANCE OF THE TEXTILE INDUSTRY IN CHINA

	Historical performance *(Between 2010 and 2012)*	**Future performance** *(Between 2013 and 2017)*
Yarn manufacturing	• total revenue of regular polyester filament yarn and differentiated polyester filament yarn increased from approximately RMB82.6 billion and RMB110.0 billion in 2010 to approximately RMB86.0 billion and RMB147.1 billion in 2012 respectively; and • production volume of regular polyester filament yarn and differentiated polyester filament yarn increased from approximately 7.9 million tonnes and 8.8 million tonnes in 2010 to approximately 8.7 million tonnes and 12.3 million tonnes in 2012 respectively.	• total revenue of regular polyester filament yarn and differentiated polyester filament yarn is expected to increase from approximately RMB89.9 billion and RMB174.0 billion in 2013 to approximately RMB103.0 billion and RMB313.8 billion in 2017 respectively; • production volume of regular polyester filament yarn and differentiated polyester filament yarn is expected to increase from approximately 9.0 million tonnes and 14.2 million tonnes in 2013 to approximately 9.5 million tonnes and 23.2 million tonnes in 2017 respectively; and • it is expected that there would be increase in the capital investment on new product research and development, in order to reduce the production cycle for polyester filament yarn and produce polyester filament yarn with different function, texture and performance in the future.

	Historical performance *(Between 2010 and 2012)*	Future performance *(Between 2013 and 2017)*
Dyeing and processing fabric service	➢ revenue of dyeing and processing fabric service increased from approximately RMB304 billion in 2010 to approximately RMB392 billion in 2012; and ➢ production volume of dyeing and processing fabric service increased from approximately 55,592 million metres in 2010 to approximately 59,602 million metres in 2012.	➢ revenue of dyeing and processing fabric service is expected to increase from approximately RMB450 billion in 2013 to approximately RMB788 billion in 2017; ➢ production volume of dyeing and processing fabric service is expected to increase from approximately 62,583 million metres in 2013 to approximately 76,794 million metres in 2017; and ➢ due to the introduction of《印染企業准入公告管理暫行辦法》 (Interim Regulations of the Announcement Management of the Textile Printing and Dyeing Industry Access), there would be higher entry barrier for dyeing and processing fabric service industry which might result in a decrease in number of service providers in China.
Textile-related products trading industry	■ total trading revenue of Major Textile-related Products increased from approximately RMB472 billion in 2010 to approximately RMB638 billion in 2012; ■ total trading consumption volume of Major Textile-related Products increased from approximately 46.4 million tonnes in 2010 to approximately 62.1 million tonnes in 2012; and ■ average price of cotton fluctuated greatly, with the average price of cotton ranged from approximately RMB23,844 per tonne in 2011 to approximately RMB18,916 per tonne in 2012.	■ total trading revenue of Major Textile-related Products is expected to increase from approximately RMB756 billion in 2013 to approximately RMB1,303 billion in 2017; ■ total trading consumption volume of Major Textile-related Products is expected to increase from approximately 71.4 million tonnes in 2013 to approximately 109.3 million tonnes in 2017; and ■ average price of cotton, MEG, PTA, nylon chips and PET chips is expected to be stabilised, and there is expected to be an increase in price for cotton, MEG, nylon chips and PET chips, except for PTA.

SUMMARY OF RELEVANT LAWS AND REGULATIONS ON TEXTILE DYEING AND PRINTING AND FABRIC INDUSTRY

Industry Requirements

According to the *Catalogue of Industries for Guiding Foreign Investment (Revised 2011)* (外商投資產業指導目錄(2011年修訂)) issued by the *Ministry of Commerce of the PRC* (中華人民共和國商務部) ("**MOFCOM**") and the *National Development and Reform Commission of the PRC* (中華人民共和國國家發展和改革委員會) ("**NDRC**") on 23 December 2011, which became effective on 30 January 2012, weaving, dyeing, finishing and processing of high-end textiles using advanced energy conservation and emission reduction technologies and equipment classed as "textile industry" belongs to the "encouraged category".

It is allowed and encouraged to establish foreign investment enterprises in the industry of textile printing and dyeing. Although there is no pre-approval procedures for the establishment of such foreign investment enterprises, the *Textile Printing and Dyeing Industry Access Conditions (Revised 2010)* (印染行業准入條件(2010年修訂版)) ("**Industry Access Conditions (Revised 2010)**") issued by the *Ministry of Industry and Information Technology of the PRC* (中華人民共和國工業和信息化部) ("**MIIT**") on 11 April 2012 and became effective on 1 June 2012, sets specific access conditions to the printing and dyeing projects on the layout of manufacture enterprises, the technology and equipment requirements, quality and management, resource consumption, environmental protection and comprehensive utilization of resources, and production safety and social responsibility. Any new or expansion projects must meet the access conditions. Compared to the *Textile Printing and Dyeing Industry Access Conditions* (印染行業准入條件) issued by NDRC on 4 February 2008, and became effective as on 1 March 2008, the Industry Access Conditions (Revised 2010) emphasized on the following changes:

1. no new printing and dyeing projects shall be established in the scenic spots, nature reserves, drinking water protection areas defined by the state council and relevant departments of the state and provincial (autonomous regions and municipalities directly under the central government), and the specified range outside the major rivers;

2. no new printing and dyeing projects shall be established in the regions with lack of water or with water of poor quality in principle. The development of the printing and dyeing projects in the regions with lack of environmental capacity shall be restricted. The new and expansion projects shall be combined with the elimination of the backward production capacity in the area;

3. the overall performance of the new and expansion printing and dyeing production lines shall reach or approach the international level;

4. the printing and dyeing projects shall have their own wastewater treatment system or have access to the centralized industrial wastewater treatment facilities. No wastewater of the printing and dyeing projects shall be discharged to the urban sewage treatment system. If it is prerequisite to have access to the urban sewage treatment system, the projects must submit to the governmental department in charge of the urban sewage treatment system, the projects for approval and apply for the *Urban Drainage Permit* (城市排水許可證);

5. the water recycling rate shall reach 35% or above; and

6. the new or expansion printing and dyeing projects shall be filed with the provincial investment or industrial management department. After given pretrial opinions on the project environmental impact evaluation report by the provincial industrial management department, the project environmental impact evaluation report shall be submitted to the provincial environmental protection department for approval.

The printing and dyeing projects management of the file with the governmental department of the project, the project construction, the land supply, the environmental impact assessment approval, the safety production approval, the credit financing, etc. shall be subject to the Industry Access Conditions (Revised 2010). The governmental departments of investment, industry, national land resources, and environmental protection, the housing and urban-rural construction, and safety supervision, etc. shall strengthen their supervision and inspection towards the new and expansion printing and dyeing projects, and no approvals shall be given to those unqualified projects. The new or expansion printing and dyeing project shall not start their production and operation until on the satisfaction of the required access requirements and application for all the related approvals.

According to the *Interim Regulations of the Announcement Management of the Textile Printing and Dyeing Industry Access* (印染企業准入公告管理暫行辦法) promulgated by the MIIT and the *Ministry of Environmental Protection of the PRC* (中華人民共和國環境保護部) and became effective on 19 January 2012, public announcement management shall be implemented for those printing and dyeing enterprises consistent with the Industry Access Conditions (Revised 2010). In addition to the satisfaction of access conditions, the printing and dyeing enterprises with the status of an independent legal entity shall be qualified for announcement application on the condition that no backward crafts, technologies, equipment and products specified in the *Guiding Catalogue for Adjustment in the Structure of Industries (2011 version)* (產業結構調整指導目錄(2011年本)), the *Guiding Catalogue for Eliminating Backward Production Equipment and Products in Certain Industries (2010 version)* (部分工業行業淘汰落後生產工藝裝備和產品指導目錄(2010年本)) and the *Catalogue for Eliminating Energy Intensive and Backward Electromechanical Equipment (Products) (the First Batch)* (高耗能落後機電設備(產品)淘汰目錄(第一批)) for elimination are applied to the production of such enterprises. The departments concerned shall support the enterprises enrolled in the announcement list in respects of filing of new projects, land supply, technological upgrading, pollution treatment and credit.

Adjustment in the Structure of Industries

Pursuant to the *Guiding Catalogue for Adjustment in the Structure of Industries (2011 version)* (產業結構調整指導目錄(2011年本)) promulgated by the NDRC on 27 March 2011 which was later revised on 16 February 2013 and became effective on 1 May 2013, the industries listed in this catalogue is divided into three categories, encouraged, restricted and eliminated. Any industry in accordance with the laws, regulations and policies and not belonging to the three categories shall be classed as "permissible", which not included in the catalogue.

Differential, functional fiber production and production of high-grade textile fabric by way of adopting cleaner production technology of dyeing and finishing and functional finishing technologies with the function of waterproof, oil proof, anti-fouling, fire-retardant, antistatic and multi-function composite are classed as the encouraged industry.

Industry Development Plan

The MIIT simultaneously published the *Development Planning of the Textile Industry During the 12th Five-Year Plan* (紡織工業「十二五」發展規劃) and the *Development Planning of the Chemical Fiber Industry During the 12th Five-Year Plan* (化纖工業「十二五」發展規劃) on 19 January 2012, raised the key tasks and the area of focus of the textile and the chemical fiber industry during the 12th five-year plan as well as the primary policies and supporting measures as follows:

1. in the strategic new industry planning of high-end equipment manufacturing and new materials, textile machinery, new type fiber materials and high performance industrial textiles are ranked as the key for support. Speeding up the development of differential and high performance fiber industrialisation, promoting biomass fibers and its raw materials industrialization, advocating energy conservation, emission reduction and resource recycling and accelerating the development and application of chemical fiber key technology and equipment are further emphasized in column form;

2. the special funds for science and technology will play a role in supporting development of service platform for textile technology innovation and promoting breakthroughs in the fields of key technology and equipment for textile industry. The special funds for medium and small-sized enterprises development will play a role in supporting development of public service platforms for product research and development, testing and inspection, technical promotion and brand establishment in cluster areas of textile industry;

3. the PRC government supports the textile enterprises in the fields of new textile fiber materials, high-end textile equipment, industrial textiles, brand dress and household textiles to raise capital via initial public offering, encourages the enterprises to improve their abilities of innovation and brand operation. This will includes measures such as supporting the qualified enterprises to expand financing channels and improve the ability to raise capital by way of issuing bonds, small and medium-sized enterprises collective bonds and short-term financing bonds, and advocating the guarantee agencies to provide credit guarantee and financing service for medium and small-sized textile enterprises; and

4. the PRC government will remain the export tax rebate policies on textile and clothing products relatively stable, ensure tax rebate in full and on time, further improve the trade environment in connection with import and export management, customs clearance facilitation and foreign exchange management.

SUMMARY OF RELEVANT LAWS AND REGULATIONS ON EXPORTS OF TEXTILE PRODUCTS

According to the *Regulations on the Administration of Import and Export of Goods of the PRC* (中華人民共和國貨物進出口管理條例) promulgated by the State Council on 10 December 2001, export quotas and export licences system had been implemented on goods that subject to export control. While exporting restricted export goods subject to export quotas and export licences, exporters should apply for quota certificates and export licences.

On 18 September 2006, the MOFCOM promulgated the *Measures for the Administration of the Export of Textiles (Provisional)* (紡織品出口管理辦法（暫行）) ("**Provisional Measures**"). According to the Provisional Measures, interim export control had been implemented on textiles products listed in the *Catalogue of Textile Exports Subject to Provisional Administration* (紡織品出口臨時管理商品目錄) ("**Exports Catalogue**"). While exporting textile products listed in the Exports Catalogue, foreign trade companies should apply to the local commerce authorities for a Provisional Export Licence for Textile Products. As for commodities that subject to the provisional export licence administration, foreign trade companies should apply to the organisations authorised by the General Administration of Quality Supervision, Inspection and Quarantine ("**General Administration of Quality Supervision**") for the certificate of country of origin for the products after acquiring the *Provisional Export Licence for Textile Products* (紡織品臨時出口許可證). On 24 December 2006, MOFCOM, General Administration of Quality Supervision issued the 2006 Announcement No. 106, announcing a new *Catalogue of Textile Exports to the United States Subject to Provisional Administration* (輸美紡織品出口臨時管理商品目錄) and *Catalogue of Textile Exports to the European Union Subject to Provisional Administration* (輸歐盟紡織品出口臨時管理商品目錄) to replace the above Exports Catalogue.

According to the *Agreement on Textile and Clothing* (紡織品與服裝協議) reached by the Uruguay round negotiation, quotas was cancelled among the member states, which provides favourable conditions for the promotion of the export growth on Chinese textile products. Nevertheless, in accordance with Section 16 of the *Protocol of China's Entrance into WTO* (中華人民共和國加入WTO議定書), in cases where products of Chinese origin are being imported into the territory of any WTO member state in such increased quantities or under such conditions as to cause or threaten to cause market disruption to the domestic producers for directly competitive products, the WTO member state so affected may pursue application of a measure on safeguards separately for Chinese products. The period of such special safeguards shall be calculated from 11 December 2001 to 11 December 2013.

On 31 December 2008, the special safeguards stipulated under the Paragraph 242 of the *Report of the Working Party on the Accession of China to WTO* (中國加入世貿組織工作組報告書) ("**Report**") and the memoranda of understanding entered into between China with the United States, and the China and European Union expired, the WTO members no longer imposed restrictions on textiles from China according to the Paragraph 242 of the Report since then, and the MOFCOM no longer imposed administration on the export amount and quota licence on textile products exported to the United States and the European Union.

According to the 2011 No. 955 Regulations promulgated by the European Union in 2011, ever since 24 October 2011, examinations imposed on certificate of origin of all the categories of textile products exported to the member states of the European Union from the Chinese enterprises shall be cancelled, that is, certificate of origin of textile products shall no longer needed for those Chinese enterprises exporting textile products to the member states of the European Union. The Certificate Authorities stopped issuing the certificate of origin of textile products exported to the European Union, the certificate of hand-making products exported to the European Union and the certificate of origin of silk and linen products exported to the European Union.

According to the *Foreign Trade Law of the PRC* (中華人民共和國對外貿易法) promulgated by the *Standing Committee of the National People's Congress* (全國人民代表大會常務委員會) ("**NPC Standing Committee**") on 12 May 1994 and amended on 6 April 2004, a foreign trade dealer who intends to engage in the import and export of goods or technologies shall register with the department for foreign trade under the State Council or the body it entrusts with the registration, unless otherwise prescribed by laws, administrative regulations or by the said department. The specific measures for registration shall be formulated by the department. Where a foreign trade dealer fails to register as required by regulations, the Customs shall not process the procedures of declaration, inspection and release for the import or export of goods. Further pursuant to the *Notice of the Ministry of Commerce on Relevant Issues Concerning the Record-filing and Registration of the Foreign Trade Rights of Foreign-Invested Enterprises* (關於外商投資企業外貿權備案登記有關問題的通知) promulgated by the MOFCOM on 17 August 2004, foreign-invested enterprises lawfully established before 1 July 2004 that have not applied for a change in business scope or to engage in any new import and export business activities other than those they have been engaged in, and foreign-invested enterprises lawfully established after 1 July, 2004 that engage in import and export trade of goods and technologies for self-use or which are self-produced are not required to go through the record-filing and registration formalities for foreign-invested operators.

According to the *Administrative Provisions of the Customs of the PRC over Registration of Declaring Entities* (中華人民共和國海關對報關單位註冊登記管理規定), unless otherwise stipulated by the laws, administrative regulations or rules of customs, a declaring entity shall go through the registration procedures at the customs in accordance with these provisions. Registration of declaring entities shall be divided into the registration of declaring enterprises and the registration of consignees or consignors of imported or exported goods.

SUMMARY OF RELEVANT LAWS AND REGULATIONS ON IMPORT AND EXPORT OF GOODS

Pursuant to the *Regulations on the Administration over Import and Export of Goods of the PRC* (中華人民共和國貨物進出口管理條例) promulgated by the State Council on 10 December 2001, the import and export of goods are generally allowed by the PRC government, however, the prohibitions or restrictions explicitly stipulated in the laws or administrative regulations shall still be complied with during the conduct of import and export of goods by individuals or entities.

The *Foreign Trade Law of the PRC* (中華人民共和國對外貿易法) promulgated by the NPC Standing Committee on 12 May 1994 and amended on 6 April 2004 further elaborates on the reasons the State may base on to restrict or prohibit the import and export of relevant goods or techniques. According to the provisions of the *Foreign Trade Law of the PRC* (中華人民共和國對外貿易法), the State may restrict or prohibit the import or export of relevant goods or technologies for any of the following reasons: (1) the State needs to restrict or prohibit import or export in order to maintain national security, public interests or public morality; (2) the State needs to restrict or prohibit import or export in order to protect the health or safety of people, the lives or health of animals and plants, and the environment; (3) the State needs to restrict or prohibit import or export in order to implement measures related to gold or silver import and export; (4) the State needs to restrict or prohibit export due to short supply at home or in order to effectively protect natural resources that are likely to be exhaustible; (5) the State needs to restrict export due to the limited market capacity of importing countries or regions; (6) the State needs to restrict export due to the serious disorder of export; (7) the State needs to restrict import in order to establish or step up establishing specific industries at home; (8) it is necessary to restrict the import of agricultural, animal husbandry and fishery products in any form; (9) the State needs to restrict import in order to maintain the State's international financial status and balance of international payments; (10) the State needs to restrict or prohibit import or export for other reasons in accordance with the provisions of laws and administrative regulations; and (11) the State needs to restrict or prohibit import or export for other reasons in accordance with the provisions of international treaties and agreements that China has concluded or acceded to.

Based on the above, the PRC relevant governmental authorities successively promulgated a series of catalogues regarding the export of goods and techniques, mainly including five series of *Catalogue of Goods Prohibited for Export* promulgated since 2001 and *Catalogue of Techniques Prohibited or Restricted for Export* promulgated on 12 December 2001, and revised on 16 September 2008.

Except for the prohibitions and restrictions on the scope of goods and techniques that may be imported or exported, certain formalities shall also be gone through for the conduct of such activities. For example, the declaration of imported or exported goods and payment of duties shall be completed in accordance with the *Customs Law of the PRC* (中華人民共和國海關法) promulgated by the NPC Standing Committee on 8 July 2000 and revised on 29 June 2013, and foreign exchange registration and collection and payment of foreign exchange shall be made in accordance with the *Foreign Exchange Control Regulations of the PRC* (中華人民共和國外匯管理條例) promulgated by the State Council on 29 January 1996, revised on 14 January 1997 and subsequently revised on 5 August 2008.

Material Regulatory Measures Applicable to our Group

As advised by our PRC Legal Advisers, the following are the material regulatory measures that our Group is subject to for our import and export activities conducted during the Track Record Period:

1. according to Article 24 of the *Customs Law of the PRC* (中華人民共和國海關法), each of the consignee of import goods and the consigner of export goods shall make a truthful declaration and submit the import or export licence and relevant papers to the customs office for inspection. In the absence of an import or export licence, no goods whose importation is restricted by the State may be released.

   As confirmed by our Directors, for each of the import and export activities conducted by our Group during the Track Record Period and up to the Latest Practicable Date, our Group has made a truthful declaration and submitted the relevant licences and papers to the customs office for inspection;

2. according to Article 2 of the Interim Measures on Supervision of the Verification and Write-off of Import Foreign Exchange Payments for Trading (貿易進口付匯核銷監管暫行辦法) and Article 4 of the Measures for the Pilot Reform of the Administration of Import Payment in Foreign Exchange for Trading of Goods (貨物貿易進口付匯管理改革試點辦法), our Group shall go through certain formalities to complete the payments of foreign exchange payable under its import activities. As confirmed by our Directors, our Group has complied with such requirements in its import activities during the Track Record Period and up to the Latest Practicable Date; and

3. according to Article 6 of the Management Measures on the Verification and Write-off of Export Foreign Exchange Collections (出口收匯核銷管理辦法), which was abolished on 1 August 2012, our Group shall go through certain formalities to complete the collections of foreign exchange receivable under its export activities. As confirmed by our Directors, our Group has complied with such requirements in its export activities from the commencement of the Track Record Period to the date of abolishment of such measures.

During the Track Record Period, we had exported polyester fabric, polyester filament yarn and other low-value commercial goods in the ordinary course of business to various countries, including Syria and Iran (collectively as "**Sanctioned Countries**"). In light of our Group's sales of products to customers in the Sanctioned Countries, which are countries that are subject to sanctions administered by the Office of Foreign Assets Control of the U.S. Department of Treasury, the sanctions laws of other countries and under international law (collectively, "**International Sanctions**"), we have appointed DLA Piper Hong Kong, an international law firm, to determine whether our sales of products to the Sanctioned Countries during the Track Record Period violate the International Sanctions.

As advised by DLA Piper Hong Kong, based on the following procedures conducted by them, our sales and business dealings in the Sanctioned Countries during the Track Record Period were activities that would not constitute violations of any International Sanctions:

(a) reviewed documents provided by us that evidence our sales transactions to customers in the Sanctioned Countries during the Track Record Period;

(b) received written confirmation from us that neither our Group nor any of our affiliates has conducted during the Track Record Period any business dealings in or with any other countries or persons that are the subject of International Sanctions; and

(c) reviewed the list of customers to whom such sales of products have been made during the Track Record Period against the lists of persons and organisations subject to International Sanctions, and confirmed that none of our customers are on such lists.

SUMMARY OF RELEVANT LAWS AND REGULATIONS ON SAFETY STANDARD OF TEXTILES PRODUCTS

According to the *Law of the PRC on Product Quality* (中華人民共和國產品質量法) issued by the NPC Standing Committee on 8 July 2000, producers and sellers shall establish and improve their internal system for product quality control, and strictly apply the quality standards for jobs, the quality responsibility system and the related check measures. Producers and seller shall be liable for product quality in accordance with this Law. The quality of a product shall undergo inspection until it proves to be up to the standards. No sub-standard product may be passed off as an up-to-standard one. The PRC government, with respect to produce quality, applies a system of supervision and inspection with random checking as the main form. Products constituting potential threats to human health, to personal safety and safety of property, important industrial products which have a bearing on the national economy and the people's wellbeing, and products with quality problems as reported by consumers or relevant organisations shall be subject to random checking. Any producer or seller not being up to the relevant regulations stipulated in this Law shall be fined, ordered to discontinue production or sale of products, revoked whose business licence; if a crime is constituted, criminal responsibility shall be investigated.

The General Administration of Quality Supervision and the Standardization Administration of the State jointly released a mandatory national standard, the *Technical Specification of the Basic Security on the National Textile Products* (國家紡織產品基本安全技術規範), on 14 January 2011. This specification previously planned to carry out on 1 August 2011, in view of the more strict requirements imposed by this revised specification and the longer duration for selling out textile and clothing products in stock inconsistent with this specification, the effective date of the *Technical Specification of the Basic Security on the National Textile Products* was postponed to 1 August 2012.

The target indexes stipulated in this specification include formaldehyde concentration, PH values and smell. Clothing tested in accordance with A level standard shall be available for infants and young children, clothing tested in accordance with B level standard shall be worn next to skin and clothing tested in accordance with C level standard shall be worn. Ever since the date of 1 August 2012, the production, sale and importation of any textile product inconsistent with the specification shall be prohibited.

SAFETY PRODUCTION

According to the *Textile Printing and Dyeing Industry Access Conditions (Revised 2010)* (印染行業准入條件(2010修訂版)), the new and expansion of printing and dyeing projects shall design the facilities of safety production, and the safety pre-evaluation and acceptance of security facilities shall be made in accordance with the requirements of the *Design Standards of the Safety of the Textile Industry Enterprises* (紡織工業企業安全設計標準), for the purpose of ensuring the safety facilities designed, built, commissioned and operated together with the principal part of the project.

ENVIRONMENTAL PROTECTION REGULATIONS

In accordance with the *Environmental Protection Law* (環境保護法) promulgated and came into effect by the NPC Standing Committee on 26 December 1989, units constructing projects that cause pollution to the environment must observe the state provisions concerning environmental protection for such construction projects. Enterprises and institutions discharging pollutants must report to and register with the relevant authorities in accordance with the provisions of the competent department of environmental protection administration under the State Council, and discharge in accordance with the relevant standards for the discharge of pollutants established by the competent department of environmental protection administration under the State Council and the local governments. Enterprises and institutions discharging pollutants in excess of the prescribed national or local discharge standards shall pay a fee for excessive discharge according to state provisions and shall assume responsibility for eliminating and controlling the pollution. If an enterprise or institution has caused severe environmental pollution, it shall be required to eliminate and control the pollution within a certain period of time. Any enterprise or institution that has failed to eliminate or control pollution by the deadline as required shall, as provided for by the state, pay a fee for excessive discharge; in addition, a fine may be imposed on it on the basis of the damage incurred, or the enterprise or institution may be ordered to suspend its operations or close down. A unit that has caused an environmental pollution hazard shall have the obligation to eliminate it and make compensation to the unit or individual that suffered direct losses. If a violation of this Law causes a serious environmental pollution accident, leading to the grave consequences of heavy losses of public or private property or human injuries or deaths of persons, the person directly responsible for such an accident shall be investigated for criminal responsibility according to law.

In accordance with the *Law of the PRC on Appraising of Environment Impacts* (中華人民共和國環境影響評價法) promulgated by the NPC Standing Committee on 28 October 2002 and became effective on 1 September 2003, and the *Regulations on the Administration of Construction Project Environmental Protection* (建設項目環境保護管理條例) issued by the State Council and implemented on 29 November 1998, the PRC government has set up a system to appraise the environmental impact from construction projects. A construction unit shall make arrangements for preparing a document for evaluation of the environmental effects and submit for examination and approval to the competent administrative department for environment protection. The project could not be put into construction before the approval of the document for evaluation of the environmental effects obtained. In the process of construction and operation of a project, things inconsistent with what is stated in the examined and approved document for evaluation of environmental effects occur, the construction unit shall make arrangements for post-evaluation of the environmental effects and take measures for improvements, and submit a report to the department for original examination and approval of the document for evaluation of environmental effects and to the original department for examination and approval of the construction project for the record; and the original department for examination and approval of the document for evaluation of environmental effects may also instruct the construction unit to make post-evaluation of the environmental effects and to take measures for improvements. Where any material changes are made in the nature, scale, location or production techniques of a construction project after the environmental impact document of the construction project is approved, the construction unit shall submit anew an environmental document of the construction project for approval. The environmental protection facilities which need to be associated with a construction project shall be designed, constructed and commissioned simultaneously with the principal part of the project. Upon the completion of a construction project, the construction unit shall apply with the competent administrative department of environmental protection for inspection and acceptance with the construction project. A construction project shall not be put into formal operation or use until the construction project has passed the inspection and acceptance.

Pursuant to the *Classification Catalogue of Construction Project Environment Protection* (建設項目環境保護分類管理名錄) revised on 15 August 2008 and became effective on 1 October 2008, written reports on the environmental effects shall be drawn up and prepared for the project on chemical fiber manufacturing, textile manufacturing associated with wool washing, dyeing and finishing, degumming, discharging reeling and refining waste water, and the clothing manufacturing projects with wet printing, dyeing and washing process. Such construction projects shall not be put into operation until the written report on the environmental effects approved by the competent administrative department of environmental protection. In accordance with the *Industry Access Conditions (Revised 2010)*, the new and expansion printing and dyeing projects shall be filed with the provincial investment or industrial management department after given pretrial opinions on the Project Environmental Impact Assessment Report by the provincial industrial management department.

The PRC government successively promulgates a series of laws and regulations with regard to the discharge of atmospheric pollution, waste water, solid waste pollution and noise, including the *Prevention and Control of Atmospheric Pollution Law* (大氣污染防治法) promulgated by the NPC Standing Committee on 5 September 1987, revised on 29 August 1995 and 29 April 2000 and came into effect on 1 September 2000, the *Prevention and Control of Water Pollution Law* (水污染防治法) promulgated by the NPC Standing Committee on 11 May 1984, revised on 15 May 1996 and 28 February 2008 and came into effect on 1 June 2008, the *Prevention and Control of Environmental Noise Pollution* (環境噪聲污染防治法) promulgated by the NPC Standing Committee on 29 October 1996 and came into effect on 1 March 1997 and the *Prevention and Control of Solid Waste Pollution* (固體廢物污染環境防治法) promulgated by the NPC Standing Committee on 30 October 1995, revised on 29 December 2004 and came into effect on 1 April 2005. Pursuant to the aforesaid regulations, where any project under construction, renovation or expansion might discharge atmospheric and water pollution or cause any environmental noise and solid waste, such project must conform to the regulations of the State governing environmental protection, apply for pollutant discharge permit and discharge pollutant in accordance with the regulations.

Of which, pursuant to the *Prevention and Control of Water Pollution Law* (水污染防治法), the PRC government implements the pollutant discharge permit rules. Any enterprise or institution that directly or indirectly discharges industrial waste water, medical sewage and other waste water and sewage, the discharge of which shall be subject to a pollutant discharge permit shall obtain the relevant pollutant discharge permit. No enterprise or institution is allowed to discharge the aforementioned waste water and sewage into water bodies without the requisite pollutant discharge permit or in violation of the provisions set forth on the pollutant discharge permit. Enterprises, institutions and sole proprietors that discharge pollutants directly into a water body shall pay a pollutant discharge fee in accordance with categories, quantities of the pollutants discharged and standards for charging pollutant discharge fees. In violation of the provisions stipulated in the *Prevention and Control of Water Pollution Law* (水污染防治法), the competent administrative department for environment protection shall be entitled to order the enterprise to adopt treatment measures within the time limit, impose a fine on it, suspend operations or close down.

According to the *Announcement of Publishing Four National Pollutants Discharge Standards including the Discharge Standard of Waste water of Textile, Dyeing and Finishing Industry* (關於發佈《紡織染整工業水污染物排放標準》等四項國家污染物排放標準的公告) jointly released by the Ministry of Environmental Protection and the General Administration of Quality Supervision on 19 October 2012, the revised *Discharge Standard of Waste water of Textile, Dyeing and Finishing Industry* (紡織染整工業水污染物排放標準) became effective on 1 January 2013. This standard stipulates the emission limits, monitoring and surveillance requirements of water pollutants generated in the production of textile, dyeing and finishing enterprises and is granted the effectiveness of forcible execution.

Pursuant to the *Industry Access Conditions (Revised 2010)*, any project under construction, renovation or expansion must conform to the following conditions in connection with the environmental protection and comprehensive utilization of resources:

1. the environmental protection facilities of the project under construction, renovation or expansion shall be designed and constructed in accordance with the requirements of the *Design Specification for Environmental Protection of Textile Industry Enterprises* (紡織工業企業環保設計規範), and designed, constructed and commissioned simultaneously with the principal part of the project. The printing and dyeing projects shall have their own wastewater treatment system or have access to the centralized industrial wastewater treatment facilities. No wastewater of the printing and dyeing projects shall be discharged to the urban sewage treatment system. If it is prerequisite to have access to the centralized wastewater treatment facilities, it must submit to the governmental department in charge of the centralized wastewater treatment facilities for approval and apply for the *Urban Drainage Permit*. The indexes of pollutant discharged by the enterprise available to the centralized wastewater treatment facilities shall achieve the standards of centralized wastewater treatment or required by the *Water Quality Standards of Sewage into the City's Sewers* (污水排入城市下水道水質標準). The indexes of pollutant discharged by the enterprise directly discharging into water shall achieve the controls required by the state and local discharge standard of water waste of textile, dyeing and finishing industry. The highly-efficient and energy-saving sludge treatment process shall be put into practice for the purpose of recycling of slurry and environment-friendly disposal;

2. the existing printing and dyeing enterprises shall have the conditions for water and solid waste treatment, strengthen the wastewater treatment, water analysis and monitoring, give a comprehensive treatment of water and solid waste, practice an online monitoring of waste water discharge. Any enterprise, whose waste water treatment facilities failing to work properly or waste water discharge unqualified to the normal standard, shall be ordered to suspend operations on the event that it fails to correct its acts and conform to the standards within the time limit prescribed by the competent authority;

3. on the principle of environment-friendly disposal and resources comprehensive utilization, the printing and dyeing enterprises shall choose the grey cloth biodegradable to slurry and easy to recycle, use eco-friendly, easily dyed dyeing and finishing materials and high performance fertilizer, improve the device for water cooling, water condensation and heat recycling. The mercerizing process must be configured with the device of lye automatic control and light alkali recycling. In the process of production and water discharge, the clean and waste water shall be discharged separately, disposed and recycled according to quality. The water recycling rate shall reach 35% or above; and

4. the printing and dyeing enterprises shall use the clean production technologies for sustainable development, improve the efficiency of resource utilization and control the generation of pollutants at the source of the production. The printing and dyeing enterprises shall periodically make the clean production assessment, conduct the energy auditing according to the related regulations and improve the cleaner production level.

SUMMARY OF RELEVANT LAWS AND REGULATIONS ON TAXATION

Enterprise Income Tax

The revised *Law of the PRC on Enterprise Income Tax* (中華人民共和國企業所得稅法) and its Implementing Rules which came into effect on 1 January 2008 replaced the *Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises* (中華人民共和國外商投資企業和外國企業所得稅法) and the *Interim Regulations of the PRC on Enterprise Income Tax* (中華人民共和國企業所得稅暫行條例). The revised EIT law applies a unified EIT rate of 25% to both domestic enterprises and foreign-invested enterprises and gives different transitional periods and measures. The *Notice on the Implementation of the Transitional Preferential Policies in respect of Enterprise Income Tax* (國務院關於實施企業所得稅過渡優惠政策的通知) issued and came into effect on 26 December 2007 further stipulates that commencing from 1 January 2008, enterprises that previously enjoy "2-year exemption and 3-year half payment" of the enterprise income tax and other preferential treatments in the form of periodic tax deductions and exemptions may continue to enjoy the relevant preferential treatments under the preferential measures and the time period prescribed in the former tax law, administrative regulations and relevant documents until the expiration of the said time period. However, if such an enterprise has not enjoyed the preferential treatments yet because of its failure to make profits, it preferential time period shall be calculated from 1 January 2008 until the expiration of the said time period.

Value-Added Tax

The *Interim Regulations Concerning Value-Added Tax of the PRC* (中華人民共和國增值稅暫行條例) promulgated by the State Council and amended on 5 November 2008 came into effect on 1 January 2009. In accordance with this regulations and the *Implementing Rules of the Provisional Regulations Concerning Value-Added Tax of the PRC* (中華人民共和國增值稅暫行條例實施細則), value-added tax is imposed on goods sold in or imported, and provision of processing, repairs and replacement service within the territory of the PRC. The value-added rate shall be 17%.

Export Tax Rebate

For the purpose of avoiding double taxation on exported commodities, the state imposing the indirect taxes often refunds such taxes included in exported commodities to the enterprises. The PRC government practices the tax rebate system in connection with foreign trade export commodities, that is, paying back the VAT input tax to the enterprises on the basis of different product tax rebate. According to the *Administrative Measures for Tax Rebate (Exemption) of Exported Goods (for Trial Implementation)* (出口貨物退(免)稅管理辦法(試行)) promulgated by the State Administration of Taxation on 16 March 2005 and came into effect on 1 May 2005, as regards proprietary goods exported by an exporter or goods exported thereby upon entrustment, except as otherwise specified, after export customs declaration and financial accounting for sales, the exporter may report to the office of the State Administration of Taxation at the domicile therefore the approval of rebate or exemption of VAT or consumption tax on the strength of relevant vouchers. The scope of tax rebate (exemption) of exported goods, tax rebate rate and tax rebate (exemption) methods shall be implemented in accordance with relevant provisions of the State. In recent years the export tax rebate rate for textile products has been adjusted from time to time. Pursuant to the *Notice of Providing the Export Tax Rebate for Textile and Electronic Information Commodities issued by the Ministry of Finance and the State Administration of Taxation* (財政部、國家稅務總局關於提供輕紡電子信息等商品出口退稅率的通知), the export tax rebate for textile products and garments shall be increased to 16% with effect from 1 April 2009.

Pricing for Intra-group Transactions

According to Article 41 of the PRC Enterprise Income Law (the "**EIT**"), with regard to business transactions between an enterprise and its related parties which are not in conformity with the principle of independent transaction and result in reduction of the amount of taxable income or income of the enterprise or its related parties, the tax authority shall have the right to make reasonable adjustments thereto. The EIT further requires the enterprise to attach an annual report on related party transactions (if any) between the enterprise and its related parties when submitting its annual enterprise income tax return to the tax authority by Article 43.

Departmental Interpretation and Practice Notes No.46 issued by the Inland Revenue Department of Hong Kong (the "**Department**") sets out the Department's views and practices on the methodologies of pricing for intra-group transactions and related issues while the Departmental Interpretation and Practice Notes No. 45 deals with double taxation relief of the intra-group transfer price adjustments.

Provisions relevant to pricing for intra-group transactions can be found in the Inland Revenue Ordinance (Cap.112) (the "**IRO**") and the comprehensive double taxation agreements (the "**DTA(s)**"). The DTAs have provisions mandating the adoption of the arm's length principle for pricing transactions between associated enterprises. The arm's length principle uses the transactions of independent enterprises as a benchmark to determine how profits and expenses should be allocated for the transactions between associated enterprises. The basic rule for DTA purposes is that profits tax charged or payable should be adjusted, where necessary, to reflect the position which would have existed if the arm's length principle had been applied instead of the actual price transacted between the enterprises.

The existence of a DTA however is not a prerequisite for making the intra-group transaction price adjustments. Where the circumstances warrant, adjustments will be made to transactions, domestic or otherwise, under the provisions of the IRO.

In March 2012, the Department published Departmental Interpretation Practice Notes No. 48 which provides a mechanism for taxpayers to pre-agree their transfer pricing arrangements with the Department.

DIVIDEND DISTRIBUTION

According to the *Detailed Implementing Rules for the Wholly Foreign-Owned Enterprise Law of the PRC* (中華人民共和國外資企業法實施細則) promulgated and came into effect on 12 December 1990 and revised on 12 April 2001, a wholly foreign-owned enterprise ("**WFOE**") shall withdraw reserve funds and the rewards and welfare funds for the employees from its profit after payment of income taxes pursuant to the tax laws of China. The proportional ratio of reserve funds to be withdrawn shall be no less than 10% of the after-tax profit, and further withdrawal may cease when the amount of cumulative withdrawn funds has reached 50% of the registered capital. The proportional ratio for withdrawal of rewards and welfare funds for the employees shall be determined at the discretion of the WFOE itself. Profit of a WFOE shall not be distributed before the losses thereof for the previous accounting years have been made up. Any undistributed profit for the previous accounting years may be distributed together with the distributable profit for the current accounting year.

According to the *Specification of Arrangements between the Mainland of China and the Hong Kong Special Administrative Region on Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income Order* (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) ("**Tax Arrangements**") executed and agreed by the PRC government and Hong Kong, where the beneficial owner is a company directly owning at least 25% of the capital of the company which pays the dividends, the tax so charged shall not exceed 5% of the gross amount of the dividends. In any other case, the tax so charged shall not exceed 10% of the gross amount of the dividends. According to the *Notice on How to Understand and Define the "Beneficial Owner" Stipulated in the Tax Arrangements* (關於如何理解和認定稅收協定中"受益所有人"的通知) promulgated by the State Administration of Taxation on 27 October 2009, the "beneficial owner" shall be the person entitled to be the ownership and control of the rights and property incurred from income or income. The "beneficial owner" may be an individual, a company or any other body of persons. The agent, tube company shall be excluded from "the beneficial owner". The Notice further stipulated, the conduit company means the company established for the purpose of avoiding or reducing tax, transfer or accumulation of profit. Such company registered in their countries shall be only on satisfaction of the basic organisation form required by the applicable laws and regulations, not involving any manufacture, marketing, management and any business activities.

SUMMARY OF THE RELEVANT LAWS AND REGULATIONS ON LABOUR AND EMPLOYMENT

The *Labour Law of the PRC* (中華人民共和國勞動法) promulgated by the NPC Standing Committee on 5 July 1994 and came into effect on 1 January 1995, together with the relevant laws and regulations, emphasises working hours, rest and vacations, and the principle of distribution of wages according to work and equal pay for equal work, establishes a system of guaranteed minimum wages and provides special protection to female staff and workers and juvenile workers.

The *Labour Contract Law of the PRC* (中華人民共和國勞動合同法) promulgated by the NPC Standing Committee on 29 June 2007 and became effective on 1 January 2008 is applicable where the employers establish labour relationships with employees through concluding, performing, modifying, revoking or terminating labour contracts with them. Labour contracts in written form shall be executed to establish labour relationship between employees and employers, and the labour contracts consist of fixed-term labour contracts, open-ended labour contracts and labour contracts that expire upon completion of given jobs. Where the employer fails to conclude a written labour contract with an employee for more than a month but less than a year from the date it starts employing him, it shall pay the worker two times his salary for each month. In addition, the conditions of concluding open-ended labour contracts and the payable financial compensation undertaken by employers shall also be emphasized in this law.

SOCIAL INSURANCE

According to the *Labour Law of the PRC* (中華人民共和國勞動法), the *Decision of the State Council on Establishing the Unified Basic Pension Insurance System for the Employees of Enterprises* (國務院關於建立統一的企業職工基本養老保險制度的決定), the *Decision of the State Council on Establishing the Basic Medical Insurance System for the Urban Employees* (國務院關於建立城鎮職工基本醫療保險制度的決定), the *Regulation on Work-related Injury Insurance* (工傷保險條例), the *Regulation on Unemployment Insurance* (失業保險條例), the *Provisional Insurance Measures for Maternity of Employees* (企業職工生育保險試行辦法), the *Interim Provisions on Registration of Social Insurance* (社會保險登記管理暫行辦法), the *Interim Regulation on the Collection and Payment of Social Insurance Premiums* (社會保險費征繳暫行條例) and the *Regulations on the Administration of Housing Fund* (住房公積金管理條例), the employing unit and employee must participate in social insurance and pay social insurance premiums in accordance with the law. The employing units responsible for payment shall establish and complete the registration of social insurance and housing fund, and pay fees on basic pension insurance, work-related injury insurance, maternity insurance, basic medical insurance, unemployment insurance and housing fund for the employees.

According to the *Social Insurance Law of the PRC* (中華人民共和國社會保險法) promulgated on 28 October 2010 and came into effect on 1 July 2011, the PRC government establishes social insurance systems such as basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance so as to protect the right of citizens in receiving material assistance from the State and the society in accordance with the law when getting old, sick, injured at work, unemployed and giving birth, and emphasizes the legal obligations and responsibilities of units for pay social insurance premiums for employees as follows:

1. an employing entity shall apply for its workers to the social insurance agency for going through the formalities for social insurance registration within 30 days from the date on which the worker is employed. If the formalities for social insurance registration have not been gone through, the social insurance agency shall determine the social insurance premium that the employing entity should pay;

2. if an employing entity has not declared the amount of social insurance premiums that should be paid in accordance with the provisions, the amount that should be paid shall be determined based on 110% of the amount of premiums paid by the entity in the preceding month. After the entity paying the premiums handles the originally omitted declaration formalities, the social insurance premium collection institution shall make the settlement in accordance with the provisions;

3. if the employing entity does not pay or make up the difference of the social insurance premiums within the stipulated period, the social insurance premium collection institution may make enquires to the bank or other financial institutions about the deposit account of the entity. It may also apply to the relevant administration department above the county level to make the decision on the allocation of social insurance premiums and inform the bank or other financial institutions with which the account is opened in writing to allocate the social insurance premiums. If the balance in the account of the employing entity is less than the social insurance premiums that should be paid, the social insurance premium collection institution may request the employing entity to provide guarantee and sign the agreement on the delay in premium payment;

4. if the employing entity does not pay the full amount of the social insurance premiums and does not provide guarantee, the social insurance premium collection institution may apply to the people's court to attach, seize and auction the entity's properties with value equivalent to the social insurance premiums that should be paid and use the proceeds from the auction to pay the social insurance premiums; and

5. if an employing entity does not pay the full amount of social insurance premiums as scheduled before 1 July 2011, the social insurance premium collection institution shall order it to pay within a period; if payment is not made within the stipulated period, the institution shall impose a daily fine

equivalent to 0.2% of the overdue payment as of the date when the amount became overdue. As to those underpaid social insurance funds contributions derived after 1 July 2011, the institution shall order it to make the payment or make up the difference within the stipulated period and impose a daily fine equivalent to 0.05% of the overdue payment from the date on which the payment is overdue.

According to the *Regulations on the Administration of Housing Fund* (住房公積金管理條例) amended by the State Council on 24 March 2002, a unit shall go to the housing fund management centre to undertake registration of payment and deposit of the housing fund. A newly established unit shall go to the housing fund management centre to undertake housing fund payment and deposit registration within 30 days from the date of its establishment, and go to a commissioned bank to go through the formalities of opening housing fund accounts on behalf of its staff and workers within 20 days from the date of the registration with the verified documents of the housing fund management centre. When employing new staff or workers, the units shall undertake housing fund payment and deposit registration at a housing fund management centre within 30 days from the date of the employment, and shall go through the formalities of opening or transferring housing fund accounts of staff and workers at a commissioned bank with the verified documents of the housing fund management centre. Where, in violation of the provisions of these Regulations, a unit fails to undertake payment and deposit registration of housing fund or fails to go through the formalities of opening housing fund accounts for its staff and workers, the housing fund management centre shall order it to go through the formalities within a prescribed time limit; where failing to do so at the expiration of the time limit, a fine of not less than RMB10,000 nor more than RMB50,000 shall be imposed. Where, in violation of the provisions of these Regulations, a unit is overdue in the payment and deposit of, or underpays, the housing fund, the housing fund management centre shall order it to make the payment and deposit within a prescribed time limit; where the payment and deposit has not been made after the expiration of the time limit, an application may be made to a people's court for compulsory enforcement.

FOREIGN EXCHANGE CONTROL

Pursuant to the *Foreign Exchange Control Regulations of the PRC* (中華人民共和國外匯管理條例) promulgated by the State Council in January 1996 and came into effect in April 1996, and subsequently amended on 5 August 2008, the payments, including the trade balance, interests and dividends incurred, in foreign exchange and transfer of foreign exchange for current international transactions shall not be restricted, provided that such payments shall be based on truthful and legal transactions. If foreign exchange receipts for capital account transactions are to be retained at or sold to financial institutions engaged in settlement or sale of foreign exchange, the retaining or sale shall be subject to approval of foreign exchange control organs, except those not subject to approval as specified by the State. Domestic institutions or individuals that make direct investment abroad or are engaged in distribution or deal of overseas valuable securities or derivative products or borrow external debts or provide external guaranty or any other capital account transactions shall be subject to filing application or approval in accordance with the relevant provisions of the foreign exchange control department of the State Council.

According to the *Notice of the General Affairs Department of the State Administration of Foreign Exchange on the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-funded Enterprises* (關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知) promulgated by the State Administration of Foreign Exchange ("**SAFE**") on 28 August 2009, the RMB fund from the settlement of foreign currency capital of a foreign-funded enterprise shall be used within the business scope as approved by the examination and approval authorities, and shall not be used for domestic equity investment unless otherwise provided. Except foreign-funded real estate enterprises, no foreign-funded enterprise shall use the RMB fund from the settlement of foreign currency capital to purchase domestic real estate for any purpose other than its own use. When using the RMB fund from the settlement of foreign currency capital for any securities investment, a foreign-funded enterprise shall follow relevant provisions of the state.

CIRCULAR NO. 75

Pursuant to the *Circular of the SAFE on Relevant Issues concerning Foreign Exchange Administration of Financing and Return Investments Undertaken by Domestic Residents through Overseas Special Purpose Vehicles* (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) ("**Circular No. 75**") promulgated by the SAFE on 21 October 2005 and came into effect on 1 November 2005, residents in China who establish or controlled special-purpose vehicles outside of China and return investment inside shall apply for the registration for overseas investment in foreign exchange.

Our current beneficial owners who are PRC citizens or residents including Mr. Li, Ms. Li CY, Mr. Li WH, Mr. Zhou, Mr. Jin BW, Ms. Liu XL, Ms. Chen X, Mr. Wu, Mr. Jin BH, Mr. Jin JL, Ms. Li YQ, Mr. Li M, Ms. Chen GP, Ms. Zhang, Mr. Li ZH, Mr. Ma, Mr. Tao, Mr. Li TF, Mr. Liu XM, Ms. Wen and Mr. Jin ZF, obtained the registration form of overseas investment in foreign exchange by individual residents in China (境內居民個人境外投資外匯登記表), that is, going through the formalities for registration of overseas investment in foreign exchange in accordance with the Circular 75. The registration for the purpose of the Reorganisation and the registration of alterations as a result of the acquisition of Yongsheng Dyeing by Yongsheng (HK) and the acquisition of Yongsheng Trading (HK) by Yongsheng (BVI) had been completed on 28 April 2013.

M&A RULES

Pursuant to the *Regulation on the Acquisitions of Domestic Enterprises by Foreign Investors* (關於外國投資者並購境內企業的規定) ("**M&A Rules**") promulgated by the MOFCOM, the State-owned Assets Supervision and Management Committee under the State Council, the State Administration of Industry and Commerce, the State Administration of Taxation, the CSRC and the SAFE and became effective on 8 September 2006 and subsequently revised on 22 June 2009, overseas listing of an overseas company directly or indirectly controlled by a domestic company or natural person for the purpose of the overseas listing of the interests actually held by such domestic company or natural person in a domestic company shall be subject to the approval of the securities regulatory authority under the State Council.

Yongsheng Dyeing was established as a foreign-invested enterprise other than a domestic company before the implementation date of the M&A Rules. No merger and acquisition as defined in the M&A Rules occurred during the survival period of Yongsheng Dyeing. Therefore, the M&A Rules shall not be applicable to our Company; and this offering and listing shall not be subject to the approval of the securities regulatory authority under the State Council.

LAND PROPERTY

According to the *Constitution of the PRC* (中華人民共和國憲法) amended by the National People's Congress and became effective on 14 March 2004, land in the cities is owned by the state. Further pursuant to the *Interim Regulations of the PRC Concerning the Assignment and Transfer of the Right to the Use of the State-owned Land in the Urban Areas* (中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例), any company, enterprise, other organisation and individual within or outside of China may, unless otherwise provided by law, obtain the right to the use of the land and engage in land development, utilization and management in accordance with the provisions of this regulations. The maximum term with respect to the assigned right to the use of the land shall be determined respectively in the light of the purpose, 70 years for residential purposes; 50 years for industrial purposes; 50 years for the purposes of education, science, culture, public health and physical education; 40 years for commercial, tourist and recreational purposes; and 50 years for comprehensive utilization or other purposes.

In accordance with the relevant regulations, the right to the use of the land may be obtained by reaching an agreement through consultations, by invitation to bid or by auction. The user of the land shall signed the contract for assigning the right to the use of the land with the land administration departments ("**assigning party**"), and pay the total amount of the assignment free thereof within 60 days of the signing of the contract, failing which, the assigning party shall be entitled to terminate the contract and may claim compensation for breach of contract. After paying the total amount of the fee for the assigning of the right to the use of the land, the land user shall go through the registration thereof, obtain the certificate for land use and accordingly the right to the use of the land in accordance with the relevant provisions.

According to the *Property Law of the PRC* (中華人民共和國物權法) promulgated by the National People's Congress on 16 March 2007, the creation, alternation, transfer or extinction of the property right of the immovable shall became valid upon registration according to law, otherwise it shall not become valid, unless otherwise provided for by law. The register of the immovable provides the basis for the attribution and contents of the property right, which kept by the registration authority. The right attribution certificate of the immovable is the proof that the obligee is entitled to the property right of the said immovable.

INTELLECTUAL PROPERTY

According to the *Patent Law of the PRC* (中華人民共和國專利法) amended by the NPC Standing Committee on 27 December and the *Implementing Rules of the Patent Law of the PRC* (中華人民共和國專利法實施細則) amended by the State Council on 9 January 2010, inventions and utility models for which patent rights are granted shall be of novelty, creativity and practical applicability. Patent rights shall not be granted for scientific discoveries, rules and methods for intellectual activities, methods for the diagnosis or treatment of diseases, animal or plant varieties, substances obtained by means of nuclear transformation and designs that are mainly used for marking the pattern, colour or combination of these two of prints. The duration of the invention patent right shall be 20 years and that of the utility model patent right or design patent right shall be 10 years, commencing from the date of application. Unless otherwise specified by the Law, any exploitation of a patent by the third party shall be approved or authorised by the patentee, otherwise, that is, the patent right of the patentee is infringed. If a dispute arises as a result of such infringement, the dispute shall be settled through negotiation by the parties. If the parties are not willing to negotiate or if negotiation fails, the patentee or interested parties may file an action with the people's court, and may also request the department of the administration of patent-related work to handle the dispute.

According to the *Trademark Law of the PRC* (中華人民共和國商標法) amended by the NPC Standing Committee on 27 October 2001 and the *Implementing Rules of the Trademark Law of the PRC* (中華人民共和國商標法實施細則) amended by the State Council on 3 August 2002, natural persons, legal persons, or other organisations that need to obtain the exclusive right to use trademarks for the goods they produce, manufacture, process, select, or distribute shall apply to the Trademark Office for trademark registration. Trademarks that are registered upon verification and approval of the Trademark Office are registered trademarks, a trademark registrant shall be entitled to the exclusive right to use the registered trademark and such right shall be protected by law. A registered trademark shall be valid for ten years, commencing from the date of registration approval. To assign a registered trademark, the assignor and the assignee shall enter into an assignment agreement, and shall jointly file an application with the Trademark Office. A trademark registrant may licence its registered trademark to another party by entering into a trademark licence contract. The licensor shall supervise the assurance of the quality of the licencees' goods bearing the licensor's registered trademark. The licencee shall ensure the quality of their goods on which the registered trademark is used.

BUSINESS DEVELOPMENT OF OUR GROUP

Our Group is principally engaged in the trading of textile-related products, the dyeing and processing of differentiated polyester fabric as well as the production of polyester filament yarn. Prior to the establishment of our Group, the aforesaid business operations were carried out under Yongsheng Group and its then subsidiaries, a group of companies in which Mr. Li exercised control. In contemplation of the Listing, members of our Group have undergone the Reorganisation, and Yongsheng Group had transferred all the related businesses and companies to our Group and other companies with dissimilar businesses were not included in our Group, details of which are set out in the paragraph headed "Reorganisation" and "Non-inclusion of companies with dissimilar businesses" in this section of the prospectus.

Our trading business

Our founder, Mr. Li, started his career in the textile industry back in 1985 when Mr. Li engaged in the business of trading of textile-related products as a sole proprietor. In November 1997, Mr. Li decided to base the trading business in Xiaoshan City, Hangzhou and used the fund accumulated when he was a sole proprietor to establish Yongsheng Group to carry out the trading business. Yongsheng Group was engaged in the domestic trading and distribution of products which mainly included textile-related products.

In August 2000, Yongsheng Group collaborated with two collectively-owned/ state-owned enterprises to establish Hangzhou Yongsheng Trading and it was granted the import/export trading licence by the relevant governmental authorities in October 2000. The obtaining of import/export trading licence by Hangzhou Yongsheng Trading allowed us to carry out export trading business ourselves, thereby we were able to expand our customer base and diversify our trading products portfolio. At the relevant time, Yongsheng Group and Hangzhou Yongsheng Trading operated our trading business in parallel with each other, with Yongsheng Group primarily focused on the domestic trading of textile-related products and Hangzhou Yongsheng Trading focused on the trading of textile-related products, in particular, export trading.

Since 2000, Yongsheng Group commenced to serve as the investment holding company for its then subsidiaries along with its trading business. During the Track Record Period, the assets, liabilities and results of operations from the textile-related products trading business of Yongsheng Group were included into the consolidated financial statements of our Group. To prepare for the Listing and taking into account the overlapping of the textile-related products trading business between Yongsheng Group and Hangzhou Yongsheng Trading, Yongsheng Group had ceased all its textile-related products trading business and had integrated its resources in relation to the textile-related products trading business to Hangzhou Yongsheng Trading in 2012. Since then, Yongsheng Group mainly engages in the trading of metals and investment holding. For further details of the business operation of Yongsheng Group and subsequent development, please refer to the sub-paragraph headed "Yongsheng Group" under the paragraph headed "Corporate history" of this section of the prospectus.

Yongsheng Trading (HK)

In respect of our trading business, we trade a wide spectrum of textile-related products including cotton, PET chips/nylon chips, PTA, MEG, wood pulp and cotton pulp which were sourced locally or imported from overseas countries such as the US, South Korea, India, Taiwan and Brazil. In 2008 and 2010, Hangzhou Yongsheng Trading and Yongsheng Group commenced its trading relationship with Yongsheng Trading (HK) respectively. During each of the three years ended 31 December 2012, Hangzhou Yongsheng Trading and Yongsheng Group sold textile-related products which mainly included PTA and MEG to Yongsheng Trading (HK), which in turn mainly sold such products to our customers which preferred to settle the payment in foreign currency other than RMB (details of which are set out in page 203 under the paragraph headed "Our sales via Yongsheng Trading (HK)" in the section headed "Business" of the prospectus.) Yongsheng Trading (HK) was also one of our cotton yarn suppliers.

In December 2012, in order to enhance our overseas trading platform, facilitate the collection of market information and avoid competition in our trading business, we acquired the entire issued share capital of Yongsheng Trading (HK). Upon the acquisition of Yongsheng Trading (HK) by us in December 2012, Yongsheng Trading (HK) became our wholly-owned subsidiary and transactions between us and Yongsheng Trading (HK) will be eliminated upon consolidation. For further details, please refer to page 153 of the paragraphs headed "Acquisition of the shareholding in Yongsheng Trading (HK)" in this section of the prospectus.

Yongsheng Holdings

During each of the three years ended 31 December 2012, we carried out certain trading of textile-related products, mainly including cotton, cotton yarn and staple fiber, through Yongsheng Holdings, notwithstanding its original principal business is metal trading and investment holding, as we intended to increase the business activities of Yongsheng Holdings in order to facilitate its bank financing capability as well as to utilise its available trade finance facilities.

The related trading revenue of Yongsheng Holdings amounted to approximately RMB21.7 million, RMB204.5 million and RMB13.0 million respectively during each of the three years ended 31 December 2012. Accordingly, the assets, liabilities and results of operations from the trading of textile-related products business of Yongsheng Holdings were also included into the consolidated financial statements of our Group during each of the three years ended 31 December 2012. Since January 2013, Yongsheng Holdings has ceased trading of textile-related products. For further information, please refer to note (b) "Further information on Yongsheng Holdings" on page 127 in this section of the prospectus.

Our processing and production businesses

Leveraging on Mr. Li's extensive industry knowledge and built-up relationships in the textile industry through his prior business pursuit, we have started off our business with trading of textile-related products and subsequently ventured into the polyester filament yarn production and differentiated polyester fabric dyeing and processing business as we considered it would be advantageous to diversify our business and step into the manufacturing industry.

In July 2003, Yongsheng Group, HUVIS and Haeil Corporation Ltd. (株式會社海一) ("**Haeil**"), a korean-based company and an Independent Third Party entered into a joint venture agreement and agreed to establish Yongsheng Dyeing to engage in differentiated polyester fabric dyeing and processing. HUVIS is a chemical fiber manufacturing company based in South Korea principally engaged in the manufacturing of polyester chip, polyester staple fiber and polyester filament yarn, the shares of which are listed on the Korea Exchange with a market capitalisation of approximately HK$2.79 billion as at 31 December 2012 and recorded a revenue of approximately 1,562 million wons for the year ended 31 December 2012. Our Directors consider the collaboration with the South Korean partners could strengthen our management capability and we could benefit from their products know-how. In August 2003, the establishment of Yongsheng Dyeing was approved by the relevant governmental authority. In October 2003, we acquired a parcel of land situated in Xiaoshan District with a site area of approximately 65,000 sq.m. and commenced construction of our production base in November 2003. Yongsheng Dyeing commenced production in October 2004. As at the Latest Practicable Date, we had five processing lines with a dyeing and processing capacity of approximately 48 million metres of fabric per year.

In April 2004, Yongsheng Group further collaborated with HUVIS to establish Yongsheng Chemical Fiber to engage in production of polyester filament yarn. Yongsheng Chemical Fiber was owned as to 30% and 70% by Yongsheng Group and HUVIS respectively upon establishment. Initially, HUVIS provided us with general products know-how and technical advice on production and Yongsheng Chemical Fiber was managed by HUVIS. As Yongsheng Group accumulated relevant experience and know-how over the years, the then directors of Yongsheng Group and HUVIS considered that it would be more efficient and flexible for Yongsheng Group to take management control over Yongsheng Chemical Fiber as HUVIS was a foreign corporation with limited management presence in the PRC, hence HUVIS agreed to sell and Yongsheng Group agreed to acquire 40% equity interests in Yongsheng Chemical Fiber in 2007. Yongsheng Chemical Fiber was since then owned as to 70% and 30% by Yongsheng Group and HUVIS respectively prior to the Reorganisation. In October 2005 and February 2006, we acquired two parcels of land adjacent to the production base of Yongsheng Dyeing with an aggregate site area of approximately 39,000 sq.m. to house our production for polyester filament yarn. Our production of polyester filament yarn commenced in September 2006.

In June 2010, with the view to enrich our products portfolio and to broaden our customer base and capacity, we established Nantong Yongsheng and acquired a production site in Nantong and the production machineries through auction at the amount of RMB49.1 million, which previously belong to another polyester filament yarn manufacturer. We also recruited the Nantong Yongsheng Management Shareholders, each of whom was former staff members of the aforesaid polyester filament yarn manufacturer, and appointed one of them as director of Nantong Yongsheng. Our Directors consider the Nantong Yongsheng Management Shareholders could provide us with the relevant products know-how and operation experience of the acquired production facilities; and the recruitment of whom would be efficient and cost-effective to manage Nantong Yongsheng. Our production in Nantong Yongsheng commenced in September 2010.

Our products include various types of polyester filament yarn that can be classified into two main categories, regular polyester filament yarn and differentiated polyester filament yarn. During the three years ended 31 December 2012, the majority of our sales of polyester filament yarn were regular polyester filament yarn. However, we are aiming to gradually focus our production and sales on differentiated polyester filament yarn due to its higher profit margin. As such, approximately 78.4% of total sales of polyester filament yarn for the six months ended 30 June 2013 was contributed by sales of differentiated polyester filament yarn. As at the Latest Practicable Date, the total production capacity at our Fiber Facilities and our Nantong Facilities was approximately 14,600 tpa and 10,900 tpa respectively, with a total production capacity for polyester filament yarn of approximately 25,500 tpa, assuming all our production lines are in operation. We plan to further increase our production capacity at Nantong Facilities by the addition of four production lines by December 2014, which would increase our production capacity by approximately 7,600 tpa. At completion of our expansion, we expect to have a total production capacity of approximately 33,100 tpa of polyester filament yarn at our Fiber Facilities and Nantong Facilities.

Prospects

Going forward, we strive to continue to develop our businesses on the trading of textile-related products, the dyeing and processing of differentiated polyester fabric as well as the production of polyester filament yarn. In particular, we consider our differentiated polyester filament yarn production and dyeing and processing of differentiated polyester fabric to have a stronger development potential and could lead to a higher growth drive for our Group in the future, as indicated by (i) the higher gross profit margin in the relevant segments during the Track Record Period; (ii) the favourable policy on the textile manufacturing industry launched by the PRC government, including the Twelfth Five Year Plan, under which significant funding was provided by the PRC government for the restructuring and development of China's textile manufacturing industry, especially the polyester filament yarn industry; (iii) the expected increase in domestic demand and consumption for end products of differentiated polyester filament yarn such as apparel with special features; and (iv) the fast-growing trend for differentiated polyester filament yarn and dyeing and processing fabric service in China as illustrated in the Ipsos Report, of which the CAGR of total estimated revenue and production volume of differentiated polyester filament yarn in China from 2013 to 2017 is estimated to be approximately 15.9% and 13.1% respectively while the CAGR of total estimated revenue and production volume of dyeing and processing fabric service in China from 2013 to 2017 is estimated to be approximately 15.0% and 5.3% respectively.

For further particulars on business strategies of our Group, pleases refer to the paragraph headed "Our business strategies" under the section headed "Business" in this prospectus.

Notes:

(a) Further information on Yongsheng Trading (HK)

Key financial information of Yongsheng Trading (HK)

Total assets and total liabilities of Yongsheng Trading (HK) for each of the three years ended 31 December 2012 are summarised as follows:

	As of 31 December		
	2010	**2011**	**2012**
	HK$ million (unaudited)	*HK$ million (unaudited)*	*HK$ million (unaudited)*
Total assets	110.9	146.6	197.1
Total liabilities	108.6	138.2	184.6

In addition to the handling of our Group's trading business, Yongsheng Trading (HK) also engaged in trading of cotton yarn and polyester chips. Yongsheng Trading (HK)'s revenue, gross profit and gross profit margin attributable to (a) handling our Group's trading business; and (b) trading of cotton yarn and polyester chips are set out below:

Revenue	Year ended 31 December					
	2010		**2011**		**2012**	
	HK$ million (unaudited)	*%*	*HK$ million (unaudited)*	*%*	*HK$ million (unaudited)*	*%*
Revenue attributable to						
– Handling our Group's trading business	211.3	92.4	261.0	35.4	141.3	25.6
– Other businesses	17.4	7.6	476.4	64.6	411.1	74.4
Total revenue of Yongsheng Trading (HK)	228.7	100.0	737.4	100.0	552.4	100.0

Gross profit	Year ended 31 December					
	2010		**2011**		**2012**	
	HK$ million (unaudited)	*%*	*HK$ million (unaudited)*	*%*	*HK$ million (unaudited)*	*%*
Gross profit attributable to						
– Handling our Group's trading business	1.9	86.4	6.6	50.0	1.2	11.5
– Other businesses	0.3	13.6	6.6	50.0	9.2	88.5
Total gross profit of Yongsheng Trading (HK)	2.2	100.0	13.2	100.0	10.4	100.0

Gross profit margin	Year ended 31 December		
	2010	*2011*	*2012*
	%	%	%
	(unaudited)	*(unaudited)*	*(unaudited)*
– Handling our Group's trading business	0.9	2.5	0.8
– Other businesses	1.8	1.4	2.2
– Overall gross profit margin for Yongsheng Trading (HK)	1.0	1.8	1.9

	Year ended 31 December		
	2010	**2011**	**2012**
	HK$ million	**HK$ million**	**HK$ million**
	(unaudited)	*(unaudited)*	*(unaudited)*
Total net profit/(loss) of Yongsheng Trading (HK)	(1.8)	6.1	4.1

Major customers of Yongsheng Trading (HK)

Sales to top five customers of Yongsheng Trading (HK) accounted for approximately 35.9%, 46.9% and 60.2%, of its total revenue respectively, during each of the three years ended 31 December 2012. All of those top five customers of Yongsheng Trading (HK) are located in the PRC. In addition, there were no sales to Sanctioned Countries by Yongsheng Trading (HK) during the Track Record Period.

Key transaction terms

Prior to the acquisition and Yongsheng Trading (HK) becoming a wholly-owned subsidiary of our Company, salient terms of transactions between our Group and Yongsheng Trading (HK) were negotiated on an arm's length basis and on normal commercial terms. Pricing of transactions between our Group and Yongsheng Trading (HK) was determined with reference to (a) prices at which Yongsheng Trading (HK) sells the goods to third party customers, which are agreed between our Group and the third party customers in advance, and (b) a mark-up of not more than 1.0% of the transaction amounts which represented the handling fees given to Yongsheng Trading (HK) for its handling services.

After the acquisition and Yongsheng Trading (HK) became a wholly-owned subsidiary of our Company, there is no difference in the pricing arrangements between our Group (excluding Yongsheng Trading (HK)) and Yongsheng Trading (HK) and the function to be carried out by Yongsheng Trading (HK) remain the same, and therefore the risk exposure and the tax implication also remain the same after the acquisition. The mark-up would still apply under the pricing arrangements between our Group (excluding Yongsheng Trading (HK)) and Yongsheng Trading (HK) after the acquisition.

For each of the three years ended 31 December 2012, actual mark-ups by Yongsheng Trading (HK) on onward sales to external customers were approximately HK$1.9 million (or 0.90%), HK$6.6 million (or 2.54%) and HK$1.2 million (or 0.86%), respectively, which were equal to the gross profit margin of Yongsheng Trading (HK)'s business segment for handling our Group's overseas trading business. The higher actual mark-ups by Yongsheng Trading (HK) in 2011 was to compensate the increase in the operating costs of Yongsheng Trading (HK) including increase in commission paid and bank charges which was driven by the increase in volume of business handled by Yongsheng Trading (HK), and was agreed by our Group after taking into account the resultant amount was immaterial.

Accounting for sales transactions through Yongsheng Trading (HK) prior to completion of acquisition

Prior to completion of the acquisition and Yongsheng Trading (HK) becoming a wholly-owned subsidiary of our Company, our Group recognised sales when the sales transactions with Yongsheng Trading (HK), which was regarded as our Group's customers, were undertaken and the related risk and rewards associated with the inventory was transferred to Yongsheng Trading (HK). Such sales transactions with Yongsheng Trading (HK) were not accounted for as "intra-group" transactions given that Yongsheng Trading (HK) was not part of our Group prior to the acquisition.

Management of Yongsheng Trading (HK)

The operations of Yongsheng Trading (HK) were managed by Yongsheng Trading (HK) Management Shareholders. Our Directors confirmed that there was no sharing of resources between Yongsheng Trading (HK) and our Group prior to the acquisition in 2012.

(b) Further information on Yongsheng Holdings

Key financial information on Yongsheng Holdings

During each of the three years ended 31 December 2012, Yongsheng Holdings was principally engaged in trading of metals and textile-related products mainly including cotton, cotton yarn and staple fiber. Accordingly, the related assets, liabilities and results of operations from the trading of textile-related products business of Yongsheng Holdings were included into the consolidated financial statements of our Group for each of the three years ended 31 December 2012. Since January 2013, Yongsheng Holdings has ceased trading of textile-related products. Set out below is a summary of the total assets and total liabilities, revenue and gross profit/(loss) of Yongsheng Holdings during each of the three years ended 31 December 2012:

	As of 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
	(unaudited)	*(unaudited)*	*(unaudited)*
Total assets	451,068	702,261	930,180
Total liabilities	399,124	616,297	835,821

Revenue attributable to	Year ended 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
	(unaudited)	*(unaudited)*	*(unaudited)*
Textile-related products trading	21,737	204,509	12,953
Metals trading	157,811	429,259	1,341,700
Total revenue of Yongsheng Holdings	179,548	663,768	1,354,653

Gross profit/(loss) attributable to	Year ended 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
	(unaudited)	*(unaudited)*	*(unaudited)*
Textile-related products trading	3,862	11,350	180
Metals trading	5,657	(17,471)	(15,203)
Total gross profit/(loss) of Yongsheng Holdings	9,519	(6,121)	(15,023)

Yongsheng Holdings' revenue from trading of textile-related products in 2011 was significantly higher than that in 2010 as (i) the relevant trade commenced in September 2010 and hence only four months' revenue was recorded, and (ii) there was strong market demand for cotton, cotton yarn and staple fiber since late 2010 and throughout 2011. Such revenue in 2012 was significantly lower than that in 2011 as (i) Yongsheng Holdings has ceased to purchase textile-related products since early 2012; and (ii) Yongsheng Holdings only engaged in clearance sale of the remaining inventories during the year.

For each of the three years ended 31 December 2012, Yongsheng Holdings recorded gross profits attributable to textile-related products trading of approximately RMB3.9 million, RMB11.4 million and RMB0.18 million respectively. The fluctuation in profit is in line with that of the revenue for the reasons set out in the paragraph above. In respect of metals trading, Yongsheng Holdings recorded gross profits of approximately RMB5.7 million for the year ended 31 December 2010 while suffered gross loss of approximately RMB17.5 million and RMB15.2 million for each of the two years ended 31 December 2012, respectively. The fluctuation in profitability was a result of (i) commencement of trading of copper in 2011 (which accounted for approximately 65% of the revenue from metals trading for the relevant year) with a gross loss margin of approximately 9% due to the unfavourable market conditions; and (ii) continuing sluggish market demand for copper in 2012 with a gross loss of approximately 2%, which accounted for approximately 86% of the revenue from metals trading for the relevant year.

Management of Yongsheng Holdings

Yongsheng Holdings engaged two teams to manage its businesses of trading in metals and textile-related products. The team managing the metal trading business did not hold any management position in our Group during the Track Record Period while the team managing the textile-related products trading is supervised by Mr. Li, who was the director and general manager of Yongsheng Holdings as well as the executive Director. Our Directors confirmed that the bases of customers and suppliers in relation to the textile-related products trading of our Group were shared to Yongsheng Holdings for its textile-related products trading for each of the three years ended 31 December 2012. In addition, the office and administrative functions such as accounting and human resources of Yongsheng Holdings were shared between its metals trading business and textile-related products trading business. Expenses of Yongsheng Holdings which were directly attributable to the textile-related products trading such as sales staff and delivery costs were included in our Group. Expenses of Yongsheng Holdings which were shared between its metals trading business and textile-related products trading business were allocated to our Group based on percentage of the respective revenue attributed from these businesses during the year.

As advised by our PRC Legal Advisers, the textile-related products trading business was within the permitted scope of business of Yongsheng Holdings.

Allocation of trades between our Group and Yongsheng Holdings

As our Group's subsidiaries, in particular, Hangzhou Yongsheng Trading, and Yongsheng Holdings generally use letters of credit or other trade finance facilities for settlement in relation to our purchase of textile-related products, their trading capacity is determined by, among others, their respective available trade finance facilities for making such purchase from time to time. Our Directors confirmed that our management team in general will allocate trades of textile-related products to our Group's subsidiaries first until our Group's subsidiaries have fully utilised their available trade finance facilities.

Yongsheng Holdings has ceased purchasing textile-related products since early 2012 in contemplation of the Listing. For the rest of 2012, Yongsheng Holdings only engaged in clearance sale of the remaining inventories. Since January 2013, Yongsheng Holdings has ceased trading of textile-related products.

Basis of allocation of assets and liabilities relating to trading of textile-related products between Yongsheng Holdings and our Group

The assets and liabilities that were directly related with trading of textile-related products business were included in the consolidated financial statements of our Group during the Track Record Period.

Milestones of our Group

Below are the major milestones and achievements in our business development up to the Latest Practicable Date:

Time	Event
November 1997	Commencement of our trading business under Yongsheng Group
August 2000	Establishment of Hangzhou Yongsheng Trading to engage in trading of textile-related products
August 2003	Establishment of Yongsheng Dyeing in collaboration with HUVIS and Haeil to engage in dyeing and processing of differentiated polyester fabric
April 2004	Establishment of Yongsheng Chemical Fiber in collaboration with HUVIS to engage in production of polyester filament yarn
October 2004	Commencement of production in Yongsheng Dyeing
September 2006	Recognition of the application of our differentiated polyester filament yarn – 竹節緯向麂皮 (slubbed chamois leather*) was selected as 中國流行面料 (Fabrics China of the 2007/08 autumn and winter fall) by China Textile Information Centre and China Textiles Development Centre
September 2006	Commencement of production in Yongsheng Chemical Fiber
August 2008	Recognition as a 國家差別化聚酯纖維染織產品開發基地 (Fabric China Pioneer Plant on Differential Polyester Fibers and Yarn-dyed Fabric) (August 2008 to July 2010) and 國家差別化纖維及染織產品開發基地 (Fabric China Pioneer Plant on Differential Fibers and Yarn-dyed Fabric) (from August 2010 to July 2014) in relation to our production and development of differentiated polyester filament yarn and dyeing and processing of differentiated polyester fabric by China Textiles Development Centre

Time	Event
June 2010	Establishment of Nantong Yongsheng to engage in production of polyester filament yarn
September 2010	Commencement of production in Nantong Yongsheng
October 2011	Recognition of the application of our differentiated polyester filament yarn – 複合超細尼龍絨織物 (composite ultrafine nylon velvet fabric*) was selected as 中國流行面料 (Fabrics China of the 2012/13 autumn and winter fall) by China Textile Information Centre and China Textiles Development Centre
December 2011	Accreditation with ISO 9001:2008 and ISO 14001:2004 certification to the following subsidiaries: – Yongsheng Chemical Fiber in relation to development and production of DTY and DW – Yongsheng Dyeing in relation to dyeing and processing of differentiated polyester fabric – Hangzhou Yongsheng Trading in relation to the import and export trading for textile-related products
October 2012	Recognition of the application of our differentiated polyester filament yarn – SPH (天欣) was selected as 中國流行面料 (Fabrics China of the 2013/14 autumn and winter fall) by China Textile Information Centre and China Textiles Development Centre
November 2012	Yongsheng Dyeing was awarded 高新技術企業 (High and New Technology Enterprise*)
December 2012	Acquisition of Yongsheng Trading (HK)
October 2013	Recognition of the application of our differentiated polyester yarn – 天杰緞 with the best application of materials award by the competition committee of the China International Fabrics Design (中國國際面料設計大賽)

CORPORATE HISTORY

Introduction

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 19 April 2012.

Upon completion of the Reorganisation, our Company became the holding company of the Group. Further information of the Reorganisation is set out in the paragraph headed "Reorganisation" in this section and the paragraph headed "A. Further Information about our Company – 4. Corporate Reorganisation" in Appendix VI to this prospectus.

After the post-Reorganisation shareholding movements as detailed in the paragraph headed "Post-Reorganisation Shareholding Movements" in this section below, our Company was beneficially owned by Ever Thrive and Shun Sheng as to approximately 68.82% and 31.18% respectively while Ever Thrive was beneficially owned by Mr. Li, Mr. Li WH, Ms. Li CY, Mr. Li ZH, Mr. Zhou, Ms. Li YQ and Mr. Li TF as to approximately 79.61%, 4.29%, 4.29%, 4.29%, 3.22%, 2.58% and 1.72% respectively and Shun Sheng was owned by Shun Sheng Shareholders altogether as to 100%.

Our history can be traced to November 1997 when Mr. Li established Yongsheng Group, the then holding company of our Group prior to the Reorganisation, in the PRC to carry out our trading business. The key summary of the corporate history of Yongsheng Group and our subsidiaries in recent years are set out below, with their detailed corporate history being set out in Appendix V to this prospectus.

Yongsheng Group

Yongsheng Group was established in the PRC on 13 November 1997 and was a shareholder of all of our PRC subsidiaries prior to the Reorganisation. Immediately prior to the Reorganisation and as at the Latest Practicable Date, it was beneficially owned by Yongsheng Holdings and Yongsheng Group Individual Shareholders as to approximately 58.33% and 41.67% respectively. Previously, its principal activities included trading of textile-related products as well as investment holding.

To prepare for the Listing and taking into account the overlapping of the textile-related products trading business between Yongsheng Group and Hangzhou Yongsheng Trading, Yongsheng Group had ceased all its textile-related products trading business and had integrated its resources in relation to the textile-related products trading business to Hangzhou Yongsheng Trading in 2012 by, among others, (i) transferring of the remaining stocks from Yongsheng Group to Hangzhou Yongsheng Trading at cost; and (ii) transferring employees responsible for the textile-related products trading business of Yongsheng Group to Hangzhou Yongsheng Trading and since December 2012, Yongsheng Group mainly engages in the trading of metals and investment holding. All textile-related trading business of Yongsheng Group as well as assets and liabilities directly related to such business for the three years ended 31 December 2012 have been included into our Group's consolidated financial statements.

As at the Latest Practicable Date, save for the Lease Agreement and the Master Bonded Warehouse Storage Services Agreement set out in the section headed "Continuing connected transactions" in this prospectus, there was no transaction between Yongsheng Group and our Group.

Establishment in November 1997

Yongsheng Group was established in the PRC on 13 November 1997. At the time of establishment, the registered capital of Yongsheng Group was RMB1,680,000 and was beneficially owned, contributed and paid up in cash in the manner as follow:-

	Name of equity holder	Registered Capital	
		(RMB)	*Approximately %*
a)	Mr. Li[1]	1,344,000	80%
b)	Mr. Zhang Sanchun (章三春)[1 & 3]	84,000	5%
c)	Mr. Jin JL[1]	84,000	5%
d)	Mr. Jin BH[2]	84,000	5%
e)	Mr. Wu[2]	84,000	5%
	Total:	1,680,000	100%

1 Directors of Yongsheng Group at the relevant time.
2 Employees of Yongsheng Group at the relevant time.
3 Mr. Zhang Sanchun (章三春) is the father of Mr. Li's brother-in-law.

The aforesaid capital contribution was verified by a capital verification report issued by a PRC accountant firm dated 12 November 1997. On 13 November 1997, Hangzhou Administration for Industry and Commerce ("**Hangzhou AIC**") Xiaoshan Branch (杭州市工商行政管理局蕭山分局) ("**Hangzhou AIC Xiaoshan Branch**") issued a business licence to Yongsheng Group for its establishment.

After its establishment and up to March 2008 as detailed below, Yongsheng Group had on a number of occasions increased its registered capital and introduced new shareholders while a number of share transfers had been taken place. For details, please refer to Appendix V to this prospectus.

Equity Transfers in March 2008

On 1 March 2008, three (3) equity transfer agreements were entered into between the following transferors and the transferees, the reasons for and details of each of the transfers are set out below:-

Transferor	Transferee	Consideration	Equity interest involved
		(RMB)	*Approximately %*
Ms. Fang Songzi (方松子)[2 & 3]	Mr. Li[1]	700,000	1.034%
Mr. Zhao[4, 5 & 6]	Mr. Li[1]	6,768,000	10%
Mr. Li[1]	Ms. Chen X[4, 5 & 6]	2,000,000	2.955%

1 Director of Yongsheng Group at the relevant time.
2 Employees of the then subsidiary of Yongsheng Group at the relevant time.
3 As confirmed by Yongsheng Group and Yongsheng Dyeing, Ms. Fang Songzi (方松子) cashed all her investment in Yongsheng Group due to her own financial needs.
4 Passive investors with no involvement in the operation or management of Yongsheng Group at the relevant time.
5 As confirmed by the Directors, at the relevant time, the then employer of Mr. Zhao was undergoing a restructuring and that Mr. Zhao was unable to join Yongsheng Group. Mr. Zhao, after considering his appropriateness in holding any equity interest in Yongsheng Group while under other employment, decided to transfer his 10% equity interest in Yongsheng Group to Mr. Li. Mr. Li, in order to show his sincerity in inviting Mr. Zhao to join Yongsheng Group, transferred his 2.955% equity interest in Yongsheng Group to the spouse of Mr. Zhao, Ms. Chen X who, at the relevant time, was also interested to invest in Yongsheng Group.
6 Ms. Chen X is the spouse of Mr. Zhao.

The consideration of each of the aforesaid equity interest transfers was determined after arm's length negotiations between the parties and were determined with reference and equal to the transferors' respective capital contributions in Yongsheng Group. Hangzhou AIC Xiaoshan Branch issued a business licence to Yongsheng Group on 19 March 2008 for the said transfers.

Upon completion of the aforesaid transfers of equity interest in March 2008, the registered capital of Yongsheng Group was beneficially owned in the manner as follows:-

	Name of equity holder	Registered Capital	
		(RMB)	*Approximately %*
a)	Mr. Li[1]	*32,980,000*	*48.729%*
Relatives of Mr. Li			
b)	Mr. Li ZH[1 & 3]	2,000,000	2.955%
c)	Mr. Zhou[3 & 5]	1,500,000	2.216%
d)	Ms. Li YQ[3 & 5]	1,200,000	1.773%
e)	Mr. Li TF[2 & 3]	800,000	1.182%
		5,500,000	*8.126%*

	Name of equity holder	Registered Capital (RMB)	Approximately %
Senior Management/Employees/ Ex-employees of Yongsheng Group or its then subsidiaries at relevant time			
f)	Ms. Wen[1]	4,000,000	5.910%
g)	Mr. Ma[1]	1,500,000	2.216%
h)	Mr. Li M[1]	2,000,000	2.955%
i)	Mr. Wang[2]	2,000,000	2.955%
j)	Mr. Zhong Zhiping (鍾治平)[2]	1,000,000	1.478%
k)	Mr. Cheng Jiaying (程家瑛)[2]	1,000,000	1.478%
l)	Mr. Zhao Donglai (趙東來)[2]	1,000,000	1.478%
m)	Mr. Tao[2]	800,000	1.182%
n)	Ms. Zhang[2]	800,000	1.182%
o)	Mr. Liu XM[2]	500,000	0.739%
p)	Mr. Zhang Fuqiang (張富強)[2]	400,000	0.591%
q)	Ms. Chen GP[2]	300,000	0.443%
r)	Mr. Rao Shaohong (饒紹宏)[2]	200,000	0.296%
s)	Mr. Jin BH[2]	1,500,000	2.216%
t)	Mr. Jin JL[4]	1,200,000	1.773%
u)	Mr. Wu[4]	1,200,000	1.773%
v)	Mr. Xu Mingchang (徐明昌)[2]	1,000,000	1.478%
		21,100,000	*30.143%*
Others			
w)	Ms. Liu XL[5]	3,500,000	5.171%
x)	Mr. Jin BW[5]	3,300,000	4.876%
y)	Ms. Chen X[5 & 6]	2,000,000	2.955%
		8,800,000	*13.002%*
	Total:	67,680,000	100%

1 Directors of Yongsheng Group at the relevant time.

2 Employees of Yongsheng Group or its then subsidiaries at the relevant time.

3 Relatives of Mr. Li.

4 Ex-employees of Yongsheng Group at the relevant time.

5 Passive investors with no involvement in the operation or management of Yongsheng Group at the relevant time.

6 Ms. Chen X is the spouse of Mr. Zhao.

Equity Transfers in April 2008

On 7 April 2008, five (5) equity transfer agreements were entered into between the following transferors and the transferees, the reasons for and details of each of the transfers are set out below:-

Transferor	Transferee	Consideration	Equity interest involved
		(RMB)	*Approximately %*
Transfers of equity interests due to the resignation or redesignation of transferors			
Mr. Zhong Zhiping (鍾治平)[3 & 4]	Mr. Li[1]	1,000,000	1.478%
Mr. Rao Shaohong (饒紹宏)[3 & 4]	Mr. Li[1]	200,000	0.296%
Transfers of equity interests due to the transferors' own financial needs			
Mr. Jin BW[5 & 6]	Mr. Li M[1, 2 & 6]	500,000	0.739%
Mr. Zhang Fuqiang (張富強)[2 & 6]	Mr. Li[1]	400,000	0.591%
Transfers of equity interests to investment holding company			
Mr. Li[1]	Yongsheng Holdings[7]	34,580,000	51.094%

1 Directors of Yongsheng Group at the relevant time.

2 Employee of Yongsheng Group's subsidiaries at the relevant time.

3 Ex-employees of Yongsheng Group or its then subsidiaries at the relevant time.

4 Mr. Zhong Zhiping (鍾治平) and Mr. Rao Shaohong (饒紹宏) respectively resigned as employees of Yongsheng Group or its then subsidiaries in March 2008 and April 2008 and cashed all their investment in Yongsheng Group due to their own financial needs.

5 Passive investor with no involvement in the operation or management of Yongsheng Group at the relevant time.

6 The subject transfers were mainly due to the intention of Mr. Zhang Fuqiang (張富強) and Mr. Jin BW to cash part or all of their investments in view of their own financial needs and Mr. Li M, at the relevant time, intended to increase his equity interest in Yongsheng Group.

7 At the relevant time, Yongsheng Holdings was owned by Mr. Li and Mr. Li WH as to 90% and 10% respectively.

The consideration of each of the aforesaid equity interest transfers was determined after arm's length negotiations between the parties and was determined with reference and equal to the transferors' respective capital contributions in Yongsheng Group, having taken into account, among others, the financial needs of the relevant transferors. Hangzhou AIC Xiaoshan Branch issued a business licence to Yongsheng Group on 4 May 2008 for the said equity transfers.

Upon completion of the aforesaid transfers of equity interest in May 2008, the registered capital of Yongsheng Group was as beneficially owned in the manner as follows:-

	Name of equity holder	**Registered Capital** *(RMB)*	*Approximately %*
a)	Yongsheng Holdings[7]	*34,580,000*	*51.094%*
	Relatives of Mr. Li		
b)	Mr. Li ZH[1 & 3]	2,000,000	2.955%
c)	Mr. Zhou[3 & 5]	1,500,000	2.216%
d)	Ms. Li YQ[3 & 5]	1,200,000	1.773%
e)	Mr. Li TF[2 & 3]	800,000	1.182%
		5,500,000	*8.126%*
	Senior Management/Employees/Ex-employees of Yongsheng Group or its then subsidiaries at relevant time		
f)	Ms. Wen[1]	4,000,000	5.910%
g)	Mr. Li M[1]	2,500,000	3.694%
h)	Mr. Ma[1]	1,500,000	2.216%
i)	Mr. Wang[2]	2,000,000	2.955%
j)	Mr. Cheng Jiaying (程家瑛)[2]	1,000,000	1.478%
k)	Mr. Zhao Donglai (趙東來)[2]	1,000,000	1.478%
l)	Mr. Tao[2]	800,000	1.182%
m)	Ms. Zhang[2]	800,000	1.182%
n)	Mr. Liu XM[2]	500,000	0.739%
o)	Ms. Chen GP[2]	300,000	0.443%
p)	Mr. Jin BH[2]	1,500,000	2.216%
q)	Mr. Jin JL[4]	1,200,000	1.773%
r)	Mr. Wu[4]	1,200,000	1.773%
s)	Mr. Xu Mingchang (徐明昌)[2]	1,000,000	1.478%
		19,300,000	*28.517%*
	Others		
t)	Ms. Liu XL[5]	3,500,000	5.171%
u)	Mr. Jin BW[5]	2,800,000	4.137%
v)	Ms. Chen X[5 & 6]	2,000,000	2.955%
		8,300,000	*12.263%*
	Total:	67,680,000	100%

1 Directors of Yongsheng Group at the relevant time.
2 Employees of Yongsheng Group or its then subsidiaries at the relevant time.
3 Relatives of Mr. Li.
4 Ex-employees of Yongsheng Group or its then subsidiaries at the relevant time.
5 Passive investors with no involvement in the operation or management of Yongsheng Group at the relevant time.
6 Ms. Chen X is the spouse of Mr. Zhao.
7 At the relevant time, Yongsheng Holdings was owned as to 90% and 10% by Mr. Li and Mr. Li WH, respectively.

Equity Transfers in July 2010

On 15 July 2010, nine (9) equity transfer agreements were entered into between the following transferors and transferees, the reasons for and details of each of the transfers are set out below:-

Transferor	**Transferee**	**Consideration** *(RMB)*	**Equity interest involved** *Approximately %*
Transfers of equity interests due to the transferors' own financial needs			
Mr. Wang[2 & 5]	Mr. Li[1]	1,600,000	2.36%
Ms. Wen[1 & 5]	Yongsheng Holdings[8]	1,200,000	1.77%
Mr. Xu Mingchang (徐明昌)[4 & 5]	Yongsheng Holdings[8]	1,000,000	1.48%
Mr. Wang[2 & 5]	Yongsheng Holdings[8]	400,000	0.59%
Mr. Tao[2 & 5]	Yongsheng Holdings[8]	300,000	0.44%
Mr. Ma[1 & 5]	Yongsheng Holdings[8]	200,000	0.3%
Transfers of equity interests due to the resignation or redesignation of transferors			
Mr. Zhao Donglai (趙東來)[4 & 6]	Yongsheng Holdings[8]	1,000,000	1.48%
Mr. Cheng Jiaying (程家瑛)[4 & 7]	Yongsheng Holdings[8]	800,000	1.18%
Mr. Cheng Jiaying (程家瑛)[4 & 7]	Mr. Jin ZF[2 & 3]	200,000	0.2955%

1 Directors of Yongsheng Group at the relevant time.
2 Employees of Yongsheng Group or its then subsidiaries at the relevant time.
3 Mr. Jin ZF was appointed as a senior management of a then subsidiary of Yongsheng Group in July 2008.
4 Ex-employees of Yongsheng Group at the relevant time.
5 The subject transfers were mainly due to the intention of Mr. Wang, Ms. Wen, Mr. Xu Mingchang (徐明昌), Mr. Tao and Mr. Ma to cash part or all their investments in view of their own financial needs.
6 At the relevant time, Mr. Zhao Donglai (趙東來) had been redesignated to other companies which were owned by Mr. Li and involved in businesses different from Yongsheng Group in May 2009.
7 Mr. Cheng Jiaying (程家瑛) resigned as employee of Yongsheng Group's then subsidiary in June 2010 and the subject transfer was mainly due to his intention to cash all or part of his investment in view of his own financial needs.
8 At the relevant time, Yongsheng Holdings was owned by Mr. Li and Mr. Li WH as to 90% and 10%, respectively.

The consideration of each of the aforesaid equity interest transfers was determined after arm's length negotiations between the parties and was determined with reference and equal to the transferors' respective capital contributions in Yongsheng Group, having taken into account, among others, the financial needs of the relevant transferors and the resignation or redesignation. Hangzhou AIC Xiaoshan Branch issued a new business licence to Yongsheng Group on 30 July 2010 of the said equity transfers.

Upon completion of the aforesaid transfers of equity interest in July 2010, the registered capital of Yongsheng Group was beneficially owned in the manner as follows:

	Name of equity holder	Registered Capital	
		(RMB)	*Approximately %*
a)	Yongsheng Holdings (at the relevant time, was owned as to 90% and 10% by Mr. Li and Mr. Li WH respectively)[7]	*39,480,000*	*58.3333%*
b)	Mr. Li[1]	*1,600,000*	*2.3641%*
Relatives of Mr. Li			
c)	Mr. Li ZH[1 & 3]	2,000,000	2.9551%
d)	Mr. Zhou[3 & 5]	1,500,000	2.2163%
e)	Ms. Li YQ[3 & 5]	1,200,000	1.773%
f)	Mr. Li TF[2 & 3]	800,000	1.182%
		5,500,000	*8.1264%*
Senior Management/Employees/Ex-employees of Yongsheng Group or its then subsidiaries at relevant time			
g)	Ms. Wen[1]	2,800,000	4.1371%
h)	Mr. Li M[1]	2,500,000	3.6939%
i)	Mr. Ma[1]	1,300,000	1.9208%
j)	Ms. Zhang[4]	800,000	1.182%
k)	Mr. Liu XM[2]	500,000	0.7388%
l)	Mr. Jin ZF[2]	200,000	0.2955%
m)	Mr. Jin BH[4]	1,500,000	2.2163%
n)	Mr. Jin JL[2]	1,200,000	1.773%
o)	Mr. Wu[4]	1,200,000	1.773%
p)	Mr. Tao[2]	500,000	0.7388%
q)	Ms. Chen GP[4]	300,000	0.4433%
		2,800,000	*18.9125%*

	Name of equity holder	Registered Capital (RMB)	Approximately %
Others			
r)	Ms. Liu XL[5]	3,500,000	5.1714%
s)	Mr. Jin BW[5]	2,800,000	4.1371%
t)	Ms. Chen X[6]	2,000,000	2.9551%
		8,300,000	*12.2636%*
	Total:	67,680,000	100%

1 Directors of Yongsheng Group at the relevant time.

2 Employees of Yongsheng Group or its then subsidiaries at the relevant time.

3 Relatives of Mr. Li.

4 Ex-employees of Yongsheng Group or its then subsidiaries at the relevant time.

5 Passive investors with no involvement in the operation or management of Yongsheng Group at the relevant time.

6 Ms. Chen X was a passive investor with no investment in the operation or management of Yongsheng Group at the relevant time and is the spouse of Mr. Zhao, a then director of Yongsheng Group at the relevant time.

7 On 6 December 2010, Mr. Li WH transferred approximately 5% equity interest in Yongsheng Holdings to Mr. Li at the consideration of RMB2,144,000. On the same day, the equity holders of Yongsheng Holdings resolved that its registered capital would be increased from RMB42,880,000 to RMB70,000,000, of which RMB63,000,000 would be contributed by Mr. Li, RMB3,500,000 by Mr. Li WH and RMB3,500,000 by Ms. Li CY. Upon completion of the said transfer of equity interest and increase in registered capital and up to the Latest Practicable Date, Yongsheng Holdings was owned by Mr. Li, Mr. Li WH and Ms. Li CY as to 90%, 5% and 5% respectively.

After the equity transfers in July 2010 and up to the Latest Practicable Date, the shareholding structure of the Yongsheng Group remained unchanged.

The Major Subsidiaries of our Group

Hangzhou Yongsheng Trading

Establishment in August 2000

Hangzhou Yongsheng Trading was established in the PRC on 2 August 2000 by China Chamber of International Commerce Xiaoshan City Chamber of Commerce (中國國際商會蕭山市商會) ("**Xiaoshan CCC**"), Yongsheng Group and Xiaoshan City Jingjiang Town Collective Asset Management Company (蕭山市靖江鎮集體資產經營公司) ("**Xiaoshan CAMC**"). At the time of its establishment, the initial registered capital of RMB5,000,000 was fully contributed and paid up in cash by Xiaoshan CCC, Yongsheng Group and Xiaoshan CAMC as to RMB2,500,000, RMB2,000,000 and RMB500,000 respectively and as a result, Hangzhou Yongsheng Trading was beneficially owned by Xiaoshan CCC, Yongsheng Group and Xiaoshan CAMC as to 50%, 40% and 10% respectively. The aforesaid capital contribution was verified by a capital verification report issued by a PRC accountant firm dated 26 July 2000. On 2 August 2000, Hangzhou

AIC Xiaoshan Branch issued a business licence to Hangzhou Yongsheng Trading for its establishment. To the best knowledge of our Directors, Xiaoshan CAMC and Xiaoshan CCC were Independent Third Parties at the time of the establishment of Hangzhou Yongsheng Trading.

After its establishment, Hangzhou Yongsheng Trading had on a number of occasions increased its registered capital and introduced new shareholders, while a number of share transfers had been taken place, as a result of which Hangzhou Yongsheng Trading became wholly and beneficially owned by Yongsheng Group in August 2006. For details, please refer to Appendix V to this prospectus.

Increase in Registered Capital

On 12 April 2008, Yongsheng Group, as the sole equity interest holder of Hangzhou Yongsheng Trading resolved to increase the registered capital of Hangzhou Yongsheng Trading from RMB6,800,000 to RMB11,000,000, the additional capital of RMB4,200,000 was contributed in cash by Yongsheng Group. The aforesaid capital injection was verified by a capital verification report issued by a PRC accountant firm dated 8 May 2008. Hangzhou AIC Xiaoshan Branch issued a new business licence to Hangzhou Yongsheng Trading for such increase in registered capital on 15 May 2008.

Equity Transfer in November 2012 as part of the Reorganisation

As part of the Reorganisation, on 26 November 2012, Yongsheng Group transferred its entire equity interest in Hangzhou Yongsheng Trading to Yongsheng Dyeing, details of which are set out in the paragraph headed "Reorganisation" in this section and the paragraph headed "A. Further Information about our Company – 4. Corporate Reorganisation" in Appendix VI to this prospectus.

Yongsheng Dyeing

Establishment in August 2003

Pursuant to a joint venture agreement (合資經營企業合同) dated 21 July 2003 entered into between Yongsheng Group, HUVIS and Haeil, Yongsheng Group, HUVIS and Haeil agreed to establish Yongsheng Dyeing. HUVIS was a 30% shareholder of Yongsheng Chemical Fiber as at the Latest Practicable Date whereas, to the best knowledge of our Directors, Haeil was Independent Third Party as at the Latest Practicable Date.

On 1 August 2003, the establishment of Yongsheng Dyeing with a registered capital of RMB46,000,000 was approved by Hangzhou Xiaoshan District Foreign Trade Economic Cooperation Bureau (杭州市蕭山區對外貿易經濟合作局) ("**Hangzhou FTEC**") and on 4 August 2003, the People's Government of Zhejiang Province (浙江省人民政府) granted a certificate of approval for the establishment of Yongsheng Dyeing as an sino-foreign equity joint venture enterprise with limited liability in the PRC. Hangzhou AIC issued a business licence to Yongsheng Dyeing for its establishment on 8 August 2003.

The initial registered capital of Yongsheng Dyeing in the amount of RMB46,000,000 was contributed wholly and paid up in cash by Yongsheng Group, HUVIS and Haeil as to RMB25,300,000, RMB16,100,000 and RMB4,600,000 respectively and the aforesaid capital contribution had been verified by two capital verification reports issued by a PRC accountant firm dated 28 August 2003 and 28 September 2003 respectively. As a result, Yongsheng Dyeing was beneficially owned as to 55%, 35% and 10% by Yongsheng Group, HUVIS and Haeil respectively.

Equity Transfer in February 2008

As confirmed by the Directors, due to Yongsheng Group's desire to increase its controlling interest in Yongsheng Dyeing and to the best of the Directors' knowledge, the intention of Haeil to reduce its investment after taking into account of its own financial position, an equity interest transfer agreement dated 2 February 2008 was entered into by Yongsheng Group and Haeil under which, Yongsheng Group acquired 10% equity interest or RMB4,600,000 of the registered capital contribution in Yongsheng Dyeing from Haeil for the consideration of RMB4,600,000 as determined after arm's length negotiations between the parties and was determined with reference and equal to Haeil's capital contribution in Yongsheng Dyeing. The aforesaid transfer of equity interest was approved by Hangzhou FTEC on 8 April 2008. The People's Government of Zhejiang Province (浙江省人民政府) granted a certificate of approval for the aforesaid transfer of equity interest on 11 April 2008 and Hangzhou AIC Xiaoshan Branch issued a new business licence to Yongsheng Dyeing on 14 April 2008. Upon completion of the above transfer of equity interest in April 2008, Yongsheng Dyeing was beneficially owned by Yongsheng Group and HUVIS as to 65% and 35% respectively.

1st Increase in Registered Capital in April 2008

On 20 April 2008, the board of directors of Yongsheng Dyeing resolved, among others, that the registered capital of Yongsheng Dyeing be increased from RMB46,000,000 to RMB49,000,000. The aforesaid additional capital was contributed by way of capitalisation of the retained earnings of Yongsheng Dyeing to Yongsheng Group and HUVIS as at 31 December 2007 as to RMB1,950,000 and RMB1,050,000 respectively. The aforesaid capital injection had been verified by a capital verification report issued by a PRC accountant firm dated 25 September 2008.

The aforesaid increase of registered capital was approved by Hangzhou FTEC on 4 May 2008. The People's Government of Zhejiang Province (浙江省人民政府) granted a certificate of approval on 28 October 2008. Hangzhou AIC Xiaoshan Branch issued a new business licence to Yongsheng Dyeing on 31 October 2008.

Upon completion of the aforesaid increase of registered capital in October 2008, the equity interest of Yongsheng Group and HUVIS in Yongsheng Dyeing remained unchanged.

Equity Transfers in October 2012

As part of the Reorganisation, on 19 October 2012, Yongsheng Group and HUVIS transferred their respective 65% and 35% equity interest in Yongsheng Dyeing to Yongsheng (HK) at a consideration of RMB39,195,000 and RMB21,105,000, respectively, details of which are set out in the paragraph headed "Reorganisation" in this section and the paragraph headed "A. Further Information about our Company – 4. Corporate Reorganisation" in Appendix VI to this prospectus.

2nd Increase in Registered Capital in December 2012

On 1 December 2012, Yongsheng (HK), as the sole equity interest holder of Yongsheng Dyeing, resolved to increase the registered capital of Yongsheng Dyeing from RMB49,000,000 to RMB138,000,000. The additional capital of RMB89,000,000 was contributed in cash by Yongsheng (HK). The aforesaid capital injection was verified by two capital verification reports issued by a PRC accountant firm respectively dated 24 December 2012 and 18 February 2013. The aforesaid increase of registered capital was approved by Hangzhou Xiaoshan Bureau of Commerce (杭州市蕭山區商務局) on 6 December 2012. The People's Government of Zhejiang Province (浙江省人民政府) granted a certificate of approval for such increase in registered capital on 6 December 2012 and Hangzhou AIC Xiaoshan Branch issued a new business licence to Yongsheng Dyeing on 1 March 2013.

Yongsheng Chemical Fiber

Establishment in March 2004

Pursuant to a joint venture agreement (合資經營企業合同) dated 23 March 2004 entered into between Yongsheng Group and HUVIS, Yongsheng Group and HUVIS agreed to establish Yongsheng Chemical Fiber.

On 9 April 2004, the establishment of Yongsheng Chemical Fiber with an initial registered capital of RMB50,000,000 ("**Initial Capital**") of which HUVIS to contribute 70% and Yongsheng Group to contribute 30% was approved by Hangzhou FTEC and on 22 April 2004, the People's Government of Zhejiang Province (浙江省人民政府) granted a certificate of approval for the establishment of Yongsheng Chemical Fiber as an sino-foreign equity joint venture enterprise with limited liability in the PRC. Hangzhou AIC issued a new business licence to Yongsheng Chemical Fiber for its establishment on 28 April 2004. At the time of its establishment, Yongsheng Chemical Fiber was beneficially owned by HUVIS and Yongsheng Group as to 70% and 30% respectively.

After its establishment, Yongsheng Chemical Fiber had undergone a capital reduction and a share transfer between its shareholders had been taken place, resulting in Yongsheng Chemical Fiber being beneficially owned by Yongsheng Group and HUVIS as to 70% and 30% respectively in September 2007. For details, please refer to Appendix V to this prospectus.

Equity Transfer in November 2012 as part of the Reorganisation

As part of the Reorganisation, on 29 November 2012, Yongsheng Group transferred its 70% equity interest in Yongsheng Chemical Fiber to Yongsheng Dyeing, details of which are set out in the paragraph headed "Reorganisation" in this section and the paragraph headed "A. Further Information about our Company – 4. Corporate Reorganisation" in Appendix VI to this prospectus.

Nantong Yongsheng

Establishment in June 2010

On 28 June 2010, Nantong Yongsheng was established in the PRC with the initial registered capital of RMB30,000,000 which was solely contributed and paid up in cash by Yongsheng Group and as a result, Nantong Yongsheng was wholly and beneficially owned by Yongsheng Group. The aforesaid capital contribution was verified by a capital verification report issued by a PRC accountant firm dated 25 June 2010. On 28 June 2010, Nantong Administration for Industry and Commerce Economic and Technology Development District Branch (南通工商行政管理局經濟技術開發區分局) issued a business licence to Nantong Yongsheng for its establishment.

Nantong Yongsheng Management Shareholders' proposed participation in June 2010

As confirmed by the Directors, with a view to inviting Nantong Yongsheng Management Shareholders to be the senior management of Nantong Yongsheng, Nantong Yongsheng Management Shareholders were offered to contribute in the capital of Nantong Yongsheng. On 12 June 2010, Yongsheng Group and Nantong Yongsheng Management Shareholders entered into an agreement (the "**1st Agreement**"), pursuant to which, Nantong Yongsheng Management Shareholders agreed to acquire 10% of Nantong Yongsheng's registered capital for the consideration of RMB3,000,000. All parties to the 1st Agreement also agreed to complete the relevant business registration by the end of June 2011 for the ownership of the said 10% equity interest be changed from being held by Yongsheng Group to Nantong Yongsheng Management Shareholders. On 10 June 2011, Yongsheng Group and Nantong Yongsheng Management Shareholders entered into an agreement to extend the deadline for completing the business registration as stipulated in the 1st Agreement to the end of June 2012 (工商變更股權延期協議) (the "**2nd Agreement**").

Given that the unsatisfactory financial results of Nantong Yongsheng for the years 2010 and 2011, Nantong Yongsheng Management Shareholders were hesitated to effect the transfers and therefore, they had never performed any of the terms and conditions of the 1st Agreement and the 2nd Agreement.

In order to clarify and confirm that the 1st Agreement and the 2nd Agreement had never been performed or taken effect, and neither Yongsheng Group nor any of the Nantong Yongsheng Management Shareholders shall have any claims, demands or compensations against the others due to the termination of the 1st Agreement and the 2nd Agreement, on 30 January 2013, Yongsheng Group and the Nantong Yongsheng Management Shareholders entered into an agreement (the "**3rd Agreement**"), pursuant to which, Yongsheng Group and the Nantong Yongsheng Management Shareholders confirmed and agreed that (i) the 1st Agreement and 2nd Agreement have never been performed or been taken effect; (ii) the 1st Agreement and 2nd Agreement have expired, lapsed and terminated on 30 June 2012; (iii) no claims, demands and compensations will be alleged for the non-performance and termination of the 1st Agreement and the 2nd Agreement; and (iv) no capital contribution have been made by the Nantong Yongsheng Management Shareholders directly or indirectly, through Yongsheng Group or by any other way, to Nantong Yongsheng according to the 1st Agreement and the 2nd Agreement.

Our PRC Legal Advisers opined that, in view of the 3rd Agreement, the 1st Agreement and the 2nd Agreement have never been performed and they would not affect the legality and validity of the ownership of the 100% equity interest then held by Yongsheng Group in Nantong Yongsheng described above.

Equity Transfers to Nantong Yongsheng Management Shareholders in November 2012

In the second half of 2012, the improvement of the financial performance of Nantong Yongsheng strengthened, Nantong Yongsheng Management Shareholders' confidence to reconsider investing in Nantong Yongsheng again. As such, four (4) sale and purchase agreements all dated 11 November 2012 were entered into between Yongsheng Group and each of Tao Jianjun (陶建軍), a director of Nantong Yongsheng, Tao Zhijun (陶志均), Shi Hongxing (石紅星) and Yang Jiahua (楊加華), all being employees of Nantong Yongsheng, pursuant to which Yongsheng Group transferred its 4%, 2%, 2% and 2% equity interest or RMB1,200,000, RMB600,000, RMB600,000 and RMB600,000 of its registered capital contribution in Nantong Yongsheng to Tao Jianjun (陶建軍), Tao Zhijun (陶志均), Shi Hongxing (石紅星) and Yang Jiahua (楊加華) respectively for consideration of RMB1,200,000, RMB600,000, RMB600,000 and RMB600,000. The consideration for each of the aforesaid equity transfers was determined with reference and equal to the registered capital contribution for the respective equity interests.

Nantong Administrative for Industry and Commerce Economic and Technology Development District Branch (南通工商行政管理局經濟技術開發區分局) issued a business licence to Nantong Yongsheng on 29 November 2012. Upon completion of the aforesaid transfers of equity interest and the transfer of 90% equity interest by Yongsheng Group to Yongsheng Dyeing as part of the Reorganisation as mentioned below in November 2012, Nantong Yongsheng was beneficially owned by Yongsheng Dyeing, Tao Jianjun (陶建軍), Tao Zhijun (陶志均), Shi Hongxing (石紅星) and Yang Jiahua (楊加華) as to 90%, 4%, 2%, 2% and 2% respectively.

Equity Transfer in November 2012 as part of the Reorganisation

As part of the Reorganisation, on 29 November 2012, Yongsheng Group transferred its 90% equity interest in Nantong Yongsheng to Yongsheng Dyeing, details of which are set out in the paragraph headed "Reorganisation" in this section and the paragraph headed "A. Further Information about our Company – 4. Corporate Reorganisation" in Appendix VI to this prospectus.

Yongsheng Trading (HK)

Establishment in November 2005

On 29 November 2005, Yongsheng Trading (HK) was incorporated in Hong Kong with limited liability with an authorised capital of US$500,000 divided into 500,000 shares of US$1.00 each, all of which was taken up by Yongsheng Group as subscriber at the time of the incorporation of Yongsheng Trading (HK).

After its incorporation, Yongsheng Group had transferred its interests in Yongsheng Trading (HK) to Amass Riches Corporation Limited (滙盈豐興業有限公司) ("**HK Partner**") and Yongsheng Holdings in equal shares in 2006 and 2007 respectively. For details, please refer to Appendix V to this prospectus.

Share Transfer in April 2008

As confirmed by the Directors, due to the limited contribution from the HK Partner in managing Yongsheng Trading (HK) and Yongsheng Holdings' desire to gain an absolute control in Yongsheng Trading (HK), on 3 April 2008, pursuant to an instrument of transfer and a bought and sold note both dated 3 April 2008, the HK Partner transferred its 50% shareholding in Yongsheng Trading (HK) to Yongsheng Holdings for the consideration of US$250,000. In view of the accumulated loss incurred by Yongsheng Trading (HK) at the relevant time, the consideration for the aforesaid equity transfer was determined with reference and equal to its par value.

Upon completion of the aforesaid share transfers on 3 April 2008, the entire issued share capital of Yongsheng Trading (HK) was wholly and beneficially owned by Yongsheng Holdings.

Capital Participation by Yongsheng Trading (HK) Management Shareholders in October 2010

On 12 October 2010, pursuant to five (5) sets of instrument of transfer and the respective bought and sold notes all dated 12 October 2010, Yongsheng Holdings transferred 30%, 15%, 15%, 5%, and 5% of its shareholding in Yongsheng Trading (HK) to Mr. Zhang Peidong (張沛東), Ms. Poon Mei Yuk (潘美玉), Ms. Zhang, Ms. Li CY and Ms. Chen Jun Shang (陳君賞) for the consideration of US$150,000, US$75,000, US$75,000, US$25,000 and US$25,000 respectively. The consideration for each of the aforesaid share transfers was determined with reference and equal to its par value.

After the joining of Mr. Zhang Peidong (張沛東) and Ms. Poon Mei Yuk (潘美玉) in Yongsheng Trading (HK) and becoming its directors in October 2010, Mr. Zhang Peidong (張沛東), Ms. Poon Mei Yuk (潘美玉), Ms. Zhang, Ms. Li CY and Ms. Chen Jun Shang (陳君賞), directors of Yongsheng Trading (HK) at the relevant times, had expressed their willingness to invest in Yongsheng Trading (HK) as management shareholders, and at the same time, Yongsheng Holdings considered that the aforesaid share transfers could improve their working incentives in Yongsheng Trading (HK).

Upon completion of the aforesaid share transfers on 12 October 2010 (the "**2010 Transfer**"), Yongsheng Trading (HK) was beneficially owned by Yongsheng Holdings, Mr. Zhang Peidong (張沛東), Ms. Poon Mei Yuk (潘美玉), Ms. Zhang, Ms. Li CY and Ms. Chen Jun Shang (陳君賞), all being directors of Yongsheng Trading (HK) as to 30%, 30%, 15%, 15%, 5% and 5% respectively.

Share Transfers in December 2012

As confirmed by our Directors, for the preparation of listing, our Group had commenced negotiation with Yongsheng Trading (HK) Management Shareholders in the first half of 2012 in order to enhance the overseas trading platform as well as to avoid competition and reduce the number of connected transactions of our Group after Listing. The acquisition of Yongsheng Trading (HK) could enhance our Group's overseas trading platform as Yongsheng Trading (HK) was responsible for handling our Group's overseas trading business before the acquisition and it would be more efficient if Yongsheng Trading (HK) becomes part of our Group. Furthermore, both Yongsheng Trading (HK) and Hangzhou Yongsheng Trading were engaged in the trading of textile-related products and the acquisition of Yongsheng Trading (HK) could avoid such competition completely. As the negotiation of the acquisition of Yongsheng Trading (HK) (including the Rectification Transfer and the Second Transfer as defined below, collectively as, the "**Acquisition**") and the major terms thereof involved various parties, the negotiations therefore took longer time than expected.

Moreover, in the course of preparing the Acquisition, as advised by the our PRC Legal Adviser, under the *Notice of Approval Matter in respect of Mainland Enterprises investing in Hong Kong and Macao Special Administrative Region to Establish New Enterprises issued by the Ministry of Commerce and Hong Kong and Macao Affairs Office of the State Council* (商務部、國務院港澳辦關於印發〈關於內地企業赴香港、澳門特別行政區投資開辦企業核准事項的規定〉的通知) and *Administrative Measures for Overseas Investment issued by the Ministry of Commerce* (商務部發佈的〈境外投資管理辦法〉), PRC enterprises are required to apply to the relevant governing authorities for approval in respect of any change in their overseas investments ("**Approval Requirement**"). Failure to comply with such Approval Requirement would result in, inter alia, the change of equity interest not being able to be reflected in the record held by the relevant government authority. Yongsheng Holdings did not fully comply with such requirement until December 2012 and therefore, as in December 2012, the government record only showed that Yongsheng Trading (HK) was wholly owned by Yongsheng Holdings instead of as to 70% by the Yongsheng Trading (HK) Management Shareholders and 30% by Yongsheng Holdings.

Our Group had devoted time to evaluate the appropriateness, feasibility and method of acquiring Yongsheng Trading (HK) and to prepare for the rectification (e.g. liaised with the relevant government authorities and legal advisers as to PRC laws) during the period and in December 2012, in order to conform with the actual record held by the relevant government authority such that we could proceed with the acquisition of the entire issued share capital of Yongsheng Trading (HK), Yongsheng Holdings and each of Yongsheng Trading (HK) Management Shareholders agreed and entered into five (5) sets of instruments of transfer and the respective bought and sold notes all dated 27 December 2012, under which Mr. Zhang Peidong (張沛東), Ms. Poon Mei Yuk (潘美玉),

Ms. Zhang, Ms. Li CY and Ms. Chen Jun Shang (陳君賞) respectively sold 150,000, 75,000, 75,000, 25,000 and 25,000 ordinary shares in Yongsheng Trading (HK) to Yongsheng Holdings, which represented 70% of the issued share capital of Yongsheng Trading (HK) at the total consideration of US$350,000 (the "**Rectification Transfer**"). The consideration paid for the aforesaid transfers was identical to that of the acquisitions made by Yongsheng Trading (HK) Management Shareholders in the 2010 Transfer. To the best of our Directors' knowledge and belief, Yongsheng Trading (HK) Management Shareholders agreed to transfer at the same consideration as that of the 2010 Transfer after taking into account the following: (a) the consideration of both transactions was not determined with reference to the net asset value of Yongsheng Trading (HK) but to the par value of the equity interest; (b) they acknowledged the continuing success and prospects of Yongsheng Trading (HK) is highly dependent on the Group's supports in terms of business and financial resources. In particular, Yongsheng Trading (HK) Management Shareholders acknowledged that substantial revenue and profits in the past were derived from the handling of our Group's overseas trading business; and (c) Yongsheng Trading (HK) Management Shareholders intended to maintain amicable relationship with our Group and to facilitate the future development of our Group, which were in line with their interests and to their benefits as management and employees of Yongsheng Trading (HK). Upon completion of the Rectification Transfer, the entire issued share capital of Yongsheng Trading (HK) was beneficially owned by Yongsheng Holdings.

Validity of equity interests

As confirmed by our PRC Legal Advisers, no relevant PRC laws and regulations in the PRC in respect of any PRC governmental approval requirement would affect the legality and validity of the equity interest holding held by Yongsheng Holdings and each of Yongsheng Trading (HK) Management Shareholders in Yongsheng Trading (HK). Any non-compliance of the aforesaid PRC governmental approval requirement will also not render Yongsheng Trading (HK), a company incorporated in Hong Kong, subject to any penalty by the regulatory governmental authority in the PRC.

Validity and legality of Rectification Transfer

Yongsheng Holdings was approved by the PRC approval authority to invest in Yongsheng Trading (HK) as the sole shareholder before the Reorganisation, whereas the shareholdings held by Yongsheng Holdings in Yongsheng Trading (HK) were only 30% with the remaining being held by Yongsheng Trading (HK) Management Shareholders. As advised by our PRC Legal Advisers, the purpose of the Rectification Transfer was to allow all the shares of Yongsheng Trading (HK) to be wholly held by Yongsheng Holdings before Yongsheng Advanced Materials (BVI) Limited acquired the entire issued share capital of Yongsheng Trading (HK), such that the actual shareholding structure of Yongsheng Trading (HK) would be in conformity with the record of the relevant PRC approval authority, rectify the historical filing defect.

As advised by our PRC Legal Advisers, even though the filing with regard to such Rectification Transfer with the relevant authorities, as required by Measures for the Administration of Overseas Investment and other related laws and regulations in the PRC, was not completed, there is no provision in the Measures for the Administration of

Overseas Investment stating that such filing should be a condition precedent to the validity of such Rectification Transfer of interest, which occurred in Hong Kong. Moreover, as a company incorporated in Hong Kong, the legality and validity of the transfer of shares in Yongsheng Trading (HK) shall be governed by Hong Kong laws. Therefore, our PRC Legal Advisers are of the view that the absence of the filing procedures shall not affect the validity of the Rectification Transfer.

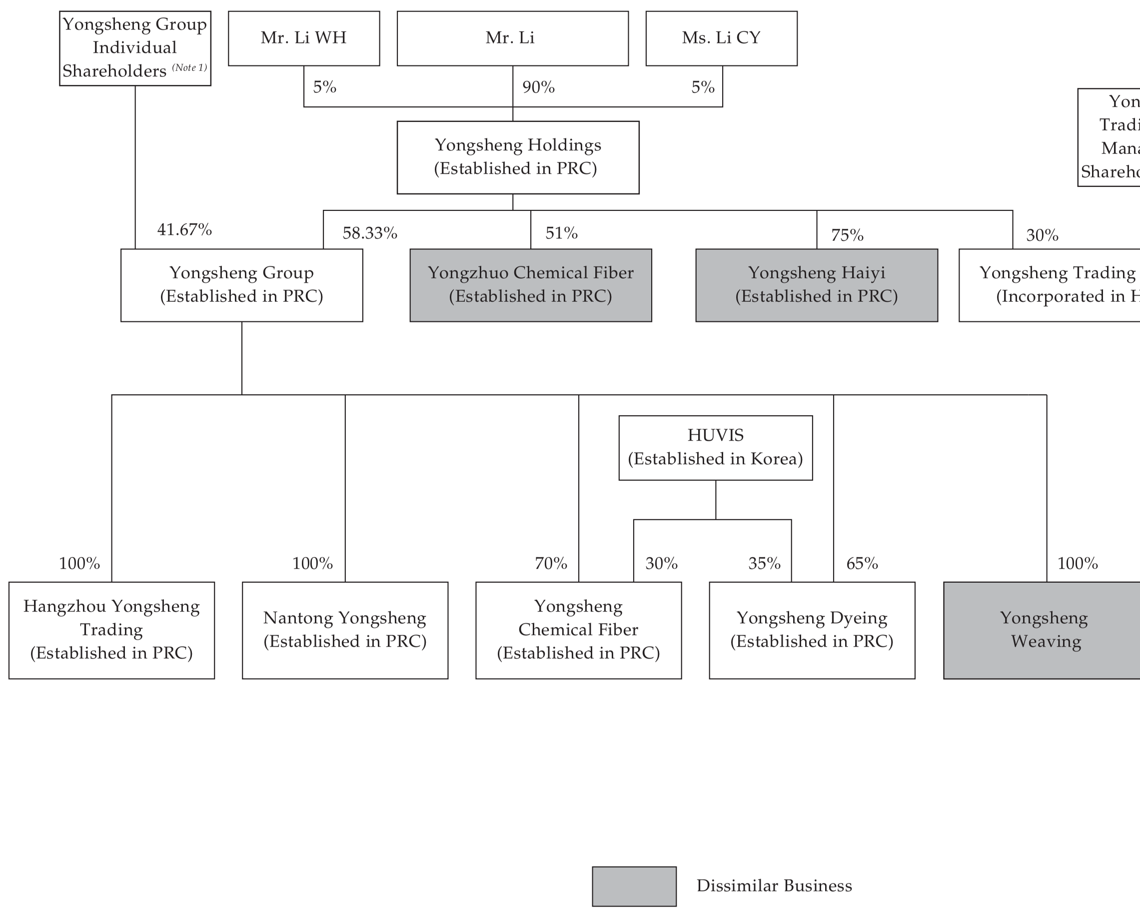
In view of the above opinion of our PRC Legal Advisers, the Hong Kong legal advisers are of the view that the acquisition of 70% interest in Yongsheng Trading (HK) by Yongsheng Holdings from Yongsheng Trading (HK) Management Shareholders was legal and valid under the Hong Kong Law.

As part of the Reorganisation, after the Rectification Transfer, Yongsheng Holdings transferred its entire equity interest in Yongsheng Trading (HK) to Yongsheng (BVI) (the "**Second Transfer**"), details of which are set out in the paragraph headed "Reorganisation" in this section and the paragraph headed "A. Further Information about our Company – 4. Corporate Reorganisation" in Appendix VI to this prospectus.

REORGANISATION

Corporate and shareholding structure immediately before the Reorganisation

The following chart sets forth the shareholding and corporate structure of our Group immediately before the Reorganisation:



Notes:

1) At the time immediately before the Reorganisation, Yongsheng Group Individual Shareholders comprised the following person who in aggregate beneficially held approximately 41.67% equity interest in Yongsheng Group:–

	Name of equity holder	Registered Capital	
			Approximately
		(RMB)	%
a)	Mr. Li[1]	*1,600,000*	*2.36%*
Relatives of Mr. Li			
b)	Mr. Li ZH[2 & 3]	2,000,000	2.96%
c)	Mr. Zhou[3 & 6]	1,500,000	2.22%
d)	Ms. Li YQ[3 & 6]	1,200,000	1.77%
e)	Mr. Li TF[2 & 3]	800,000	1.18%
		5,500,000	*8.13%*
Senior Management/Employees/Ex-employees of Yongsheng Group			
f)	Mr. Ma[1]	1,300,000	1.92%
g)	Ms. Wen[2]	2,800,000	4.14%
h)	Mr. Li M[2]	2,500,000	3.69%
i)	Ms. Zhang[2]	800,000	1.18%
j)	Mr. Liu XM[2]	500,000	0.74%
k)	Mr. Jin ZF[2]	200,000	0.30%
l)	Mr. Jin BH[4]	1,500,000	2.22%
m)	Mr. Jin JL[4]	1,200,000	1.77%
n)	Mr. Wu[4]	1,200,000	1.77%
o)	Mr. Tao[4]	500,000	0.74%
p)	Ms. Chen GP[4]	300,000	0.44%
		12,800,000	*18.91%*
Others			
q)	Ms. Liu XL[5 & 6]	3,500,000	5.17%
r)	Mr. Jin BW[5 & 6]	2,800,000	4.14%
s)	Ms. Chen X[6 & 7]	2,000,000	2.96%
		8,300,000	*12.27%*
	Total:	28,200,000	41.67%

[1] Executive Directors as at the Latest Practicable Date.
[2] Employees of the Group as at the Latest Practicable Date.
[3] Relatives of Mr. Li.

4 Ex-employees of the Group or its then subsidiaries as at the Latest Practicable Date.

5 Independent Third Parties as at the Latest Practicable Date, save as their interests in the Company through Shun Sheng.

6 Passive investors with no involvement in the operation or management of the Group.

7 Ms. Chen X is the wife of Mr. Zhao, an executive Director.

2) At the time immediately before the Reorganisation, Yongsheng Trading (HK) Management Shareholders comprised Mr. Zhang Peidong (張沛東), Ms. Poon Mei Yuk (潘美玉), Ms. Zhang, Ms. Li CY and Ms. Chen Jun Shang (陳君賞), all being directors of Yongsheng Trading (HK), held 30%, 15%, 15%, 5% and 5% respectively, representing in aggregate 70% shareholding in Yongsheng Trading (HK).

Our Company completed the Reorganisation on 28 December 2012 in preparation for the Listing pursuant to which our Company became the ultimate holding company of our Group. The following sets out certain major steps involved in the Reorganisation:

Incorporation of holding companies structure

Our Company

On 19 April 2012, our Company was incorporated under the laws of the Cayman Islands as an exempted company and one Share was allotted and issued nil paid to the subscriber to the Memorandum and the Articles on 19 April 2012. On the same day, the said one subscriber share was transferred to Ever Thrive at a consideration of HK$0.01, the Company also allotted and issued 583,332 and 416,667 nil paid Shares to Ever Thrive and Shun Sheng respectively on the same day. Upon completion of the said transfer and allotment of Shares, the issued share capital of the Company was beneficially owned by Ever Thrive and Shun Sheng as to approximately 58.33% and 41.67% respectively. The said 583,333 and 416,667 shares allotted and issued to Ever Thrive and Shun Sheng were fully paid on 28 November 2012.

Yongsheng (BVI)

On 21 May 2012, Yongsheng (BVI) was incorporated in the BVI with limited liability and one share in Yongsheng (BVI), representing its entire issued share capital was allotted and issued to and is beneficially owned by our Company.

Yongsheng (HK)

On 31 May 2012, Yongsheng (HK) was incorporated in Hong Kong with limited liability with an authorised capital of US$1,000 divided into 1,000 shares of US$1.00 each, one of which was beneficially taken up by Yongsheng (BVI) as founder member at the time of the incorporation of Yongsheng (HK).

Acquisition of the equity interests in our PRC Subsidiaries

As part of the Reorganisation, pursuant to a sale and purchase agreement dated 19 October 2012 entered into between Yongsheng (HK) and Yongsheng Group, Yongsheng Group transferred its 65% equity interests in Yongsheng Dyeing to Yongsheng (HK) for a consideration of RMB39,195,000. Pursuant to a sale and purchase agreement dated the same day entered into between Yongsheng (HK) and HUVIS, HUVIS transferred its 35% equity interests in Yongsheng Dyeing to Yongsheng (HK) for an agreed consideration of RMB21,105,000. The consideration for each of the aforesaid equity transfers was arrived at after arm's length negotiations between the parties and took into account HUVIS' intention to sell off its non-core foreign investment with reference to the net assets value of Yongsheng Dyeing and the waiving of its share of dividend in the amount of approximately RMB8.4 million declared by Yongsheng Dyeing in September 2012.

The aforesaid transfers of equity interest were approved by Hangzhou Xiaoshan Bureau of Commerce (杭州市蕭山區商務局) on 6 November 2012. The People's Government of Zhejiang Province (浙江省人民政府) granted a certificate of approval on 6 November 2012 and Hangzhou AIC Xiaoshan Branch issued a new business licence to Yongsheng Dyeing on 7 November 2012.

Upon completion of the aforesaid share transfers on 7 November 2012, Yongsheng Dyeing became an indirect beneficially wholly-owned subsidiary of our Company.

As part of the Reorganisation, pursuant to an equity interest transfer agreement dated 11 November 2012 entered into between Yongsheng Dyeing and Yongsheng Group, Yongsheng Group transferred its 90% equity interests in Nantong Yongsheng to Yongsheng Dyeing for a consideration of RMB27,000,000. The consideration for the aforesaid equity transfer was determined with reference to the registered capital contribution for Yongsheng Group's equity interest in Nantong Yongsheng, Nantong Administrative for Industry and Commerce Economic and Technology Development District Branch (南通工商行政管理局經濟技術開發區分局) issued a business licence to Nantong Yongsheng on 29 November 2012.

Upon completion of the aforesaid share transfer on 29 November 2012, Nantong Yongsheng became an indirect beneficially non-wholly-owned subsidiary owned by our Company as to 90%.

As part of the Reorganisation, pursuant to an equity interest transfer agreement dated 15 November 2012 entered into between Yongsheng Dyeing and Yongsheng Group, Yongsheng Group transferred its 100% equity interests in Hangzhou Yongsheng Trading to Yongsheng Dyeing for a consideration of RMB37,500,000. The consideration for the aforesaid equity transfer was determined with reference to the net assets value of Hangzhou Yongsheng Trading. The above transfer of equity interest was approved by Hangzhou Xiaoshan Bureau of Commerce (杭州市蕭山區商務局) on 26 November 2012. Hangzhou AIC Xiaoshan Branch issued a new business licence to Hangzhou Yongsheng Trading on 26 November 2012.

Upon completion of the aforesaid transfer of equity interest on 26 November 2012, Hangzhou Yongsheng Trading became an indirect beneficially wholly-owned subsidiary of our Company.

As part of the Reorganisation, pursuant to an equity transfer agreement dated 20 November 2012 entered into between Yongsheng Dyeing and Yongsheng Group, Yongsheng Group transferred its 70% equity interest in Yongsheng Chemical Fiber to Yongsheng Dyeing for a consideration of RMB31,000,000. The consideration for the aforesaid equity transfer was determined with reference to the net assets value of Yongsheng Chemical Fiber. The aforesaid transfer of equity interest was approved by the Hangzhou Xiaoshan Bureau of Commerce (杭州市蕭山區商務局) on 29 November 2012. The People's Government of Zhejiang Province (浙江省人民政府) granted a certificate of approval on 29 November 2012 and Hangzhou AIC Xiaoshan Branch issued a new business licence to Yongsheng Chemical Fiber on 29 November 2012.

Upon completion of the aforesaid transfer of equity interest on 29 November 2012, Yongsheng Chemical Fiber became an indirect beneficially non-wholly-owned subsidiary owned by our Company as to 70%.

Acquisition of the shareholding in Yongsheng Trading (HK)

Background

The Group has commenced negotiation with Yongsheng Trading (HK) Management Shareholders in the first half of 2012 about the Acquisition of their interests in Yongsheng Trading (HK). The relevant negotiation and preparation work (including the Rectification Transfer) were carried out throughout 2012. In December 2012, the Rectification Transfer and the Second Transfer was finally finished and the Acquisition was completed accordingly.

Consideration

As mentioned in the paragraph headed "Yongsheng Trading (HK)" in this section, after the Rectification Transfer, Yongsheng Trading (HK) became wholly owned by Yongsheng Holdings. As part of the Reorganisation, pursuant to an instrument of transfer and a bought and sold note dated 28 December 2012 entered into between Yongsheng (BVI) and Yongsheng Holdings, Yongsheng Holdings transferred the entire issued share capital (i.e. US$500,000) of Yongsheng Trading (HK) for a consideration of US$500,000.

The consideration paid for the aforesaid transfers was identical to that of the 2010 Transfer made by Yongsheng Trading (HK) Management Shareholders in October 2010 in that the consideration of both transactions was not determined with reference to the net asset value of Yongsheng Trading (HK) but to the par value of the equity interest.

Upon completion of the Second Transfer on 28 December 2012, Yongsheng Trading (HK) became an indirect beneficially wholly-owned subsidiary of our Company.

Reasons for adoption of the acquisition method for the Acquisition

As disclosed in notes 1 and 36 to the Accountant's Report in Appendix I to this prospectus, Yongsheng Trading (HK) has become wholly owned by Yongsheng (BVI), a company controlled by Mr. Li on 28 December 2012 upon completion of the Second Transfer, which is one day after the Rectification Transfer. Furthermore, the purchase price made by our Group to Yongsheng Holdings for the Second Transfer was in proportion the same as the acquisition price made by Yongsheng Holdings to Yongsheng Trading (HK) Management Shareholders for the Rectification Transfer. Our Directors therefore consider the Second Transfer as procedural and the two acquisitions should be seen as one.

Furthermore, Yongsheng Trading (HK) was owned by Yongsheng Holdings as to 30%, Mr. Zhang Peidong (張沛東) as to 30%, Ms. Poon Mei Yuk (潘美玉) as to 15%, Ms. Zhang as to 15%, Ms. Li CY as to 5% and Ms. Chen Jun Shang (陳君賞) as to 5% prior to the Rectification Transfer. Based on the board composition and shareholders' right, it was concluded by the Directors that Mr. Li did not have the controlling power over Yongsheng Trading (HK) prior to the Rectification Transfer. Accordingly, the Second Transfer was accounted as acquisition by our Group.

Pro forma financial information regarding the Acquisition

Had Yongsheng Trading (HK) been acquired by our Group on 1 January 2010, the pro forma revenue during each of the three years ended 31 December 2012 would be approximately RMB1,575,565,000, RMB2,430,010,000 and RMB2,497,647,000, respectively, and the pro forma profit attributable to equity holders during each of the three years ended 31 December 2012 would be approximately RMB76,691,000, RMB59,270,000 and RMB26,074,000, respectively.

Further details of the Reorganisation are set out in the paragraph headed "Corporate Reorganisation" in Appendix VI to this prospectus.

Legality of the Reorganisation

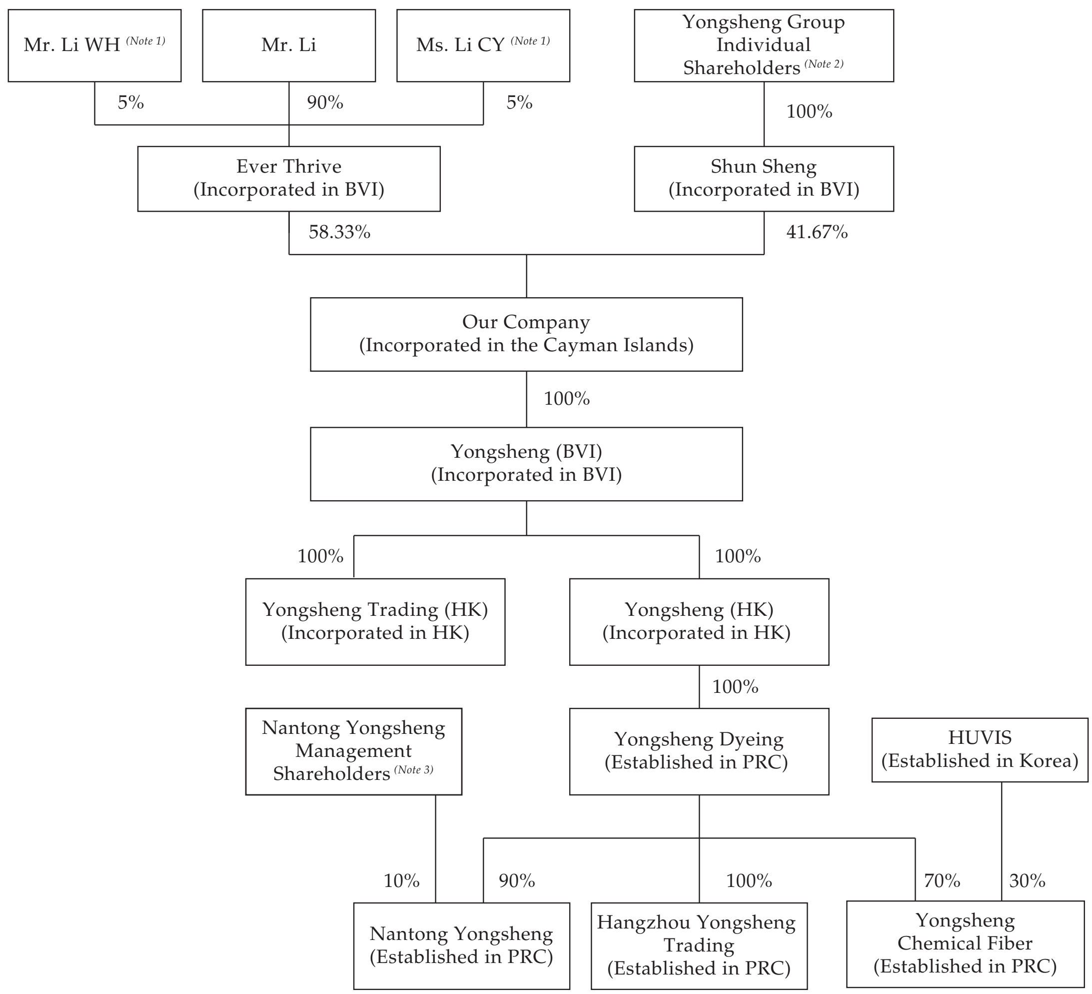
Pursuant to the Regulation on the Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者並購境內企業的規定) ("**M&A Rules**") which were promulgated by the MOFCOM, the State-owned Assets Supervision and Management Committee under the State Council, the State Administration of Industry and Commerce, the State Administration of Taxation, the CSRC and the SAFE and became effective on 8 September 2006 and subsequently revised on 22 June 2009, overseas listing of an overseas company directly or indirectly controlled by a domestic company or natural person for the purpose of the overseas listing of the interests actually held by such domestic company or natural person in a domestic company shall be subject to the approval of the securities regulatory authority under the State Council. Yongsheng Dyeing was established as a foreign-invested enterprise other than a domestic company before the implementation date of the M&A Rules. No merger and acquisition as defined in the M&A Rules occurred during the survival period of Yongsheng Dyeing. Therefore, the M&A Rules shall not be applicable to our Company; and this offering and listing shall not be subject to the approval of the securities regulatory authority under the State Council.

PRC Regulations Relating to Circular No. 75

Pursuant to the Circular of the SAFE on Relevant Issues concerning Foreign Exchange Administration of Financing and Return Investments Undertaken by Domestic Residents through Overseas Special Purpose Vehicles (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) ("**Circular No. 75**") promulgated by the SAFE on 21 October 2005 and came into effect on 1 November 2005, residents in China who establish or controlled special-purpose vehicles outside of China and return investment inside shall apply for the registration for overseas investment in foreign exchange. Our current beneficial owners who are PRC citizens or residents including Mr. Li, Ms. Li CY, Mr. Li WH, Mr. Zhou, Mr. Jin BW, Ms. Liu XL, Ms. Chen X, Mr. Wu, Mr. Jin BH, Mr. Jin JL, Ms. Li YQ, Mr. Li M, Ms. Chen GP, Ms. Zhang, Mr. Li ZH, Mr. Ma, Mr. Tao, Mr. Li TF, Mr. Liu XM, Ms. Wen and Mr. Jin ZF, obtained the registration form of overseas investment in foreign exchange by individual residents in China (境內居民個人境外投資外匯登記表), that is, going through the formalities for registration of overseas investment in foreign exchange in accordance with the Circular 75. The registration for the purpose of the Reorganisation and the registration of alterations as a result of the acquisition of Yongsheng Dyeing by Yongsheng (HK) and the acquisition of Yongsheng Trading (HK) by Yongsheng (BVI) had been completed on 28 April 2013.

Corporate and shareholding structure upon completion of the Reorganisation

The following chart sets forth the shareholding and corporate structure of our Group immediately upon completion of the Reorganisation:



Notes:

1) Mr. Li WH and Ms. Li CY are the nephew and daughter of Mr. Li respectively.

2) At the time upon completion of the Reorganisation, Yongsheng Group Individual Shareholders comprised the following person who in aggregate beneficially held 100% shareholding in Shun Sheng:–

		Shareholding interests Approximately %
	Name	
a)	Mr. Li[1]	*5.67%*
Relatives of Mr. Li		
b)	Mr. Li ZH[2 & 3]	7.09%
c)	Mr. Zhou[3 & 6]	5.32%
d)	Ms. Li YQ[3 & 6]	4.26%
e)	Mr. Li TF[2 & 3]	2.84%
		19.51%
Senior Management/Employees/Ex-employees of the Group or Yongsheng Group or the then subsidiaries of Yongsheng Group prior to the Reorganisation		
f)	Mr. Ma[1]	4.61%
g)	Ms. Wen[2]	9.93%
h)	Mr. Li M[2]	8.87%
i)	Ms. Zhang[2]	2.84%
j)	Mr. Liu XM[2]	1.77%
k)	Mr. Jin ZF[2]	0.71%
l)	Mr. Jin BH[4]	5.32%
m)	Mr. Jin JL[4]	4.26%
n)	Mr. Wu[4]	4.26%
o)	Mr. Tao[4]	1.77%
p)	Ms. Chen GP[4]	1.06%
		45.4%
Others		
q)	Ms. Liu XL[5 & 6]	12.41%
r)	Mr. Jin BW[5 & 6]	9.93%
s)	Ms. Chen X[7]	7.09%
		29.43%
	Total:	100%

1 Executive Directors as at the Latest Practicable Date.

2 Employees of the Group or Yongsheng Group or Yongsheng Holdings as at the Latest Practicable Date.

3 Relatives of Mr. Li.

4 Ex-employees of the Yongsheng Group or its then subsidiaries prior to the Reorganisation as at the Latest Practicable Date.

[5] Independent Third Parties as at the Latest Practicable Date, save as their interests in the Company through Shun Sheng.

[6] Passive investors with no involvement in the operation or management of the Group.

[7] Ms. Chen X is the wife of Mr. Zhao, an executive Director.

3) At the time upon completion of the Reorganisation, Nantong Yongsheng Management Shareholders comprised Tao Jianjun (陶建軍), a director of Nantong Yongsheng, Tao Zhijun (陶志均), Shi Hongxing (石紅星) and Yang Jiahua (楊加華) who held 4%, 2%, 2% and 2% respectively, representing in aggregate 10% equity interest in Nantong Yongsheng.

NON-INCLUSION OF COMPANIES WITH DISSIMILAR BUSINESSES

Reasons for not including in our Group

Yongzhuo Chemical Fiber, Yongsheng Haiyi and Yongsheng Weaving ("**Excluded Companies**") were not included in our Group for the reasons that (i) the businesses carried out by these three companies were historically managed by separate management teams different from our businesses; (ii) such businesses were dissimilar from our businesses in terms of business risks and rewards, customer bases and/or business model (details of which are set out in the paragraph headed "Principal business before deregistration" or "Principal business before disposal" for each of the three companies below); (iii) such businesses had not formed part of our Group as a result of the Reorganisation and were either disposed of to a third party or liquidated; and (iv) such businesses had limited shared facilities and few inter or intra company transactions with our Group.

It is not the intention of our Group to deregister or dispose of all companies which are loss-making in future as our Directors will consider various factors such as the strategic importance and outlook of the relevant companies, and their impact on our Group's business and financial position.

Yongzhuo Chemical Fiber

Establishment and shareholding changes prior to deregistration

Yongzhuo Chemical Fiber (previously known as Hangzhou Zhongcheng Apparel Company Limited* (杭州中誠服飾有限公司)) was established in the PRC on 4 December 2001 and its equity interest was owned by Yongsheng Group, Mr. Li WH and Ms. Chen Mei Qin (陳美琴) as to 60%, 25% and 15% respectively. Since then, there were certain changes in equity interests mainly arising from the resignation and changes of the management members of Yongzhuo Chemical Fiber. As a result of the aforesaid changes and immediately prior to deregistration, Yongzhuo Chemical Fiber was owned by Yongsheng Holdings, Mr. Jin JL and Mr. Qian Boyang (錢柏羊) as to 51%, 24.5% and 24.5% respectively, Mr. Jin JL and Mr. Qian Boyang (錢柏羊) were the management of Yongzhuo Chemical Fiber before its deregistration in March 2013.

* *For identification purposes only*

Deregistration in March 2013

Due to the unsatisfactory results and prospects of Yongzhuo Chemical Fiber, Yongsheng Holdings decided to cease the operation and dissolve Yongzhuo Chemical Fiber in 2011. Therefore, for the year ended 31 December 2012, Yongzhuo Chemical Fiber only engaged in the clearance sales of remaining inventories. Due to Yongsheng Holding's intention to dispose of the remaining inventories of Yongzhuo Chemical Fiber before commencement of the deregistration and the time required for completing the deregistration process, the deregistration and dissolution of Yongzhuo Chemical Fiber was only completed in March 2013. As advised by the PRC Legal Advisers, Yongzhuo Chemical Fiber completed its deregistration and dissolved on 22 March 2013 in accordance with the applicable laws and regulations of the PRC.

Principal business before deregistration

Yongzhuo Chemical Fiber was principally engaged in the sales of regular polyester filament yarn. It did not have its own production facilities and it outsources the entire manufacturing process to external third parties for production of its products. The polyester filament yarn sold by Yongzhuo Chemical Fiber have the following differences as compared with our Group's polyester filament yarn:

1. Polyester filament yarn of Yongzhuo Chemical Fiber were all regular polyester filament yarn and were mainly sold to customers for making blankets. On the contrary, our polyester filament yarn included both regular and differentiated polyester filament yarns and our regular polyester filament yarn were mainly sold to customers for making of fabric and home furnishings which included blankets. The sales of the regular polyester filament yarn for making of blankets ("**Blankets PFY**"), however, only accounted for less than 20% of our total sales of polyester filament yarn for the year ended 31 December 2012.

2. Regular polyester filament yarn of Yongzhuo Chemical Fiber were in general of a lower price as compared with our regular polyester filament yarn mainly due to the differences in applications and specifications of the products. In particular, the regular polyester filament yarn of Yongzhuo Chemical Fiber were lower-end products used for the making of lower-end and lower price blankets as compared with our regular polyester filament yarn for making of blankets.

3. The Blanket PFY produced by Yongsheng Chemical Fiber has features different from those of Blanket PFY produced by Yongzhuo Chemical Fiber. In general, Blanket PFY produced by Yongsheng Chemical Fiber is smoother, and has a more elastic, fluffy and solid texture as compared to the Blanket PFY produced by Yongzhuo Chemical Fiber.

4. The Blanket PFY produced by Yongsheng Chemical Fiber are mainly sold to customers in the PRC, Japan, United States, and Europe, while the Blanket PFY produced by Yongzhuo Chemical Fiber are mainly sold to customers in the PRC.

The regular polyester filament yarn business of Yongzhuo Chemical Fiber was carved out from Yongsheng Chemical Fiber to Yongzhuo Chemical Fiber in 2010 after taking into account the difference of products focus and business model between Yongzhuo Chemical Fiber and Yongsheng Chemical Fiber (i.e. Yongzhuo Chemical Fiber manufactured its products solely by way of outsourcing while Yongsheng Chemical Fiber has its own production facilities). Since the carve-out, each of Yongzhuo Chemical Fiber and Yongsheng Chemical Fiber had separate and independent management as well as minimal transactions which mainly comprised the transfer of inventories from Yongsheng Chemical Fiber to Yongzhuo Chemical Fiber as a result of the carve-out. In addition, due to the differences in products as explained above, there were only insignificant overlap of customers in 2011 and no overlap of customers in 2012 between our Group and Yongzhuo Chemical Fiber after completion of the carve-out in 2010.

Please find below a comparison of our Group's sales of Blankets PFY against that of Yongzhuo Chemical Fiber:

	Year ended 31 December			From 1 January 2013 to the date of
	2010	**2011**	**2012**	**deregistration**
Our Group				
Sales of Blankets PFY *(RMB'000)*	136,153	96,969	61,637	22,359
Sales of polyester filament yarn *(RMB'000)*	235,536	366,699	340,172	155,692
Sales of Blankets PFY as % of sales of polyester filament yarn	57.8	26.4	18.1	14.4
Unit price of all regular PFY *(RMB/tonne)*	10,730	13,250	11,430	11,461
Yongzhuo Chemical Fiber				
Sales of Blankets PFY *(RMB'000)*	49,468	24,584	953	34
Total sales *(RMB'000)*	54,986	27,003	1,647	63
Sales of Blankets PFY as % of total sales	90.0	91.0	57.9	54.0
Unit price of Blankets PFY *(RMB/tonne)*	10,550	12,820	10,230	3,590

Our Group's sales of Blankets PFY during the Track Record Period gradually decreased from 57.8% to 14.4% of our Group's total sales of polyester filament yarn, and therefore our Group's focus on the sales of Blankets PFY was diminishing during the Track Record Period.

Key financial information and discussion of financial results

(RMB'000) *(unaudited)*	**Year ended 31 December** **2010**	**2011**	**2012**	**From 1 January 2013 to the date of deregistration**
Revenue	54,986	27,003	1,647	63
Gross profit/(loss)	2,129	(197)	(535)	(512)
Net profit/(loss)	1,129	(1,931)	(821)	(2,287)
Total assets	18,345	10,739	8,546	28
Total liabilities	15,852	10,177	8,808	–

Revenue of Yongzhuo Chemical Fiber decreased from approximately RMB55.0 million for 2010 to approximately RMB27.0 million for 2011 by 50.9% mainly due to the gradual cessation of business activities during 2011. Revenue further shrank to approximately RMB1.6 million for 2012 by 94% as Yongzhuo Chemical Fiber ceased operation in 2011 and only cleared remaining inventory during 2012.

Gross loss of approximately RMB0.2 million was recorded in 2011 mainly as a result of decrease in selling price of products in 2011. Gross loss further enlarged to approximately RMB0.5 million for 2012 mainly due to clearance sales of inventory in 2012.

Net profit decreased from approximately RMB1.1 million for 2010 to net loss of approximately RMB1.9 million for 2011 mainly as a result of negative gross margin as explained above. Net loss decreased to approximately RMB0.8 million for 2012 though gross loss deteriorated, mainly due to less selling, administrative and interest expenses of approximately RMB0.3 million incurred in 2012 as compared to 2011 as Yongzhuo Chemical Fiber only conducted inventory clearance sales in 2012.

Revenue of Yongzhuo Chemical Fiber of approximately RMB63,000 was derived from clearance sales of inventory during the 1st quarter of 2013 hence incurred gross loss of approximately RMB0.5 million. Net loss further enlarged to approximately RMB2.3 million mainly as a result of administrative expenses of approximately RMB2.2 million which mainly consist of impairment loss of receivables.

Further reasons for non-inclusion

Due to the differences in products as explained above, there were only insignificant overlap of customers in 2011 and no overlap of customers in 2012 and six months ended 30 June 2013 between our Group and Yongzhuo Chemical Fiber after completion of the carve-out in 2010.

In addition, Yongzhuo Chemical Fiber did not have its own production facilities and outsourced the entire manufacturing process to external third parties for production of its products. As such, the regular polyester filament yarn business of Yongzhuo Chemical Fiber was carved out from Yongsheng Chemical Fiber to Yongzhuo Chemical Fiber in 2010.

Yongsheng Haiyi

Establishment and changes in equity interest prior to disposal

Yongsheng Haiyi was established in the PRC on 1 December 2004 by Yongsheng Group and Haeil and owned as to 55% and 45% respectively at the relevant time. Since then, there had been certain changes in equity interest mainly arising from Haeil's intention to reduce its foreign investment. As a result of the aforesaid changes in equity interests, Yongsheng Haiyi was owned by Yongsheng Holdings and Haeil as to 75% and 25% respectively before its disposal to Hangzhou Xiaoshan Yongyu Vegetable Products Company Limited* (杭州蕭山永裕蔬菜製品有限公司) ("**Yongyu**") in March 2013. To the best knowledge of the Directors, Yongyu is an Independent Third Party as at the Latest Practicable Date.

Disposal in March 2013

Due to the unsatisfactory results and prospects of Yongsheng Haiyi as well as the land resumption plan of the PRC government in order to advance urbanisation, land use restructuring and commercialisation of the area where Yongsheng Haiyi was situated, Yongsheng Holdings had the intention to dispose of its equity interest in Yongsheng Haiyi in 2011. The PRC government only confirmed to proceed with the said land resumption in May 2012 and the principal terms of the said land resumption were only finalised in December 2012. Under the relocation compensation agreement entered into between the relevant government authority and Yongsheng Haiyi (as owner and user of the land) in December 2012, the principal terms included the scope of resumption including the area of land, the building and facilities covered, the aggregate compensation and subsidy payable of approximately RMB36.8 million (mainly for land resumed, cost of buildings, equipment affected, and ancillary structures, compensation fees to terminate employment with employees and other operating related expenses) and the payment terms. Further, the relocation compensation agreement also stipulated the schedule which Yongsheng Haiyi shall vacate the building and hand over the relevant site to the government authority. On 31 December 2012, Yongsheng Holdings and Yongyu entered into an equity interest transfer agreement, pursuant to which Yongsheng Holdings transferred its 75% equity interests in Yongsheng Haiyi to Yongyu for the consideration of RMB15,300,000, which was determined based on arms' length negotiation and was equal to the 75% of the registered capital of Yongsheng Haiyi.

Upon completion of the above transfer of equity interest in March 2013, Yongsheng Haiyi was owned by Yongyu and Haeil as to 75% and 25% respectively and Yongsheng Haiyi became an Independent Third Party of our Group.

* *For identification purposes only*

As confirmed by our Directors, given the time required to look for potential purchasers and to negotiate the major terms of the expected disposal with potential purchasers, and the disposal of Yongsheng Haiyi had to be completed after the principal terms of the resumption of land on which Yongsheng Haiyi was then situated were finalised, Yongsheng Haiyi was only disposed of in March 2013.

Principal business before disposal

Yongsheng Haiyi was principally engaged in weaving of fabric mainly used in production of bags and home furnishings prior to the aforesaid disposal. Its products are entirely different from our manufactured products.

Key financial information and discussion of financial results

	Year ended 31 December			From 1 January 2013 to the date of disposal
(RMB'000)	**2010**	**2011**	**2012**	
(unaudited)				
Revenue	40,673	57,119	45,184	6,682
Gross Profit/(Loss)	2,718	5,151	3,663	514
Net Profit/(Loss) after taxation	2,061	(1,841)	23,296	28
Total assets	55,260	59,910	52,840	31,758
Total liabilities	32,172	38,228	32,440	7,935

Revenue of Yongsheng Haiyi increased from approximately RMB40.7 million in 2010 to approximately RMB57.1 million in 2011 by 40.3% as Yongsheng Haiyi began developing the fabric used in production of bags and sourcing relevant customers in 2010. With the production techniques matured in 2011 and customer base stabilised, revenue increased accordingly. As a result of the land resumption plan of the PRC government on the land which Yongsheng Haiyi located, Yongsheng Haiyi gradually ceased its operation in 2012, and hence revenue dropped in 2012.

Gross profit increased from approximately RMB2.7 million in 2010 to approximately RMB5.2 million in 2011 mainly as a result of increase in revenue and improvement of gross profit margin from 6.7% to 9.0%. Gross profit decreased to approximately RMB3.7 million in 2012 mainly as a result of decrease in revenue and drop in gross profit margin from 9.0% to 8.1% caused by the interruption of production in 2012 due to the land resumption plan.

Net profit of approximately RMB2.1 million in 2010 decreased to net loss of approximately RMB1.8 million in 2011, mainly as a result of investment loss recorded in 2011 of approximately RMB1.9 million as compared to investment gain of approximately RMB3.2 million for 2010. Net profit significantly increased to approximately RMB23.3 million for 2012 mainly due to the one-off gain of relocation compensation by PRC government of approximately RMB36.8 million, which was partially offset by write-down of cost of building on land affected of approximately RMB8.2 million.

Yongsheng Haiyi earned comparable gross profit margin from 1 January 2013 to the date of disposal of 7.7% as compared to 6.7%, 9.0%, and 8.1% for each of the three years ended 31 December 2012 respectively. Net profit amounted to approximately RMB28,000 after deduction of selling expenses, administrative expenses and finance costs totalling approximately RMB483,000 from gross profit.

Yongsheng Weaving

Establishment and changes in equity interest prior to deregistration

Yongsheng Weaving was established in the PRC on 11 June 1999 by Yongsheng Group and City Prosper International Limited (城隆國際有限公司) ("**City Prosper**") and was owned as to 51% and 49% respectively at the relevant time. Since then, there had been certain changes in equity interest mainly arising from the financial needs of City Prosper and the intention of Mr. Li. As a result of the aforesaid changes in equity interest and immediately prior to deregistration, Yongsheng Weaving was wholly owned by Yongsheng Group.

City Prosper was a company whose issued share capital was owned as to 50% and 50% by Mr. Li and an Independent Third Party, to the best knowledge of the Directors, respectively at the Latest Practicable Date.

Deregistration in March 2013

Due to the unsatisfactory results and prospects of Yongsheng Weaving as well as the land resumption plan of the PRC government in order to advance urbanisation, land use restructuring and commercialisation of the area where Yongsheng Weaving was situated, Yongsheng Group had the intention to cease the operation and dissolve Yongsheng Weaving in 2011. The PRC government only confirmed to proceed with the said land resumption in May 2012 and that the principal terms of the said land resumption were only finalised in December 2012. Under the relocation compensation agreement entered into between the relevant government authority and Yongsheng Weaving (as user of the land, which is owned by Yongsheng Group), the principal terms included the scope of resumption including the facilities covered and the compensation and subsidy payable in an aggregate amount of approximately RMB25.3 million (mainly for cost of leasehold improvement, equipment affected and ancillary structures and compensation fees to terminate employment with employees and other operating related expenses) and the payment terms. Further, the relocation compensation agreement also stipulated the schedule which Yongsheng Weaving shall vacate the building and hand over the relevant site to the government authority. As advised by the PRC Legal Advisers, Yongsheng Weaving completed its deregistration and dissolved on 22 March 2013 in accordance with the applicable laws and regulations of the PRC.

As confirmed by our Directors, given the deregistration of Yongsheng Weaving had to be completed after the principal terms of the resumption of land on which Yongsheng Weaving was then situated were finalised and the time required for completing the deregistration, Yongsheng Weaving was only deregistered in March 2013.

Principal business before deregistration

Yongsheng Weaving was engaged in weaving of regular polyester fabric mainly used in the production of garments. Its products are entirely different with our manufactured products.

Key financial information and discussion of financial results

(RMB'000) *(unaudited)*	Year ended 31 December **2010**	**2011**	**2012**	**From 1 January 2013 to the date of deregistration**
Revenue	145,945	128,760	54,302	–
Gross Profit/(Loss)	5,622	(1,993)	(9,453)	(6)
Net Profit/(Loss) after taxation	(6,041)	(15,976)	(4,701)	14
Total assets	178,353	98,941	58,742	124
Total liabilities	161,004	97,569	58,622	–

Revenue of Yongsheng Weaving decreased from approximately RMB145.9 million in 2010 to approximately RMB128.8 million in 2011 by 11.7% due to the deterioration of global economy as majority of Yongsheng Weaving's sales consist of export sales. As a result of the land resumption plan of the PRC government on the land which Yongsheng Weaving located, Yongsheng Weaving gradually ceased its operation in 2012, and hence revenue dropped in 2012.

Gross profit margin deteriorated during the three years ended 31 December 2012 from 3.9% for 2010 to gross loss of 1.6% for 2011 and then to gross loss of 17.4% mainly due to (1) the market of regular polyester fabric became more competitive during the Track Record Period, (2) aging manufacturing equipments and increasing maintenance costs, and (3) clearance sales of aged inventory.

Net loss worsened by approximately RMB9.9 million from 2010 to 2011 mainly due to decrease in gross profit by approximately RMB7.6 million from 2010 to 2011. Net loss narrowed to approximately RMB4.7 million by approximately RMB11.3 million mainly due to the one-off gain of relocation compensation by PRC government of approximately RMB25.3 million, partially offset by compensation fees paid to terminate employment with employees of approximately RMB2.9 million and disposal loss of machine and equipment of approximate RMB2.4 million.

In preparation of deregistration, Yongsheng Weaving did not conduct any sales from 1 January 2013 to the date of deregistration. Net profit of approximately RMB14,000 was derived other gain of approximately RMB275,000 which mainly represented waiver of certain accounts payables, offset by other loss of approximately RMB72,000 which mainly consisted of disposal loss of fixed assets and taxes and administrative expenses of approximately RMB182,000 which mainly represented salaries and expenses paid to employees for termination of contracts.

Relationship between our Group

During the Track Record Period, our Group had certain sales and purchase transactions with Yongzhuo Chemical Fiber, Yongsheng Weaving and Yongsheng Haiyi in their ordinary course of business respectively, the Directors consider that the transactions were on an arms' length basis and the transaction amounts incurred were immaterial. Details of the transactions entered into between our Group, Yongzhuo Chemical Fiber, Yongsheng Weaving and Yongsheng Haiyi are set out in the section headed "Financial Information" and note 37 of the Accountant's report set out in Appendix I of this prospectus.

Due to differences in products and customer bases as mentioned above, our Directors and the Sponsor consider the Dissimilar Businesses did not compete with that of our Group during the Track Record Period.

View of our Directors and the Sponsor in relation to the Non-inclusion

Our Directors are of the view, and the Sponsor concurs, that there is no packaging issue under paragraph 4(f) of PN3 in view of the Second Acquisition of Yongsheng Trading (HK) and the non-inclusion of Excluded Companies from our Group, for the following reasons:

(a) the businesses of Excluded Companies had historically been managed by separate management teams different from the businesses of our Group;

(b) the businesses of Excluded Companies were dissimilar from the business of our Group in terms of business risks and rewards, customer bases and content and had not formed part of our Group pursuant to the Reorganisation;

(c) the businesses of Excluded Companies had limited shared facilities and few inter or intra company transactions with the business of our Group;

(d) it will be inappropriate to include in our Group the businesses of the Excluded Companies which are different from our Group and which have been ceased or disposed of. Otherwise, the track record results of our Group will not reflect the actual results of the business of our Group after listing and cannot be used as a basis to analyse our Group's future prospects;

(e) there is basically no selection of businesses to form the listing group as the Excluded Companies have been concluded not viable and therefore would have been disposed of or liquidated regardless of whether there is a listing plan for our Group or not; and

(f) Yongsheng Trading (HK) has not been included simply because it was not controlled by the shareholders of our Company during the Track Record Period.

POST-REORGANISATION SHAREHOLDING MOVEMENTS

Assignment of shareholders loan

On 31 December 2012 and upon completion of the Reorganisation described above in this section, as consideration for the assignment to the Company of (i) shareholder's loans in an aggregate amount of US$21,836,000 due from Yongsheng (HK) to Ever Thrive, (ii) shareholder's loan in an amount of HK$14,505,800 due from Yongsheng (HK) to Ever Thrive, (iii) shareholder's loan in an amount of HK$3,880,000 due from Yongsheng (BVI) to Ever Thrive; and (iv) shareholder's loan in an amount of HK$10,361,300 due from Yongsheng (HK) to Shun Sheng, the Company issued and allotted in aggregate 583,333 Shares to Ever Thrive and in aggregate 416,667 Shares (364,389 Shares of which were allotted as directed by Ever Thrive) to Shun Sheng respectively.

Upon completion of the aforesaid allotment of Shares, the shareholding structure of our Company remained unchanged and was owned by Ever Thrive and Shun Sheng as to approximately 58.33% and approximately 41.67% whereas Ever Thrive was beneficially owned as to 90%, 5% and 5% by Mr. Li, Mr. Li WH and Ms. Li CY and the shareholding structure of Shun Sheng was set out in Note 2 of the corporate chart headed "Corporate and shareholding structure upon completion of the Reorganisation" in this section.

Rationalisation of Shareholding Structure of the Company

For consolidating the shareholding interests of Mr. Li and his relatives in the Company through Ever Thrive, on 31 January 2013, the following shareholding movements were taken place by the shareholders of Ever Thrive and Shun Sheng, as a result of which, Ever Thrive was owned by Mr. Li and his relatives while Shun Sheng was owned by Shun Sheng Shareholders, all being employees or ex-employees of the Group or Yongsheng Group or the then subsidiaries of Yongsheng Group prior to our Reorganisation:

(a) On 31 January 2013, Ms. Wen acquired 16 shares of Shun Sheng from Mr. Li for the consideration of US$16 with reference to its par value;

(b) On 31 January 2013, Ms. Wen acquired 12 shares of Shun Sheng from Ms. Li YQ for the consideration of US$12 with reference to its par value;

(c) On 31 January 2013, Mr. Jin BH acquired 15 shares of Shun Sheng from Mr. Zhou for the consideration of US$15 with reference to its par value;

(d) On 31 January 2013, Ms. Chen X acquired 20 shares of Shun Sheng from Mr. Li ZH for the consideration of US$20 with reference to its par value;

(e) On 31 January 2013, Ms. Zhang acquired 8 shares of Shun Sheng from Mr. Li TF for the consideration of US$8 with reference to its par value;

(f) On 31 January 2013, Shun Sheng allotted and issued 28, 35, 12, 12, 25, 3, 13, 5, 5 and 2 shares at its par value to Mr. Jin BW, Ms. Liu XL, Mr. Wu , Mr. Jin JL, Mr. Li M, Ms. Chen GP, Mr. Ma, Mr. Tao, Mr. Liu XM and Mr. Jin ZF respectively.

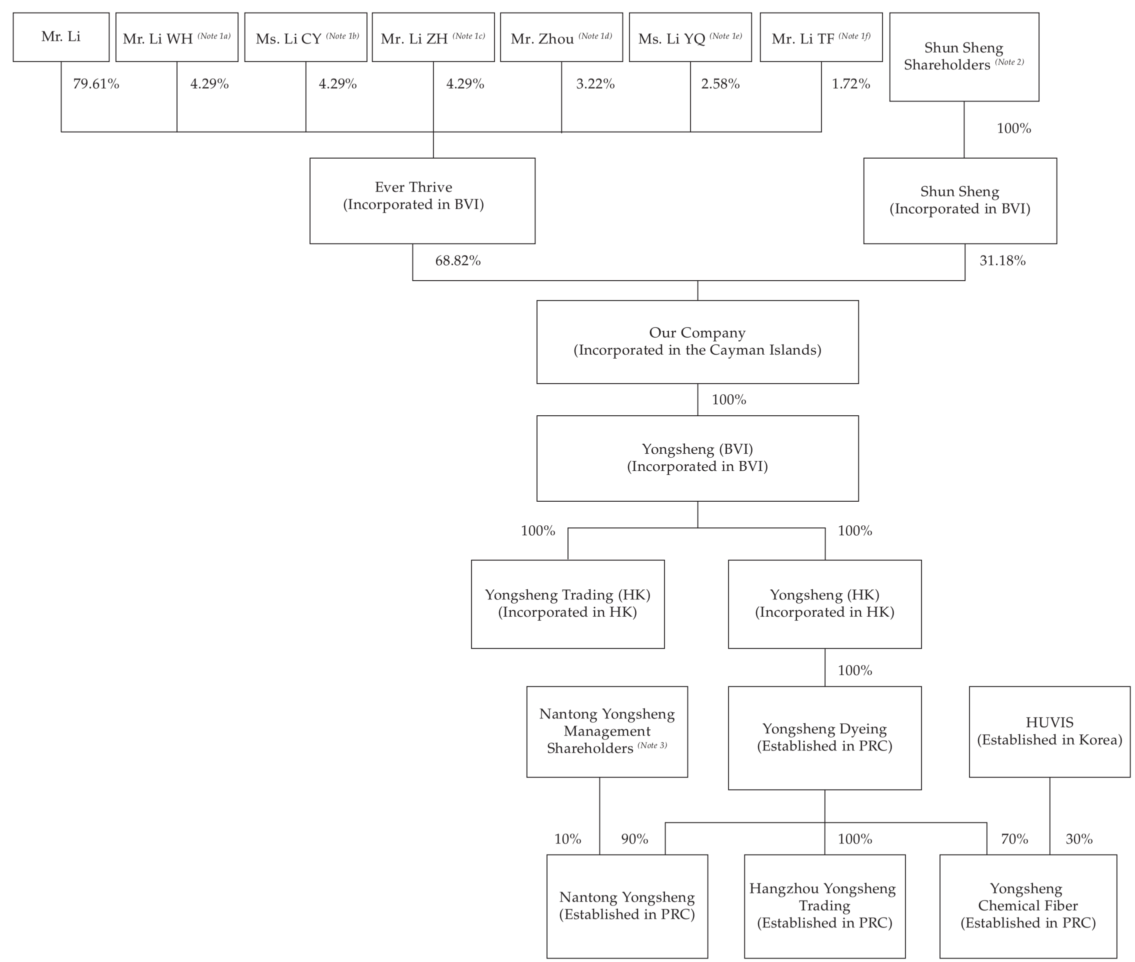
(g) On 31 January 2013, Ever Thrive allotted and issued 353, 19, 19, 15, 12, 20 and 8 shares at its par value to Mr. Li, Mr. Li WH, Ms. Li CY, Mr. Zhou, Ms. Li YQ, Mr. Li ZH and Mr. Li TF.

(h) On 31 January 2013, the Company issued and allotted 672,990 Shares at its par value to Ever Thrive.

Upon completion of the above shareholding movements set out in (a) to (h) and immediately prior to the Share Offer and Capitalisation Issue, the Company was owned by Ever Thrive and Shun Sheng as to approximately 68.82% and 31.18% respectively whereas the shareholding structure of Ever Thrive and Shun Sheng was set out in the corporate chart headed "Corporate and shareholding structure upon completion of post-Reorganisation shareholding change" in this section. The effective interest of Mr. Li, Mr. Li WH, Ms. Li CY and each of the Yongsheng Group Individual Shareholders in the Company remained unchanged (save for some rounding adjustments) and Mr. Li and Ever Thrive remained as the Controlling Shareholders after such rationalisation of shareholding structure.

Corporate and shareholding structure upon completion of post-Reorganisation shareholding change

The following chart set forth the shareholding and corporate structure of our Group immediately upon completion of post-Reorganisation shareholding change:



Notes :

1a) Mr. Li WH is the nephew of Mr. Li.

1b) Ms. Li CY is the daughter of Mr. Li.

1c) Mr. Li ZH is the brother of Mr. Li.

1d) Mr. Zhou is the brother-in-law of Mr. Li.

1e) Ms. Li YQ is the sister of Mr. Li.

1f) Mr. Li TF is the brother of Mr. Li.

1g) Mr. Li confirmed that none of the above shareholders of Ever Thrive is acting in concert with him.

2) At the time upon completion of post-Reorganisation shareholding change, Shun Sheng Shareholders comprised the following person who in aggregate beneficially held 100% shareholding interest in Shun Sheng:–

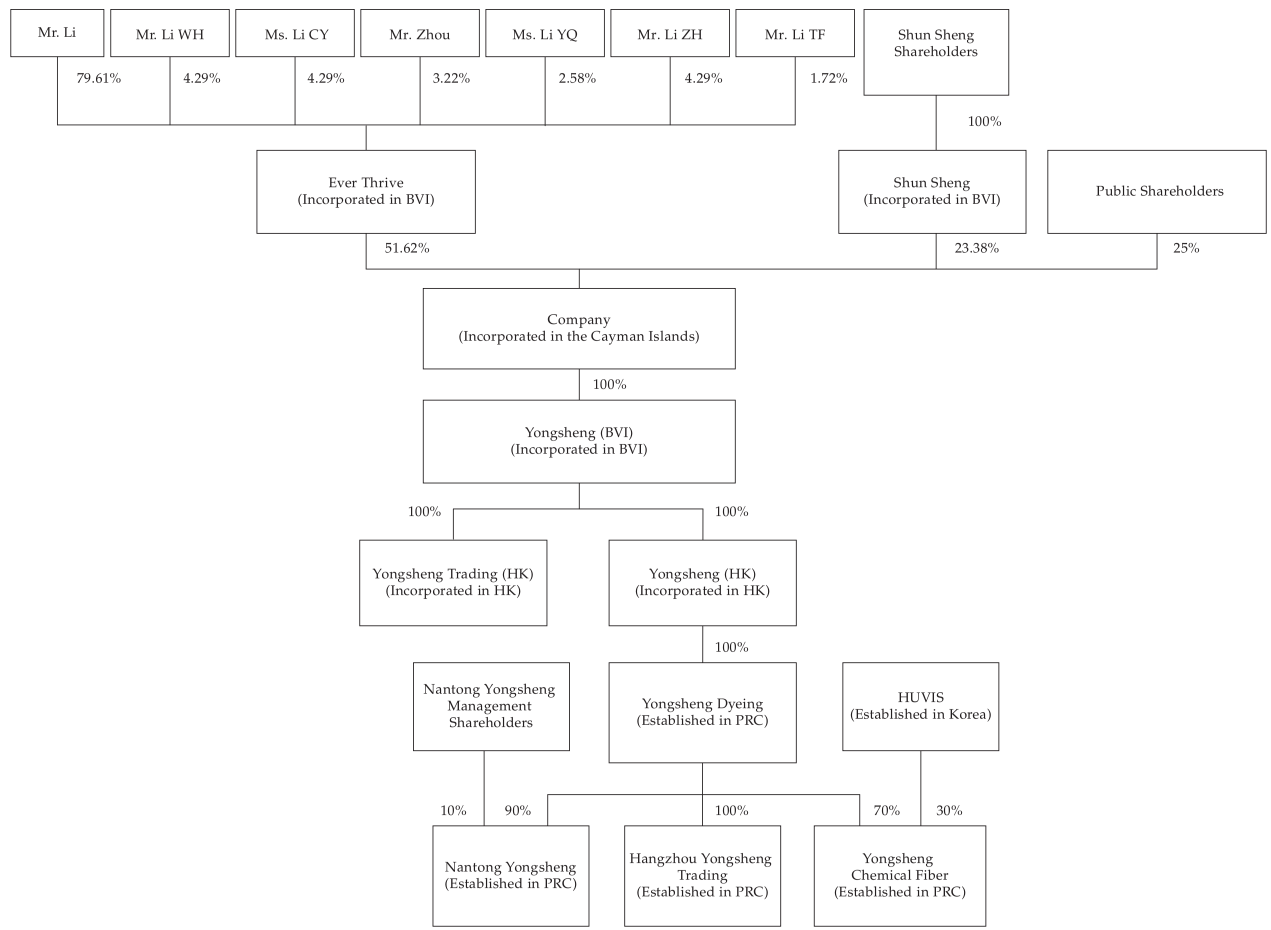
	Name	**Shareholding interests** *Approximately %*
Shun Sheng Management Shareholders		
a)	Mr. Ma[1]	6.16%
b)	Ms. Wen[2]	13.27%
c)	Mr. Li M[2]	11.85%
d)	Ms. Zhang[2]	3.79%
e)	Mr. Liu XM[2]	2.37%
f)	Mr. Jin ZF[2 & 4]	0.95%
Shun Sheng Individual Shareholders		38.39%
g)	Mr. Wu[3 & 4]	5.69%
h)	Mr. Jin BH[3 & 4]	7.11%
i)	Mr. Jin JL[3 & 4]	5.69%
j)	Ms. Chen GP[3 & 4]	1.42%
k)	Mr. Tao[3 & 4]	2.36%
l)	Ms. Liu XL[4 & 5]	16.59%
m)	Mr. Jin BW[4 & 5]	13.27%
n)	Ms. Chen X[5 & 6]	9.48%
		61.61%

1 Executive Directors as at the Latest Practicable Date.
2 Employees of the Group or Yongsheng Holdings as at the Latest Practicable Date.
3 Ex-employees of the Group or Yongsheng Group or the then subsidiaries of Yongsheng Group prior to the Reorganisation as at the Latest Practicable Date.
4 Independent Third Parties as at the Latest Practicable Date, save as their employment with the Group or their interests in the Company through Shun Sheng.
5 Passive investors with no involvement in the operation or management of the Group.
6 Ms. Chen X is the wife of Mr. Zhao, an executive Director.

3) At the time upon completion of the Reorganisation, Nantong Yongsheng Management Shareholder comprised Tao Jianjun (陶建軍), a director of Nantong Yongsheng, Tao Zhijun (陶志均), Shi Hongxing (石紅星) and Yang Jiahua (楊加華) who held 4%, 2%, 2% and 2% respectively, representing in aggregate 10% equity interest in Nantong Yongsheng.

Corporate and shareholding structure upon completion of the Capitalisation Issue and the Share Offer

The following chart sets forth the shareholding and corporate structure of our Group immediately upon completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option and any options that may be granted under the Share Option Scheme):



Notes:

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1b) Ms. Li CY is the daughter of Mr. Li.

1c) Mr. Li ZH is the brother of Mr. Li.

1d) Mr. Zhou is the brother-in-law of Mr. Li.

1e) Ms. Li YQ is the sister of Mr. Li.

1f) Mr. Li TF is the brother of Mr. Li.

1g) Mr. Li confirmed that none of the above shareholders of Ever Thrive is acting in concert with him.

2) At the time upon completion of the Capitalisation Issue and the Share Offer, Shun Sheng Shareholders comprised the following person who in aggregate beneficially held 100% shareholding interest in Shun Sheng:-

	Name	**Shareholding interests** *Approximately %*
Shun Sheng Management Shareholders		
a)	Mr. Ma[1]	6.16%
b)	Ms. Wen[2]	13.27%
c)	Mr. Li M[2]	11.85%
d)	Ms. Zhang [2]	3.79%
e)	Mr. Liu XM[2]	2.37%
f)	Mr. Jin ZF[2 & 4]	0.95%
Shun Sheng Individual Shareholders		38.39%
g)	Mr. Wu[3 & 4]	5.69%
h)	Mr. Jin BH[3 & 4]	7.11%
i)	Mr. Jin JL[3 & 4]	5.69%
j)	Ms. Chen GP[3 & 4]	1.42%
k)	Mr. Tao[3 & 4]	2.36%
l)	Ms. Liu XL[4 & 5]	16.59%
m)	Mr. Jin BW[4 & 5]	13.27%
n)	Ms. Chen X[5 & 6]	9.48%
		61.61%

1 Executive Directors as at the Latest Practicable Date.
2 Employees of the Group or Yongsheng Holdings as at the Latest Practicable Date.
3 Ex-employees of the Group or Yongsheng Group or the then subsidiaries of Yongsheng Group prior to the Reorganisation as at the Latest Practicable Date.
4 Independent Third Parties as at the Latest Practicable Date, save as their employment with the Group or their interests in the Company through Shun Sheng.
5 Passive investors with no involvement in the operation or management of the Group.
6 Ms. Chen X is the wife of Mr. Zhao, an executive Director.

OVERVIEW

We are principally engaged in the trading of textile-related products, the dyeing and processing of differentiated polyester fabric, and the production of polyester filament yarn, which are three business segments associated with the textile industry in China.

We engage in trading of textile-related products which mainly include cotton (raw material of natural fiber yarn), PET chips and nylon chips (raw materials of polyester filament yarn), PTA (raw material of PET chips), MEG (raw material of PET chips), wood pulp and cotton pulp (raw material of natural fiber yarn) during the Track Record Period. We generally place orders and procure the textile-related products based on our best estimate of customers' demand. We are led by our management team with more than 15 years of experience in the textile industry, including Mr. Li who possesses over 20 years of experience in the textile and trading business. Leveraging on our experience in the textile industry accumulated through our involvement in different areas of the textile industry supply chain, our broad customer base and our close proximity to the hub of the textile industry in China, our management is able to estimate demand from our customers by making reference to the previous purchase record of our customers and the local shortage of textile-related products. We may also gather information about the textile industry such as market price trends and demand, in order to analyse the market trends which we may consider when we carry out our trading operating decisions. Furthermore, we would send our staff to Xinjiang from time to time to assess the supply of cotton as Xinjiang is a major production area of cotton in the PRC. Since we are involved in the production of polyester filament yarn, we believe we are familiar with the market needs for the textile-related products. Although our gross profit margin for trading had decreased for each of the two years ended 31 December 2012 and the six months ended 30 June 2013, our Directors consider that it is due to the unexpected market fluctuation of the price of the textile-related products we traded as a result of the unstable economic environment arising from the European debt crisis. Our Directors also consider that engaging in the trading business may increase our market connections which may help us connect to new customers for our production and processing business segments.

We dye and/or process differentiated polyester fabric from our customers or from our own sourcing. We provide dyeing and processing services on differentiated polyester fabric provided by our customers, in return for a processing fee. We also sourced differentiated polyester fabric for further dyeing and processing to conduct direct sales of such finished differentiated polyester fabric to other customers. Our products include various types of synthetic chamois leather. As at the Latest Practicable Date, we had five processing lines at our Dyeing Facilities and had a dyeing and processing capacity of approximately 48 million metres of differentiated polyester fabric per year. We plan to further increase our processing capacity at our Dyeing Facilities to approximately 57 million metres of differentiated polyester fabric per year by the addition of one more processing line by December 2014.

Furthermore, we are a developer and manufacturer of regular and differentiated polyester filament yarn in China. Our products include various types of polyester filament yarn that can be classified into two main categories, regular polyester filament yarn and differentiated polyester filament yarn. During each of the three years ended 31 December 2012, the majority of our sales of polyester filament yarn were regular polyester filament yarn, but we are aiming to gradually focus our production and sales on differentiated polyester filament yarn due to its higher profit margin. As such, approximately 78.4% of total sales of polyester filament yarn for the six months ended 30 June 2013 were contributed by sales of differentiated polyester filament yarn. As at the Latest Practicable Date, the total production capacity at our Fiber Facilities and our Nantong Facilities is approximately 14,600 tpa and 10,900 tpa respectively, with a total production capacity for polyester filament yarn of approximately 25,500 tpa, assuming all our production lines are in operation. We plan to further increase our production capacity at Nantong Facilities by the addition of four production lines by December 2014, which would increase our production capacity by approximately 7,600 tpa. At completion of our expansion, we expect to have a total production capacity of approximately 33,100 tpa of polyester filament yarn at our Fiber Facilities and Nantong Facilities.

One of our differentiated polyester filament yarn products, SPH, which has bright colour, lasting elasticity and a linen-like and cotton-like feel, was developed by us in the PRC. Our SPH could be used to manufacture fabric for the production of, among others, men's dress shirts and pants, and women's dresses. Other products, such as SSY, could be used by fabric manufacturers for production of, among others, t-shirts and undergarment. Our differentiated polyester filament yarn also have other special features such as anti-bacterial, ultraviolet resistant, water absorbing, anti-abrasion, ultra-soft, ultra-white, and ultra-bright qualities.

We aim at positioning ourselves to focus on the niche market of differentiated polyester filament yarn production and differentiated polyester fabric dyeing and processing as both segments are of higher profit margin and have a competitive edge over regular polyester filament yarn production and regular polyester fabric dyeing and processing. We are also committed to research and development regarding production of differentiated polyester filament yarn and dyeing and processing technique of differentiated polyester fabric. Supported by our research and development team consisting of 54 personnel as at 30 June 2013, we have developed 21 types of differentiated polyester filament yarn and is in the process of developing three different types of differentiated polyester filament yarn, in which the production of those differentiated filament yarn is expected to commence by early 2014. We expect these newly developed differentiated polyester filament yarn shall increase our market share and expand our products portfolio which could increase our sales and expand our customer base and satisfy our customers' diverse needs. Furthermore, as at 30 June 2013, we have developed seven differentiated polyester fabric dyeing techniques and we intend to develop two more differentiated polyester fabric dyeing techniques for improving the dyeing quality of our differentiated polyester fabric by the end of 2013. Furthermore, we have also cooperated with third parties, such as suppliers and universities, in relation to certain research and development projects on dyeing and processing fabric technique and production of polyester filament yarn technique. For example, in 2009, we entered into a cooperation agreement with one of our suppliers, Shanghai ANOKY Textile Chemicals Co., Ltd. (上海安諾其紡織化工股份有限公司) for research and development of 超細纖維織物環保染色技術研究 (environmental friendly dyeing technique for micro-fiber fabric*). In 2010, we began our technological cooperation with 嘉興學院 (Jiaxing University*) for the research and development of 納米氧化亞銅抗菌劑及抗菌纖維 (nano copper oxide anti-bacterial agents and anti-bacterial polyester filament yarn*). The aforesaid project was categorised as one of 2010年重大科技專項和優先主題項目 (2010 major and prioritised science and technology project*) by 浙江省科學技術廳 (Science Technology Department of Zhejiang Province*). Furthermore, during the Track Record Period, we entered into certain agreements with HUVIS (a company listed on the Korea Exchange), pursuant to which HUVIS granted us rights to use specific product know-hows. For further details of the aforesaid research and development cooperation, please refer to the paragraph headed "Research and development" below in this section of the prospectus.

We have a diverse customer base. For each of the year ended 31 December 2010, 2011, 2012 and the twelve months ended 30 June 2013, we had transactions with approximately 620, 800, 910 and 940 customers during the relevant year/period respectively. We have both domestics and overseas customers for the aforesaid three business segments, among which, sales to our domestic customers accounted for 81.2%, 76.9%, 89.0% and 77.9% of our revenue for each of the three years ended 31 December 2012 and the six months ended 30 June 2013. Our customers of our polyester filament yarn business consist of fabric manufacturers which are mainly located in Zhejiang Province and Jiangsu Province. The end applications of our polyester filament yarn products mainly include various style of apparel products and home furnishing products. In addition to sales to our domestic customers, we also export a portion of our polyester filament yarn to Egypt, Syria, Thailand and Iran. Our customers of our fabric dyeing and processing business mainly consist of fabric manufacturers and home furnishing and sofa manufacturers which are mainly located in Zhejiang Province and Jiangsu Province. Our fabric dyeing and processing business also include some overseas customers located in the US, Brazil and Canada. Our customers of our trading business mainly consist of both trading companies and manufacturers of textile products which are mainly located in different regions of the PRC. We also sell a portion of our textile-related products to customers located in Switzerland and Hong Kong.

For each of the three years ended 31 December 2012 and the six months ended 30 June 2013, our revenue was approximately RMB1,565.6 million, RMB2,037.3 million, RMB2,210.9 million and RMB1,110.8 million respectively. Our gross profit for the same periods was approximately RMB137.6 million, RMB114.4 million, RMB109.1 million and RMB61.2 million respectively. Our gross profit margin for the same periods was approximately 8.8%, 5.6%, 4.9% and 5.5% respectively, and our net profit for the same periods was approximately RMB82.9 million, RMB60.0 million, RMB33.0 million and RMB19.3 million respectively. The gross profit margin of our trading segment was approximately 8.5%, 4.8%, 2.1% and 1.6% respectively for each of the three years ended 31 December 2012 and the six months ended 30 June 2013. In relation to our fabric dyeing and processing segment, the gross profit margin was approximately 23.9%, 23.6%, 31.6% and 34.0% respectively for each of the three years ended 31 December 2012 and the six months ended 30 June 2013. The gross profit margin of our polyester filament yarn production for each of the three years ended 31 December 2012 and the six months ended 30 June 2013 was approximately 3.9%, 3.4%, 10.3% and 17.2% respectively. Our Directors consider that the relatively lower gross profit margin for our production of polyester filament yarn from 2010 to 2012 was mainly due to the fact that sales of our products were mainly concentrated on the regular polyester filament yarn products, which has a lower or negative gross margin, as compared to that of differentiated polyester filament yarn products, which has a higher gross profit margin and which we gradually shifted our focus to during the Track Record Period.

In sum of the above factors, we are well positioned to gain access to industry news and market information for better understanding of the market trend and customers' requirement in the textile industry as a whole. We also have the advantage of being able to develop networking and connections with different industry players, which may become our potential customers. Leveraging on our comprehensive integrated knowledge and experience in the textile industry, we strive to continue to develop our businesses on trading of textile-related products, the dyeing and processing of differentiated polyester fabric as well as the production of polyester filament yarn. In particular, we consider our differentiated polyester filament yarn production and dyeing and processing of differentiated polyester fabric to have a stronger development potential and could lead to a higher growth drive for our Group in the future, as indicated by (i) the higher gross profit margin in the relevant segments during the Track Record Period; (ii) the favourable policy in the textile manufacturing industry launched by the PRC government, including the Twelfth Five Year Plan, under which significant funding were provided by the PRC government for the restructuring and development of China's textile manufacturing industry, especially the polyester filament yarn industry; (iii) the expected increase in domestic demand and consumption for end products of apparel with special features which requires differentiated polyester filament yarn; and (iv) the fast-growing trend for differentiated polyester filament yarn and dyeing and processing fabric service in China as illustrated in the Ipsos Report, in which the CAGR of total estimated revenue and production volume of differentiated polyester filament yarn in China from 2013 to 2017 is expected to be approximately 15.9% and 13.1% respectively while the CAGR of total estimated revenue and production volume of dyeing and processing fabric service in China from 2013 to 2017 is expected to be approximately 15.0% and 5.3% respectively.

OUR COMPETITIVE STRENGTHS

Our strong research and development and commercialisation capabilities allow us to offer a comprehensive portfolio of differentiated polyester filament yarn with a higher profit margin

During the Track Record Period, our main products are regular polyester filament yarn in our production business, but we are aiming to gradually focus our production on differentiated polyester filament yarn, which is polyester filament yarn with special features, of which the differentiation is achieved through diversifying the chemical components or changing the shape or linear density of filament yarn or through combining different filament yarn together. Acknowledging the increasingly diversified requirements in the features of textile consumer products, we emphasise the continuous development of innovative differentiated polyester filament yarn and improvement in our production processes in order to cater for the market demand for new types of products and expand our market share. Through close communication with our customers, we gain a better understanding of our customers' needs and, along with our strong research and development capabilities, we are able to design and develop new products that cater for market trends. Supported by our research and development team consisting of 54 personnel as at 30 June 2013, we have developed 21 types of differentiated polyester filament yarn, including the SPH. Furthermore, we have developed seven dyeing techniques for improving the dyeing quality of our differentiated polyester fabric. We have also cooperated with third parties, such as suppliers and universities, in relation to certain research and development projects. For example, in 2009, we entered into a cooperation agreement with one of our suppliers, Shanghai ANOKY Textile Chemicals Co., Ltd. (上海安諾其紡織化工股份有限公司) for research and development of 超細纖維織物環保染色技術研究 (environmental friendly dyeing technique for micro-fiber fabrics*). In 2010, we began our technological cooperation with 嘉興學院 (Jiaxing University*) for the research and development of 納米氧化亞銅抗菌劑及抗菌纖維 (nano copper oxide anti-bacterial agents and anti-bacterial polyester filament yarn*). The aforesaid project was categorised as one of 2010年重大科技專項和優先主題項目 (2010 major and prioritised science and technology project*) by 浙江省科學技術廳 (Science Technology Department of Zhejiang Province*). Furthermore, during the Track Record Period, we entered into certain agreements with HUVIS on specific product know-how. For further details of the aforesaid research and development cooperation, please refer to the paragraph headed "Research and development" below in this section of the prospectus. We believe that, as we continue to offer a wide variety of high-quality regular and differentiated polyester filament yarn, and dyeing and processing services for and production of differentiated polyester fabric in the market, we should be able to maintain our market share and improve our brand loyalty and awareness among our customers.

As at the Latest Practicable Date, our production lines are composed of various equipment and machineries, which included machineries imported from South Korea and Japan. Coupled with our technology and know-how acquired over the years, we are able to produce various types of regular and differentiated polyester filament yarn and process differentiated polyester fabric with special features, to accommodate the requirements specified by our customers. For example, our technology allows us to produce differentiated polyester filament yarn which is composed of two to three types of PET chips and/or other raw materials in order to bring out special physical features.

We are led by an experienced management team with extensive textile industry knowledge and experience

Most of our senior management team and executive Directors have an average of more than 10 years experience in the textile industry. In particular, Mr. Li and Mr. Zhao, our executive Directors, have over 20 years of experience in the textile and trading industry and over 25 years of experience in the textile industry respectively. Most of our senior management team has an extensive industry experience as well as rich knowledge in all areas of the textile industry, including sales and marketing, and research and development. Also, we have technical staff from both inside and outside the PRC, which are responsible for our operations and research and development. For example, we have a technical staff from South Korea who is responsible for providing technical advice and the operations of our production of differentiated polyester filament yarn. We believe that our management team has the leadership, in-depth industry knowledge and outlook which are necessary to form sound business strategies and develop cost-effective business growth and also insight to seize market opportunities. For further details of the biographies and relevant industry experience of our management team, please refer to the section headed "Directors, senior management and employees" in this prospectus. We believe that an experienced management team as well as dedicated staff members will contribute significantly to our future growth.

We are strategically located close to the centre of the textile industry in China

As we are located in Hangzhou, Zhejiang Province, we are located close to the centre of the textile industry in China. According to the Industry Report, Jiangsu Province and Zhejiang Province were two of the top provinces of the textile manufacturing industry in China, with Zhejiang Province accounted for approximately 52.2% of the total production volume and approximately 44.8% of the total consumption volume and Jiangsu Province accounted for approximately 33.3% of the total production volume and approximately 28.6% of the total consumption volume in China in 2012 respectively. Our close proximity to the hub of the textile industry in China allows us to have available access to industry news and market information, more exposure to potential customers and efficient communication to our existing customers. Also, we would be able to have fast and updated market information regarding the textile industry which we believe would contribute to our research and development and let us respond faster to the industry needs of the textile manufacturers.

We provide products and services which help us build our reputation and customer loyalty

As we believe a reputation of high product quality and timely service provides us with the strength for long term growth, we emphasise the quality of our products and timely customer services by implementing procedures and mechanisms to achieve this goal. We believe our products and services have enhanced our reputation and helped us to build a loyal customer base. For each of the year ended 31 December 2010, 2011, 2012 and the twelve months ended 30 June 2013, we had transactions with approximately 290, 460, 570 and 650 customers for our production and dyeing and processing business during the relevant year/period, respectively, the longest of which have been our customers for more than six years.

To maintain the consistent quality of our products, we have a quality control department, consisting of 18 personnel as at 30 June 2013. We have adopted stringent quality control procedures and policy to ensure product quality. We have an internal control system with the ISO9001:2008 and ISO14001:2004 standards. We are devoted to timely pre-sales and post-sales services to our customers in order to strengthen our customer relationship and to sustain our long term growth. To achieve this goal, we would follow our production and dyeing process according to an agreed schedule with our customers, in which we would follow the timeline to meet the requirements of our customers. We believe our timely services has enhanced our customer loyalty and will continue to help enhance our reputation.

We offer comprehensive services from trading of textile-related products, dyeing and processing of differentiated polyester fabric, and the production of polyester filament yarn

We are engaged in the trading of textile-related products during the Track Record Period. We also dye and process differentiated polyester fabric at our Dyeing Facilities to produce synthetic chamois leather. Furthermore, we also produce polyester filament yarn. As our business activities include trading of textile-related products, dyeing and processing of differentiated polyester fabric, and production of polyester filament yarn, we have maintained connections with different participants of the textile industry; therefore, we are able to obtain first hand market information in different areas of the textile industry which would help us understand the needs of our customers and the market trend to a fuller extent.

OUR BUSINESS STRATEGIES

Our goal is to maintain our position in the trading of textile-related products business, the dyeing and processing of differentiated polyester fabric business, and the polyester filament yarn production business in China and continue to increase our market share. We will continue to seek opportunities to achieve business growth and maximise the benefits of our shareholders. We plan to achieve this goal through the following strategies:

Continue to and further expand on our trading business of textile-related products

During the Track Record Period, we have been trading textile-related products for our trading business segment, mainly including cotton, PET chips, nylon chips, PTA, MEG, wood pulp and cotton pulp. We are targeting to further improve on our trading business segment by, among others, increasing the number of staff in our trading department, such as employing more research analysts to research on the market price trend of textile-related products in order to more effectively make our decisions regarding the timing and quantity to buy or to sell our trading products. By increasing the number of our staff for our trading business, we could also send more staff members to different parts of China or other areas of the world to study the market price and trends of the textile-related products we trade and also to seek out potential suppliers and customers for our trading business. Therefore, we would be able to expand our suppliers and customers base for our trading business and be able to source for better price for our textile-related products, and in effect increase our profit margin for our trading business.

Continue to improve on our research and development on differentiated polyester filament yarn production and differentiated polyester fabric dyeing and processing

We have one testing line at our Nantong Facilities designated for research and testing of any of our new products under development. We also have a dyeing research centre at our Dyeing Facilities with technologically advanced equipment such as automatic colour mixing machineries to develop new dyeing and processing techniques to meet our client's requirements for specific colour and texture of differentiated polyester fabric. With the help of our research centre and trial production equipment, we would be able to commercialise our research and development achievements and further diversify our product portfolio with more innovative differentiated polyester filament yarn production and dyeing and processing techniques.

In particular, we are in the process of developing three types of new polyester filament yarn, and production of which is expected to commence by early 2014. We also intend to develop a silk type yarn for swimwear and differentiated polyester yarn for denim wear in 2014. We plan to develop these new products by testing new combinations of PET chips and/or other raw materials for production of these new types of differentiated polyester filament yarn. Our research team for these new products includes four of our technical staff including engineers. Also, we intend to develop two more types of differentiated polyester filament yarn products at our Nantong Facilities including a new type of SPH. The research and development team is led by our executive Director, Mr. Zhao, and include other technical staff members. Furthermore, we intend to develop two more differentiated polyester fabric dyeing techniques at our Dyeing Facilities by the end of 2013, with our research team led by one of our executive Directors, Mr. Ma. Our research for our dyeing and processing techniques aims to lower energy and production costs, and improve stability and quality of our dyeing and processing techniques.

We are targeting to focus our development on differentiated polyester filament yarn production in place of regular polyester filament yarn production as the gross profit margin for differentiated polyester filament yarn is relatively higher than that of regular polyester filament yarn, and the development of the textile industry in China is supported by government policy including investments made by the government pursuant to the Tenth Five Year Plan, Eleventh Five Year Plan and the Twelfth Five Year Plan. According to the Twelfth Five Year Plan, by 2015, the production volume of chemical fiber, including polyester filament yarn shall reach approximately 41 million tonnes, accounting for approximately 76% of the whole yarn production in China. Also, the production of differentiated polyester filament yarn should account for approximately 60% of the whole production of polyester filament yarn in the PRC, whereby approximately 85% of the high-end apparels and home furnishing should be produced by differentiated polyester filament yarn by 2015. Our Directors consider that the production capacity of differentiated polyester filament yarn in China in 2015 estimated by the Twelfth Five Year Plan, and also the increasing proportion of our sales of differentiated polyester filament yarn to our customers, are indicative of the importance of differentiated polyester filament yarn products in the future.

Further expand our production and processing capacity and improve our production and processing efficiency and product quality

We seek to maintain our position in the polyester filament yarn industry in China by capturing the increasing domestic market demand and further increase our market share by continuing to expand our production and processing capacity. We expect to achieve our goal by further increasing our production capacity of differentiated polyester filament yarn and processing capacity of differentiated polyester fabric. As at the Latest Practicable Date, the total production capacity at our Fiber Facilities and our Nantong Facilities was approximately 14,600 tpa and 10,900 tpa respectively, with a total production capacity for polyester filament yarn of approximately 25,500 tpa, assuming all our production lines are in operation. We plan to further increase our production capacity at Nantong Facilities by the addition of four production lines by December 2014, which would increase our production capacity by approximately 7,600 tpa. At completion of our expansion, we expect to have a total production capacity of approximately 33,100 tpa of polyester filament yarn at our Fiber Facilities and Nantong Facilities. As we plan to increase our production capacity by further adding new production lines, we would also need to increase the size of our production facilities by building new factories and warehouses at our Nantong Facilities, which we target to be completed by the second quarter of 2014. We also plan to increase our processing capacity at our Dyeing Facilities from approximately 48 million metres per year as at the Latest Practicable Date to approximately 57 million metres per year by December 2014 by the addition of one more processing line.

With a view to producing higher profit margin products more efficiently such as SPH, we have planned to upgrade our equipment and machineries at our Nantong Facilities and replace some of our existing machineries at our Fiber Facilities and Dyeing Facilities with new and upgraded machineries. By upgrading our machineries and equipment, we would be able to reduce energy consumption and costs at our Fiber Facilities and modify our waste water treatment system at our Dyeing Facilities. We expect these new machineries and equipment to have more up-to-date designs and technologies. Together with our operating expertise, we expect to utilise these new machineries and equipment to improve our production efficiency and product quality.

Further expand our marketing network and strengthen our relationships with different players in the textile industry through our expertise in the differentiated polyester filament yarn production and dyeing and processing techniques

We plan to maintain our market position through our expertise in the differentiated polyester filament yarn production and dyeing and processing techniques. As we provide services in the trading of textile-related products, the dyeing and processing of differentiated polyester fabric, and the production of polyester filament yarn, we are linked to various stages of the textile supply chain and are therefore familiar with different aspects of the textile industry, and we also possess know-how and knowledge in these specialised areas of the textile industry. We shall continue to take advantage of our broad knowledge of the textile supply chain and cooperate with our customers in order to expand our network and improve the quality of our products by enhancing our communication with our customers and develop new products with reference to the need of our customers. We will also use different marketing strategies to promote our brand awareness and recognition, such as attending trade exhibitions in China and abroad, enhancing our product promotion activities and expanding our marketing team. We also plan to further expand our market coverage in other provinces of China which have demands for our products, such as Guangdong Province and Fujian Province.

OUR BUSINESS SEGMENTS

Our Group is mainly engaged in (i) the trading of textile-related products; (ii) the dyeing and processing of differentiated polyester fabric; and (iii) the production of polyester filament yarn.

The following table shows the revenue, gross profit and gross profit margin of our trading business, dyeing and processing business, and polyester filament yarn production business, for each of the three years ended 31 December 2012 and six months ended 30 June 2013 and 30 June 2012:

	Year ended 31 December												Six months ended 30 June							
	2010				2011				2012				2012 (unaudited)				2013			
	Revenue		Gross Profit	Gross Profit Margin	Revenue		Gross Profit	Gross Profit Margin	Revenue		Gross Profit	Gross Profit Margin	Revenue		Gross Profit	Gross Profit Margin	Revenue		Gross Profit	Gross Profit Margin
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
Trading	1,231,526	78.7	104,918	8.5	1,558,533	76.5	75,563	4.8	1,754,658	79.4	37,100	2.1	1,025,136	82.6	17,929	1.7	895,282	80.6	14,136	1.6
Dyeing and processing differentiated polyester fabric	98,568	6.3	23,591	23.9	112,567	5.5	26,511	23.6	117,663	5.3	37,197	31.6	52,407	4.2	17,748	33.9	59,868	5.4	20,383	34.0
Polyester filament yarn production																				
– Regular	198,138	12.6	681	0.3	276,756	13.6	(3,024)	(1.1)	182,873	8.3	(3,425)	(1.9)	86,677	7.0	(1,668)	(1.9)	33,627	3.1	699	2.1
– Differentiated	37,398	2.4	8,434	22.6	89,490	4.4	15,359	17.2	155,659	7.0	38,273	24.6	76,779	6.2	17,501	22.8	122,065	10.9	26,009	21.3
Total	**1,565,630**	**100**	**137,624**	**8.8**	**2,037,346**	**100**	**114,409**	**5.6**	**2,210,853**	**100**	**109,145**	**4.9**	**1,240,999**	**100**	**51,510**	**4.2**	**1,110,842**	**100**	**61,227**	**5.5**

Note: Analysis of the gross profit margin of each segment is set out in the paragraph headed "Gross profit and gross profit margin" in the section headed "Financial Information" of this prospectus.

Trading

We engage in trading of textile-related products which mainly includes cotton , PET chips and nylon chips, PTA, MEG, wood pulp and cotton pulp during the Track Record Period. We generally place orders and procure the textile-related products based on our best estimate of customers' demand. We may also gather information about the textile industry such as market price trends and demand, in order to analyse the market trends which we may consider when we carry out our trading operating decisions. Leveraging on our experience in the textile industry accumulated through our involvement in different areas of the textile industry supply chain, our broad customer base and our close proximity to the hub of the textile industry in China, our management is able to estimate demand from our customers by making reference to the previous purchase record of our customer and the local shortage of textile-related products. During the Track Record Period, we sourced these products from suppliers which are located in the PRC or outside the PRC, and sold to our customers. In general, our trading customers include both trading companies and manufacturers of textile products. Regarding customers which are trading companies, they may purchase the textile-related products from us instead of from manufacturers of these materials. According to the Ipsos Report, as there are many companies engaged in the trading of textile-related products business in the market, it is therefore common for market players to sell and purchase the same or similar products among themselves in order to meet the demand of their customers taking into account the price of the textile-related products offered by different market players at the relevant time.

We may also gather information about the textile industry such as market price trends and demand, in order to analyse the market trends which we may consider when we carry out our trading operating decisions. Furthermore, we would send our staff to Xinjiang from time to time to assess the supply of cotton as Xinjiang is a major production area of cotton in the PRC. Also, since we are involved in the production of polyester filament yarn, we believe that we are familiar with the market needs for the textile-related products. Even though our gross profit margin for trading had decreased for the two years ended 31 December 2012 and six months ended 30 June 2013, our Directors consider that it is due to the unexpected market fluctuation of the price of the textile-related products we trade as a result of the unstable economic environment arising from the European debt crisis. Our Directors also consider that engaging in the trading business would increase our market connections which may help us acquire new customers for our production and processing business segments. By leveraging on our Director's experience, and subject to market trends and price fluctuation of textile-related products, our Directors are of the view that our trading business may continue to contribute to our Group's revenue in the future.

It generally takes within one month between entering into sales contracts with our trading customers and our delivery of our trading products to them, which is in line with the industry practice in China. Furthermore, our Directors are of the view that, which the Ipsos Report supports that, it is an industry practice for not entering into long-term sales contracts with trading customers which last for one year or more. For further details regarding the trading practice in China, please refer to the "Industry overview" section of this prospectus.

For each of the three years ended 31 December 2012 and the six months ended 30 June 2013, our trading revenue amounted to approximately RMB1,231.5 million, RMB1,558.5 million, RMB1,754.7 million and RMB895.3 million respectively, which accounted for about 78.7%, 76.5%, 79.4% and 80.6% respectively of our total revenue for each of the three years ended 31 December 2012 and the six months ended 30 June 2013. For each of the year ended 31 December 2010, 2011, 2012 and twelve months ended 30 June 2013, we had transactions with approximately 340, 340, 370 and 290 trading customers and 180, 160, 200 and 170 trading suppliers during the relevant year/period, respectively. Decrease in number of both trading customers and trading suppliers during the twelve months ended 30 June 2013 when compared to year ended 31 December 2012 was mainly due to (1) decrease in trading revenue for the six months ended 30 June 2013, and (2) that we ceased the trading of MEG from the second quarter of 2013 and did not enter into transactions with customers and suppliers of MEG afterwards.

The following table illustrates our revenue generated through trading of different textile-related products for each of the three years ended 31 December 2012 and the six months ended 30 June 2013 and 30 June 2012:

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	Revenue	Percentage	Revenue	Percentage	Revenue	Percentage	Revenue	Percentage	Revenue	Percentage
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
								(unaudited)		
Cotton	315,402	25.6%	628,867	40.3%	496,031	28.3%	399,635	39.0%	132,528	14.8%
PET Chips/nylon chips	200,623	16.3%	221,126	14.2%	201,484	11.5%	43,381	4.2%	148,393	16.6%
PTA	184,383	15.0%	171,969	11.0%	603,696	34.4%	334,227	32.6%	294,942	32.9%
MEG	217,293	17.6%	170,475	10.9%	127,155	7.3%	65,047	6.4%	183,875	20.5%
Wood pulp	84,383	6.8%	100,486	6.5%	126,721	7.2%	128,120	12.5%	23,080	2.6%
Cotton Pulp	63,543	5.2%	–	–	33,249	1.9%	–	–	–	–
Fabric	43,066	3.5%	43,558	2.8%	50,090	2.8%	20,809	2.0%	15,426	1.7%
Others *(Note)*	122,833	10.0%	222,052	14.3%	116,232	6.6%	33,917	3.3%	97,038	10.9%
	1,231,526	100.0%	1,558,533	100.0%	1,754,658	100.0%	1,025,136	100.0%	895,282	100.0%

Note: Others mainly consist of textile-related products such as polyester/nylon filament yarn, cotton yarn and staple fiber.

Policy concerning trading activities

Our Group's policy concerning its trading activities specified that (a) our Group should only trade with counter-parties which are reliable, (b) purchases of textile-related products should be made based on management's understanding of demand-supply condition of the relevant products, and (c) there should be close and continuous monitoring of textile-related products purchased and appropriate actions should be taken when necessary.

Internal control measures concerning trading activities

Our Group has established a policy for monitoring trading price fluctuation and had not undertook any hedging activities. Details of the internal control measures according to the policy of our Group in monitoring our trading risk are as follows:

(a) on the basis of expected customers' demand for different textile-related products as well as future price movement of those products, the staff of our trading business would propose to the business manager for purchase of textile-related products. An application for purchase would then be submitted to the general manager of Hangzhou Yongsheng Trading for approval;

(b) management meeting would be held on a weekly basis. Estimated customers' demand and inventory level, as well as further action plan, would be discussed during the meeting;

(c) our Group would purchase textile-related products in batches at various prices to even out the fluctuations in prices of textile-related products;

(d) our Group would reduce trading or even stop trading in textile-related products that may have a negative gross margin or when the price thereof fluctuate significantly during the Track Record Period, such as MEG, cotton pulp and wood pulp, and focus more on textile-related products with higher liquidity, such as cotton and PTA;

(e) our Group would anticipate the future price trend of the textile-related products based on the market information of textile-related products (i) gathered by our sales team in Yongsheng Chemical Fiber and Yongsheng Dyeing through amount of purchases ordered by our customers; and (ii) gathered by our sales team in Hangzhou Yongsheng Trading from both domestic and international trading-related industry reports and our communication with our customers and suppliers; and

(f) our Group would sell off those inventory with accumulated price decrease of 15% or more to stop further potential losses.

Mr. Li, an executive Director and the chairman of our Group, is the highest authority in determining whether action should be taken to minimise loss for particular products. Our Directors consider Mr. Li is competent to determine stop loss action for our Group's trading business as (i) he has over 20 years of experience in the textile and trading industry, (ii) he is supported by a team of professional management including Mr. Li CH for the procurement and sales process of trading activities, and (iii) overall the trading business has been profitable throughout the Track Record Period.

We consider our stop loss policy effective in controlling our trading risk as, since its implementation in March 2012, the maximum negative gross margin we experienced for a particular textile-related product has narrowed from approximately 24.1% in 2011 to approximately 11.2% in 2012 and further to approximately 0.7% in the first half of 2013 and has not exceeded 15% for any product type.

Furthermore, our Group has the following internal control measures to monitor our operating cash flow and expedite the settlement of outstanding trade receivables from our trading customers:

(a) our Group's treasury manager is responsible for monitoring our daily operating cash flow and would review the weekly cash usage plan together with our finance manager and executive Directors;

(b) if our Group's treasury manager and executive Directors are of the view that there would be a shortage of cash flow after balance and estimate the forthcoming income and expenditure review of the weekly cash usage plan mentioned above, they would apply for loan if necessary;

(c) our accounting and finance department would prepare an account receivable aging report on a monthly basis for review by the relevant personnel and vice general manager of our sales department. Collection of accounts receivable will be made in accordance with credit terms and recorded in a log book for review by the relevant personnel and the vice general manager of the relevant sales department;

(d) the staff in the sales and marketing department would also send out the reconciliation request of trade receivable to our customer once every month while also submitting the same to the sales managers and finance manager for their review; and

(e) sales staff would be responsible for all the outstanding trade receivables and would schedule to visit our customers who have not responded to our reconciliation requests, to confirm the amount of the relevant outstanding trade receivable and collect such outstanding sum.

Despite internal control measures governing our trading business, we have recorded negative gross margin for certain trading products due to unexpected drop in market price of those products after purchase.

Inventory management policy

The inventory management policy of our Group is as follows:

(a) our Group would monitor its inventory aging weekly. Our management will investigate into inventory aged more than three months to see whether provision should be made whereby exceptional cases have to be reported to the general manager of Hangzhou Yongsheng Trading to assess whether provision shall be made accordingly; and

(b) any low selling margin (under 1% profit) for textile-related products has to be reported to the general manager of Hangzhou Yongsheng Trading. In such case, further procurement will be prohibited. Furthermore, if our Group foresees there would be a possibility to lose over RMB500,000 in a single sales contract, a written report is required to be submitted to our Directors for review and approval.

Inventory provision policy

Our inventory provision policy which applies to all textile-related products (including those with negative gross margin) requires us to identify and make specific provision for obsolete and slow-moving inventories of raw materials and finished goods. There is no specific policy requiring general inventory provision to be made. A number of factors including historical and forecast consumption of our raw materials, marketability of our finished goods as well as trading textile-related, are taken into account when we consider whether to make appropriate provision.

Dyeing and processing of differentiated polyester fabric

We dye and/or process differentiated polyester fabric from our customers or from our own sourcing. As we also produce differentiated polyester filament yarn, we believe that we are familiar with the qualities and characteristics of this material and we are able to dye and process differentiated polyester fabric with quality. Our products include various types of synthetic chamois leather.

We provide dyeing and processing services on differentiated polyester fabric provided by our customers, in return for a processing fee. We have a product showroom to display our finished differentiated polyester fabric portfolio for our customers to choose from. We also accept special orders which our customers shall either provide us with a piece of sample finished differentiated polyester fabric or specify the colour, texture, hand feel and features required from the finished differentiated polyester fabric. Our research and development staff members shall develop the dyeing and processing technique for the required end-product while informing our customer about the results of such end-product.

Besides providing dyeing and processing service to our customers, we also sourced differentiated polyester fabric ourselves for further dyeing and/or processing to conduct direct sales of such finished differentiated polyester fabric to other customers. Accordingly, we would be able to better utilise the processing capacity of our processing lines at our Dyeing Facilities from time to time by processing our own differentiated polyester fabric and engaging in direct sales of our own processed differentiated polyester fabric. Our Directors confirm that we shall determine whether we will engage in direct sales of our own processed differentiated polyester fabric mainly by checking the utilisation rate of our processing lines from time to time, and if there is spare capacity, we shall source differentiated polyester fabric for our own processing.

The table below sets forth the revenue of direct sales and provision of dyeing and processing service and the respective average unit price for the periods indicated:

	Year ended 31 December									Six months ended 30 June					
	2010			2011			2012			2012 (unaudited)			2013		
	Revenue	Percentage	Average Unit Price	Revenue	Percentage	Average Unit Price	Revenue	Percentage	Average Unit Price	Revenue	Percentage	Average Unit Price	Revenue	Percentage	Average Unit Price
	RMB'000	*%*	*(RMB/ metre)*	*RMB'000*	*%*	*(RMB/ metre)*	*RMB'000*	*%*	*(RMB/ metre)*	*RMB'000*	*%*	*(RMB/ metre)*	*RMB'000*	*%*	*(RMB/ metre)*
Provision of dyeing and processing service of differentiated polyester fabric	59,034	59.9%	2.5	79,322	70.5%	2.2	83,479	70.9%	2.3	40,589	77.4%	3.2	39,072	65.3%	2.3
Direct sales of own differentiated polyester fabric	39,534	40.1%	11.9	33,245	29.5%	12.1	34,184	29.1%	11.5	11,818	22.6%	10.7	20,796	34.7%	10.8
	98,568	100.0%		112,567	100.0%		117,663	100.0%		52,407	100.0%		59,868	100.0%	

For each of the three years ended 31 December 2012 and the six months ended 30 June 2013, the revenue of direct sales and provision of dyeing and processing service of differentiated polyester fabric accounted for 6.3%, 5.5%, 5.3% and 5.4%, respectively, of the total revenue of our Group.

Production of polyester filament yarn

We are a developer and manufacturer of polyester filament yarn in China. Our products include various types of polyester filament yarn that can be classified into two main categories, regular polyester filament yarn and differentiated polyester filament yarn.

During each of the three years ended 31 December 2012, the majority of our sales of polyester filament yarn were regular polyester filament yarn, but we are aiming to gradually focus our production and sales on differentiated polyester filament yarn due to its higher profit margin. As such, approximately 78.4% of total sales of polyester filament yarn for the six months ended 30 June 2013 were contributed by sales of differentiated polyester filament yarn.

Regular polyester filament yarn

Regular polyester filament yarn are generally spun from polymerising melt without adding any extra chemical component or changing the shape or linear density of the filament. It is generally sold at lower prices than differentiated polyester filament yarn. Regular polyester filament yarn can be used in weaving to make polyester fabric and home furnishing like curtains, bed sheets and bed spreads. They can also be used for packing application such as polyester film and insulation tapes.

Differentiated polyester filament yarn

Differentiated polyester filament yarn is generally custom-made for specific texture or qualities, high in unit value, less sensitive to raw material prices, and involve the use of advanced technology and production experience. They are polyester filament yarn with special properties and functionalities, of which differentiation is achieved through diversifying the chemical components of the filament or through changing the shape or linear density of the filament. A variety of differentiated polyester filament yarn, such as SPH, SSY, CEY, and REN, could be produced by adjusting the temperature, speed, or chemical components or processing by heating and texturing in the production process. Differentiated polyester filament yarn can be used in weaving to make high-end and functional polyester fabric such as ultra-bright fabric, micro denier fabric and fine denier fabric.

Our differentiated polyester filament yarn has special features such as linen-like and cotton-like feel, stain resistant, drape well, dry touch and stable elasticity and could be processed to resemble the physical features of silk, cotton, leather, wool, or linen, for usage by fabric manufacturers to produce end products including, among others, high-end apparel, denim wear, swim wear, sportswear and home furnishings.

The followings are our differentiated polyester filament yarn products which we aim to focus our sales and development on:

Name	**Specifications**	**Features**	**Application**
SPH –	– 50D to 190D – 12f to 48f	– bright colour – linen–like and cotton–like feel – lasting elasticity	– men's dress shirts and pants, and women's dresses
SSY –	– 60D to 200D – 24f to 48f	– stable elasticity – stain resistant – smooth texture – drape well – quick drying	– t-shirts, undergarment, socks and suits
CEY –	– 140D to 180D – 60f to 96f	– excellent drapery – dry touch – touch of dry wool	– suits and trousers
REN –	–140D to 240D – 60f to 96f	– comfortable touch – softness and voluminous – appearance and touch of wool	– men's suit and women's dresses

The table below sets forth our sales amount and average unit sales price of our polyester filament yarn products for the periods indicated:

	Year ended 31 December									Six months ended 30 June					
	2010			2011			2012			2012 (unaudited)			2013		
	Revenue	Percentage	Average Unit Sales Price	Revenue	Percentage	Average Unit Sales Price	Revenue	Percentage	Average Unit Sales Price	Revenue	Percentage	Average Unit Sales Price	Revenue	Percentage	Average Unit Sales Price
	RMB'000	*%*	*(RMB/ tonne)*	*RMB'000*	*%*	*(RMB/ tonne)*	*RMB'000*	*%*	*(RMB/ tonne)*	*RMB'000*	*%*	*(RMB/ tonne)*	*RMB'000*	*%*	*(RMB/ tonne)*
Regular products	198,138	84.1%	11,068	276,756	75.6%	14,854	182,873	54.0%	12,678	86,677	53.0%	12,952	33,627	21.6%	11,461
Differentiated products	37,398	15.9%	21,261	89,490	24.4%	22,406	155,659	46.0%	21,352	76,779	47.0%	22,358	122,065	78.4%	19,877
	235,536	100.0%		366,246	100.0%		338,532	100.0%		163,456	100.0%		155,692	100.0%	17,156

OUR PROSPECTS

Trading

During each of the three years ended 31 December 2012 and the six months ended 30 June 2013, trading revenue represented about 78.7%, 76.5%, 79.4% and 80.6%, respectively, of our Group's total revenue. While our Group's gross profit and gross profit margin from trading decreased from about RMB104.9 million and about 8.5% in 2010 to about RMB37.1 million and about 2.1% in 2012, and from approximately RMB17.9 million and about 1.7% for the six months ended 30 June 2012 to approximately RMB14.1 million and about 1.6% for the six months ended 30 June 2013, our Directors consider that engaging in the trading business would enhance our market connections and could also help us to approach potential customers for our dyeing and processing and production segments. In addition, as stated in the section headed "Industry overview", the independent industry expert anticipates that overall prices of textile-related products will rise due to strong demand in the PRC market in the future. Leveraging on our Directors' experience, our Directors are therefore of the view that our trading business may continue to contribute to our Group's revenue in the future.

Dyeing and processing

During each of the three years ended 31 December 2012 and the six months ended 30 June 2013, dyeing and processing revenue represented about 6.3%, 5.5%, 5.3% and 5.4%, respectively, of our Group's total revenue. Our Group's gross profit and gross profit margin from dyeing and processing increased from about RMB23.6 million and about 23.9% in 2010 to about RMB37.2 million and about 31.6% in 2012 and from approximately RMB17.7 million and about 33.9% for the six months ended 30 June 2012 to approximately RMB20.4 million and about 34.0% for the six months ended 30 June 2013. Since our Group has integrated the know-how in the production of differentiated polyester filament yarn with the techniques in dyeing and processing differentiated fabric, our Directors consider that we are more experienced in handling yarn and products produced by differentiated polyester filament yarn, such as differentiated polyester fabric, and believe that such experience could enhance our competitiveness of our dyeing and processing segment.

Production

Regular polyester filament yarn

Sales performance of our regular polyester filament yarn diminished over the Track Record Period. The revenue attributable to the sales of regular polyester filament yarn accounted for approximately 84.1%, 75.6%, 54.0% and 21.6% of the total revenue of our Group's polyester filament yarn manufacturing segment, while the sales volume attributable to regular polyester filament yarn accounted for approximately 91.1%, 82.3%, 66.4% and 32.3% of the total sales volume of our Group's polyester filament yarn manufacturing segment during the Track Record Period. Moreover, the gross profit or loss of the regular polyester filament yarn production segment were within the range of gross loss of approximately RMB3.4 million and gross profit of approximately RMB0.7 million which were insignificant to the total gross profit of our Group during the Track Record Period. All these historical results demonstrated (i) the impact of the regular polyester filament yarn business on our Group as a whole was diminishing and insignificant during the Track Record Period; and (ii) the fact that the production of regular polyester filament yarn was mainly to utilise our Group's production capacity and that our Group took on the regular polyester filament yarn business at a loss did not have any material impact on our Group's financial performance as a whole.

Our Directors believe that regarding the regular polyester filament yarn market, there is still demand for these products by our customers, and it still accounts for a larger market share in terms of sales volume, which is also one of the reasons our Group would still produce regular polyester filament yarn products to satisfy the needs of our existing customers.

Differentiated polyester filament yarn

Our Directors believe the outlook of differentiated polyester filament yarn is positive on the basis of (i) the favourable policy on textile manufacturing launched by the PRC government, including significant funding provided by the PRC government under the Twelfth Five Year Plan for the development of China's textile manufacturing industry; and (ii) the expected increase in domestic demand and consumption for end products of differentiated polyester filament yarn such as apparel with special features, as illustrated in the Ipsos Report.

As differentiated polyester filament yarn presents a higher profit margin and has better prospects, our Group increased our sales volume and gross profit from sales of differentiated polyester filament yarn gradually during the Track Record Period. The revenue attributable to the sales of differentiated polyester filament yarn accounted for approximately 15.9%, 24.4%, 46.0% and 78.4% of the total revenue of our Group's polyester filament yarn manufacturing segment, while the sales volume attributable to differentiated polyester filament yarn accounted for approximately 8.9%, 17.7%, 33.6% and 67.7% of the total sales volume of our Group's polyester filament yarn manufacturing segment during the Track Record Period. Moreover, the gross profit of the differentiated polyester filament yarn production also increased significantly during the Track Record Period from approximately RMB8.4 million to RMB38.3 million from 2010 to 2012 and from approximately RMB17.5 million to approximately RMB26.0 million from the six months ended 30 June 2012 to the six months ended 30 June 2013. All these historical results demonstrated our Group's ability to expand our differentiated polyester filament yarn business and our market share in this business segment.

Our Group will continue to emphasise on differentiated polyester filament yarn via our research and development effort, increase in production capacity and expansion of marketing network. For details, please refer to the paragraph "Our business strategies" in this section of the prospectus.

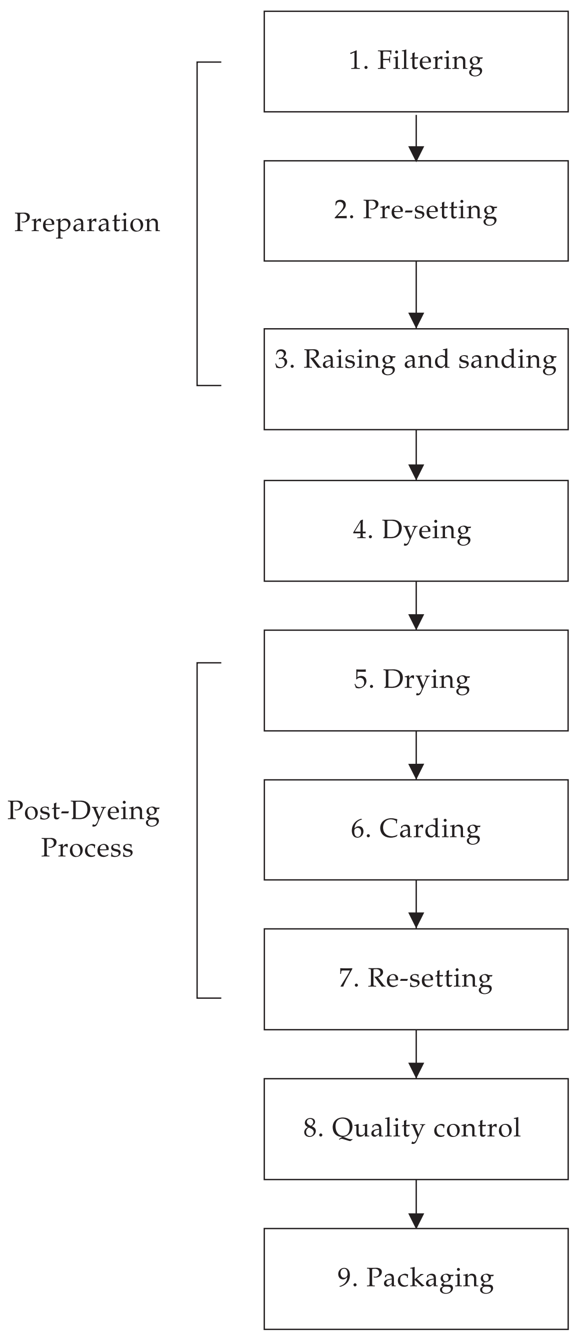
Conclusion

Though the gross profit margin of our trading and regular polyester filament yarn production businesses were not satisfactory during the Track Record Period, our Directors expect these can be mitigated by continuous growth in revenue and gross profit from our dyeing and processing and differentiated polyester filament yarn production business, which are of higher gross profit margin, and thus are positive towards our Group's prospects.

PRODUCTION/PROCESSING

Differentiated polyester fabric dyeing and processing

We dye and/or process differentiated polyester fabric from our customers or from our own sourcing. As we also produce differentiated polyester filament yarn, we believe that we are familiar with the qualities and characteristics of this material and we are able to dye and process differentiated polyester fabric with quality. The typical process for our dyeing and processing is set out below:



1. The filtering process involves boiling the fabric (commonly known as "fiber opening") to remove any dirt, colour, dyeing material and oil or any irrelevant elements from the fabric.

2. The pre-setting process is carried out through the setting machine to meet the customers' requirement on the width, unit weight, and shrinkage degree of the fabric. The setting machine extends the fabric under high temperature to enhance its smoothness and to stabilise its shape and size.

3. The next step is raising and sanding the fabric through computer-controlled machines which the fabric is rubbed and tensioned to give an additional thickened and fluffy appearance and texture feel of fleece.

4. The dyeing process involves placing the fabric in dyeing tanks for treatment and the relevant colour dyes up to a specified period and temperature, depending on the colour intensity required.

5. The dyed fabric is dehydrated and dried in the drying machines.

6. The fabric is carded and brushed to smooth out the fluffy fleece layer of the fabric.

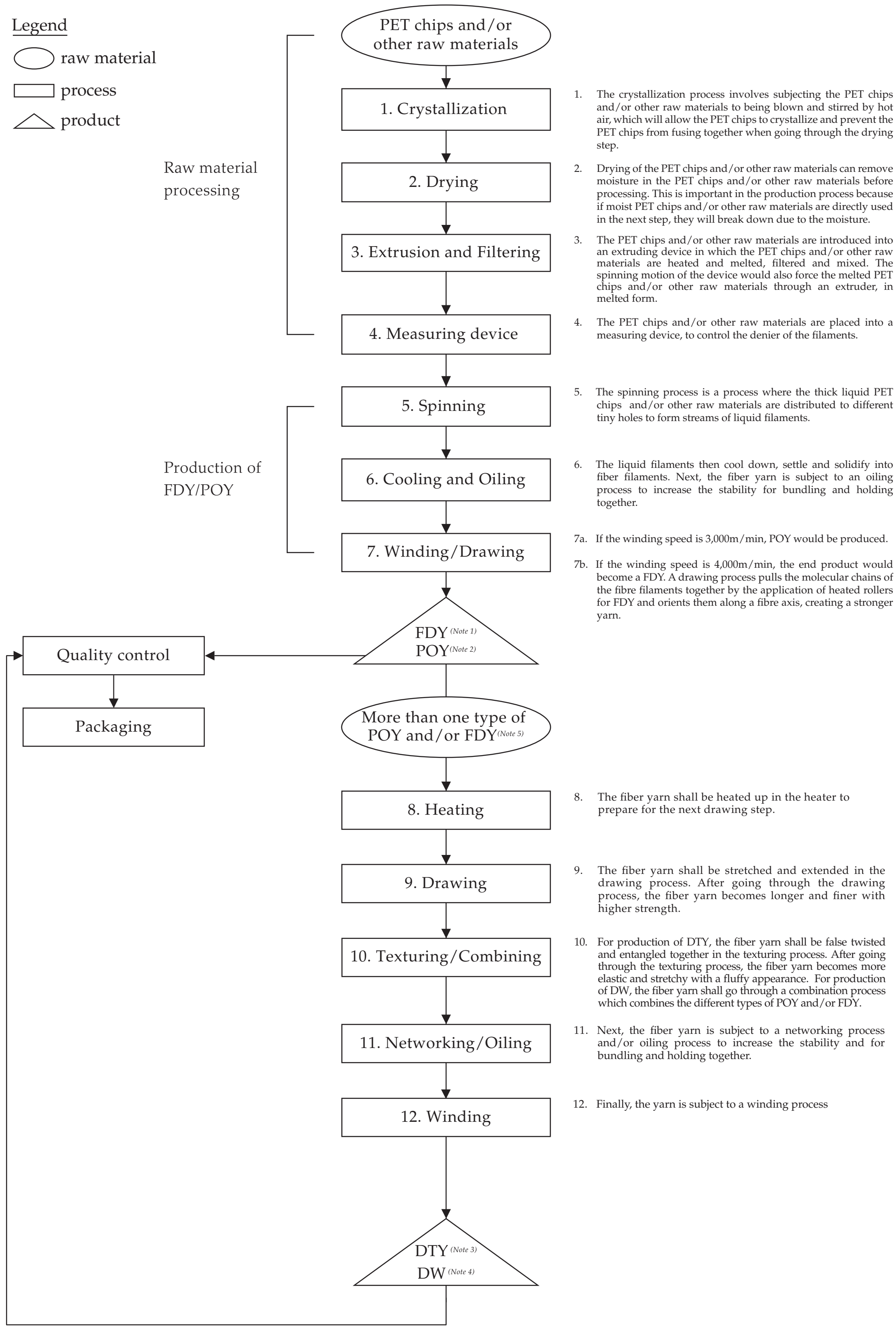
7. Finally, the dyed and processed fabric is treated again by the setting machines which extend the fabric under high temperature to further enhance its smoothness and to stabilise the size, shape and colour fastening of the fabric.

Depending on the specifications of the end product required, some of the above steps might be carried out again for further dyeing and processing. Our end product is primarily synthetic chamois leather which could be used for end application such as home furnishings and sofa manufacturing. The colour of the synthetic chamois leather is based on the requirements of our customers. If further processing is required such as stamping different patterns on the fabric and lamination of different fabric, we would subcontract to third parties which, to best knowledge of our Directors, are Independent Third Parties for processing. We select our subcontractors mainly based on, among others, the quality of the work of the subcontractor, and our past experience with the subcontractors. We had approximately one to six years of relationship with our subcontractors. Our subcontractors are textile printing/dyeing fabric manufacturing companies located in Zhejiang Province. For each of the three years ended 31 December 2012 and the six months ended 30 June 2013, our subcontracting fee accounted for approximately 10% of the cost of sales of the dyeing and processing segment of our Group for each period respectively. The subcontracting fee is calculated based on the amount of fabric being processed.

Polyester filament yarn production

The manufacture of our polyester filament yarn is carried out through a highly automated process. Our regular polyester filament yarn is generally spun from polymerising melt without adding any extra chemical components or changing the shape or linear density of the filament, while the differentiation of our differentiated polyester filament yarn is achieved through diversifying the chemical components of the filament or through changing the shape or linear density of the filament.

While different products might involve variations of the production process, such as further heating and texturing, the main production process is set out below:



Note 1: FDY is a general category of a type of highly drawn polyester filament yarn with a silk-like or leather-like texture. FDY could also be further processed to be a variation of polyester filament yarn, such as DTY or DW.

Note 2: POY is a semi-finished product which would be further processed to become a variation of polyester filament yarn.

Note 3: DTY is a general category of a type of polyester filament yarn with cotton-like texture.

Note 4: DW is a general category of a type of polyester filament yarn with wool-like texture.

Note 5: For production at Fiber Facilities, which commence at this stage, the POY/FDY is purchased from third parties as raw materials.

Current production/processing facilities and capacity

Processing facility for dyeing and processing at Yongsheng Dyeing

We have five processing lines at our Dyeing Facilities operated 24 hours per day and around 330 days per year, with maintenance of about 35 days per year. As at the Latest Practicable Date, our processing capacity was approximately 48 million metres of fabric per annum.

The following table sets forth the processing capacity, processing volume and utilisation rate of our processing lines at Dyeing Facilities during the Track Record Period.

Year ended 31 December									Six month ended 30 June		
2010			2011			2012			2013		
Processing capacity *(Note 1)* *(metres per annum)*	Processing volume *(Note 4)* *(metres)*	Utilisation rate *(Note 5)* %	Processing capacity *(Note 1)* *(metres per annum)*	Processing volume *(Note 4)* *(metres)*	Utilisation rate *(Note 5)* %	Processing capacity *(Note 1)* *(metres per annum)*	Processing volume *(Note 4)* *(metres)*	Utilisation rate *(Note 5)* %	Annualised processing capacity *(Note 1 and 6)* *(metres per annum)*	Processing volume *(Note 4)* *(metres)*	Utilisation rate *(Note 5)* %
38 million *(Note 2)*	29 million	76	48 million *(Note 3)*	35 million	73	48 million *(Note 3)*	36 million	75	48 million *(Note 3)*	21	88

Note 1: The processing capacity at Dyeing Facilities is determined by the pre-setting machineries in our production lines as that is considered as the bottleneck for the processing.

The processing capacity varies depending on the types of finished differentiated polyester fabric required by our customers which requires to go through one or more times of the pre-setting process. We calculated the processing capacity during the year indicated based on the assumption that the differentiated polyester fabric would go through the pre-setting process twice. Therefore, actual processing capacity may differ from the estimated capacity. In arriving at the said processing capacity, we have assumed that the processing lines are operated 24 hours per day and around 330 days per year. Processing lines not in use or suspended for technological upgrade are not taken into consideration for calculation of processing capacity for that period of time.

Note 2: There were four processing lines for the year indicated.

Note 3: A new processing line commenced operation in January 2011 which increased the total number of processing lines to five.

Note 4: Processing volume represents the actual processing volume during the year/period indicated.

Note 5: The utilisation rate for each of the year indicated is derived by dividing the actual processing volume by the processing capacity. The utilization rate for the six months ended 30 June 2013 is derived by dividing the actual processing volume by half the annualised processing capacity for the period.

Note 6: Annualised processing capacity for the six months ended 30 June 2013 represents two times of the processing capacity for the six months ended 30 June 2013.

Production facility for production of polyester filament yarn at Nantong Yongsheng

Our production at Nantong Facilities commence at the initial stage of PET chips and/or other raw materials to the production of FDY/POY, and also the secondary stage of production from FDY/POY to DTY. For our production of polyester filament yarn products at Nantong Facilities, we have six production lines for production of FDY/POY, and we have 13 production lines for production of DTY. One extra testing line is designated for research and testing of our new products of FDY/POY under research and development. As at the Latest Practicable Date, our total production capacity was approximately 10,900 tpa, assuming all our production lines are in operation. Our production lines are operated 24 hours per day and around 350 days per year, with maintenance of about 15 days per year.

The following table sets forth the production capacity, production volume and utilisation rate of our production lines at Nantong Facilities during the Track Record Period.

Year ended 31 December									Six month ended 30 June		
2010			2011			2012			2013		
Production capacity *(Notes 1 and 2)* *(tpa)*	Production volume *(Note 3)* *(tonne)*	Utilisation rate *(Note 4)* %	Production capacity *(Notes 1 and 2)* *(tpa)*	Production volume *(Note 3)* *(tonne)*	Utilisation rate *(Note 4)* %	Production capacity *(Notes 1 and 2)* *(tpa)*	Production volume *(Note 3)* *(tonne)*	Utilisation rate *(Note 4)* %	Annualised production capacity *(Notes 1, 2 and 8)* *(tpa)*	Production volume *(Note 3)* *(tonne)*	Utilisation rate *(Note 4)* %
2,900 *(Note 5)*	1,900	66	9,000 *(Note 5)*	9,700	107 *(Note 6)*	9,900 *(Note 7)*	8,800	89	7,400 *(Note 7)*	2,900	78

Note 1: The production capacity at Nantong Facilities is determined by our production lines for the initial production of FDY/POY through various stages including crystallisation, drying, extrusion and filtering, spinning, cooling, oiling, winding and drawing. The production of FDY/POY production lines are used as a reference to calculate the overall production capacity of our Nantong Facilities as that is considered as the bottleneck for our production of our polyester filament yarn, including FDY, POY, and DTY. The one extra testing line that is designated for research and testing is not included in the calculation for the production capacity at Nantong Facilities.

Note 2: The production capacity varies depending on the denier of the polyester filament yarn products produced. We have calculated the production capacity during the year/period indicated based on the product specification of 80D as our Directors consider 80D is the common specification for FDY/POY produced in the industry. Therefore, actual production capacity may differ from the estimated production capacity. In arriving at the said production capacity, we have assumed that the production lines are operated 24 hours per day and around 350 days per year, with maintenance of about 15 days per year. Production lines not in use or suspended for technological upgrade are not taken into consideration for calculation of production capacity for that period of time.

Note 3: Production volume represents the actual production volume of our polyester filament yarn including FDY, POY and also DTY which is produced by subjecting the FDY/POY produced for further processing at Nantong Facilities during the year/period indicated.

Note 4: The utilisation rate for each of the year indicated is derived by dividing the actual production volume by the production capacity. The utilisation rate for the six months ended 30 June 2013 is derived by dividing the actual production volume by half the annualised production capacity for the period.

Note 5: Nantong Facilities was set up in June 2010 and production in Nantong Facilities formally commenced in September 2010. There were a total of five production lines during the year indicated.

Note 6: For the year ended 31 December 2011, the utilisation rate exceeds 100% as our Directors confirm that certain of the products produced has a specification which has a denier different from the denier used for calculating the production capacity, which would generate a higher production capacity than the standard denier assumed in our calculation.

Note 7: A new production line commenced operation in March 2012 which increased the total number of production lines to six. Furthermore, two production lines were suspended in November 2012 for technological upgrade, which had resumed production in March and April 2013 respectively. In addition, two production lines were suspended in March 2013 for technological upgrade which are expected to resume production in the fourth quarter of 2013.

Note 8: Annualised production capacity for the six months ended 30 June 2013 represents two times of the production capacity for the six months ended 30 June 2013.

Production facility for production of polyester filament yarn at Yongsheng Chemical Fiber

Our production at Fiber Facilities commence at the stage of production from processing FDY/POY into DTY/DW, and do not include the stage of production from processing PET chips and/or other raw materials into FDY/POY, as in our Nantong Facilities. Fiber Facilities is our second production facilities for our production of polyester filament yarn. It has a total of 16 lines for DTY/DW production. As at the Latest Practicable Date, our production capacity for DTY/DW production at Fiber Facilities is approximately 14,600 tpa. Our production lines at Fiber Facilities are generally operated 24 hours per day, around 350 days per year, with an approximate 15 days for maintenance per year.

The following table sets forth the production capacity, production volume and utilisation rate of our production lines at Fiber Facilities during the Track Record Period.

	Year ended 31 December									Six month ended 30 June		
	2010			2011			2012			2013		
Production facilities	Production capacity *(Note 1)* *(tpa)*	Production volume *(Note 4)* *(tonne)*	Utilisation rate *(Note 5)* %	Production capacity *(Note 1)* *(tpa)*	Production volume *(Note 4)* *(tonne)*	Utilisation rate *(Note 5)* %	Production capacity *(Note 1)* *(tpa)*	Production volume *(Note 4)* *(tonne)*	Utilisation rate *(Note 5)* %	Annualised production capacity *(Note 1 and 7)* *(tpa)*	Production volume *(Note 4)* *(tonne)*	Utilisation rate *(Note 5)* %
Production line of DTY/DW	13,100 *(Note 2)*	13,800	105 *(Note 6)*	13,100 *(Note2)*	12,000	92	13,600 *(Note3)*	12,500	92	14,600 *(Note3)*	6,200	85

Note 1: The production capacity varies depending on the denier of the DTY/DW produced. We have calculated the production capacity during the year/period indicated based on the product specification of 150D for DTY and 130D for DW as our Directors consider these specifications are the common specifications for the DTY and DW produced in the industry. Therefore, actual production capacity may differ from the estimated production capacity. In arriving at the said production capacity, we have assumed that the production lines are operated 24 hours per day and around 350 days per year, with maintenance of about 15 days per year. Production lines not in use or suspended for technological upgrade are not taken into consideration for calculation of production capacity for that period of time.

Note 2: There were 14 production lines for DTY and DW production for the year indicated.

Note 3: Two new production lines for DW production commenced operation in September 2012 which increased the total number of production lines to 16.

Note 4: Production volume represents the actual production volume during the year/period indicated.

Note 5: The utilisation rate for each of the year indicated is derived by dividing the actual production volume by the production capacity. The utilisation rate for the six months ended 30 June 2013 is derived by dividing the actual production volume by half the annualised production capacity for the period.

Note 6: For the year ended 31 December 2010, the utilisation rate exceeds 100% as our Directors confirm that certain of the products produced has a specification which has a denier different from the denier used for calculating the production capacity, which would generate a higher production capacity than the standard denier assumed in our calculations.

Note 7: Annualised production capacity for the six months ended 30 June 2013 represents two times of the production capacity for the six months ended 30 June 2013.

RAW MATERIALS AND PROCUREMENT

We have transactions with approximately 340, 370, 450 and 460 suppliers for each of the year ended 31 December 2010, 2011, 2012 and twelve months ended 30 June 2013 during the relevant year/period respectively. During the Track Record Period, our top five suppliers are manufacturing and trading companies of PTA, MEG, cotton, wood pulp, staple fiber, PET chips, and nylon chips located in Zhejiang Province, Jiangsu Province, Shanghai, Beijing, Hebei Province, Hong Kong, and Taiwan. We had approximately one to nine years of business relationships with our top five suppliers during the Track Record Period. Other suppliers which are either listed companies or subsidiaries of listed companies include: (a) 來寶農業貿業(上海)有限公司 (Laibao Agricultural Trading Company Limited*), a subsidiary of a company listed on the Singapore Stock Exchange; (b) 杭州榮盛化纖銷售有限公司 (Hangzhou Rongsheng Chemical Fiber Sales Company Limited*), a subsidiary of 榮盛石化股份有限公司 (Rongsheng Petrochemical Co., Ltd.), which is listed on the Shenzhen Stock Exchange; and (c) 上海安諾其紡織化工股份有限公司 (Shanghai ANOKY Textile Chemicals Co., Ltd.), a company listed on the Shenzhen Stock Exchange.

Costs of raw materials purchased from our five largest suppliers, accounted for approximately 33.3%, 36.9%, 31.8% and 40.2% of our total costs of sale for each of the three years ended 31 December 2012 and the six months ended 30 June 2013, respectively. Costs of raw materials purchased from our largest supplier accounted for approximately 11.8%, 9.6%, 10.0% and 12.2% of our total costs for each of the three years ended 31 December 2012 and the six months ended 30 June 2013 respectively. To the best of the Directors' knowledge, our five largest suppliers are Independent Third Parties and none of our Directors, chief executives, management, associates or Shareholders holding 5% of our issued share capital had any interest in any of our five largest suppliers during the Track Record Period.

Trading

For our long-term trading suppliers of PTA and cotton, in general, we have a general policy that they must meet our minimum requirement of sales amount annually if it is a trading company, or must meet our minimum production amount if it is a manufacturer. Also, our trading suppliers shall meet our credit rating requirement and be in operation for a minimum period of five years in order to be selected as our supplier for trading business, according to our policy. Our Directors consider that our stringent selection criteria for choosing our trading suppliers for our trading business ensure that the quality of our trading products would meet the requirements of our trading customers.

For our trading business, we have representatives to check out the supplies of cotton in Xinjiang, as Xinjiang is a major production area for cotton in the PRC. Having our contact point at close proximity with our suppliers, we consider we could benefit from effective communication with ours supplier and efficient delivery arrangement of our procured trading products.

Our trading suppliers are located inside and outside China, as we would import materials from outside China for our trading customers inside the PRC. In general, we either make prepayment to our suppliers in full for our trading business, or we may receive a credit terms of up to 180 days from our trading suppliers.

Dyeing and processing of differentiated polyester fabric and production of polyester filament yarn

Our primary raw materials for dyeing and processing of differentiated polyester fabric are dyeing agents and differentiated polyester fabric and our primary raw materials for the production of polyester filament yarn are PET chips, nylon chips, POY and FDY.

We have a general guideline for our staff for procurement of raw materials. The production department shall make an application to the sourcing department. Upon approval, the procurement department shall make the necessary arrangement with suppliers and enter into contract with the suppliers when reasonable price and other terms are negotiated and agreed. Such terms includes, among others, the price and specifications of the raw materials being ordered. The relevant raw material shall then be delivered to us and stored in our warehouse for inspection before usage.

We also have standard guidelines for choosing our suppliers. Our procurement department is responsible for choosing our suppliers. In choosing our suppliers, we would take into consideration of, among others, the qualifications, product quality and production capacity of our suppliers. In general, we would conduct a preliminary assessment of our potential suppliers and request for samples from our suppliers for testing. We would also initially make small quantity orders from our new suppliers. If we are satisfied with our new suppliers' products, they would be included in our qualified suppliers' list. Finally, we would annually assess the quality of our suppliers and may make site-visit to our suppliers which could enable us to consider whether we would continue to order our raw materials from such suppliers.

Our suppliers for our dyeing and processing and production business are mainly located in Zhejiang Province and Jiangsu Province. For our payment to our suppliers for our dyeing and processing and production of polyester filament yarn business, we generally shall pay before delivery of the products or with a credit term of 30 to 60 days.

During the Track Record Period, we do not have any material interruptions regarding supply of any of our raw materials from our suppliers. For further details regarding the sensitivity analysis in relation to changes in costs of raw materials, please refer to the paragraph headed "Sensitivity analysis for net profit" in the section headed "Financial information" of this prospectus.

UTILITIES

Our primary utilities used for the production of polyester filament yarn and dyeing and processing of differentiated polyester fabric are electricity, water, steam and coal.

We require a significant amount of electricity in our production processes. During the Track Record Period, our consumption of electricity accounted for approximately 6.0%, 6.6%, 7.7% and 7.9% of the total costs of sales of production of polyester filament yarn and dyeing and processing of differentiated polyester fabric for each of the three years ended 31 December 2012 and the six months ended 30 June 2013, respectively. Our electricity is supplied through local electricity supplier at market rate. As we purchased electricity from the only legal electricity supplier of Zhejiang Province, we do not have alternative supplier for electricity, but our Directors considered that the risk of electricity interruption is remote as we had a good business relationship with the local electricity supplier.

During the Track Record Period, our consumption of water, steam and coal accounted for an aggregate of approximately 3.6%, 3.1%, 3.1% and 3.3% of the total costs of sales of production of polyester filament yarn and dyeing and processing of differentiated polyester fabric for each of the three years ended 31 December 2012 and the six months ended 30 June 2013. For supply of water, we rely on the local municipal water supply system, while for purchase of steam, we purchase from the only legal steam supplier of Zhejiang Province, and there is no alternative supplier of steam. For supply of coal, we purchase from various local coal suppliers.

During the Track Record Period, we do not have any material interruptions regarding supply of our utilities.

INVENTORY CONTROL

We monitor and control the inventory levels of our raw materials, finished products and trading products to optimise our operations, sales and delivery of our trading products, polyester filament yarn and differentiated polyester fabric. Our inventory primarily consists of finished polyester filament yarn products, differentiated polyester fabric sourced by us, dyeing agents, PET chips, nylon chips and other textile-related products. The differentiated polyester fabric provided by our customers are not part of our inventory, although they are also stored in our warehouse before processing. Our storage facilities are located at the same site of our production facilities.

For our inventory management, we have an internal guideline in arranging our inventory. Our raw materials are recorded when entering into our warehouse and inventory counting and checking is conducted from time to time. The relevant staff shall make an application for raw materials for production to be approved before they could access the raw materials in our inventory.

Our finished products are also recorded and inspected in terms of, among others, specifications and quantity, before being stored in our warehouse. We also conduct inventory counting and checking from time to time. Our sales and marketing department shall make an application to the sales manager for approval before retrieving products from our warehouse for delivery to our customers.

For our trading products, they are mainly stored at our warehouse of our production facilities, warehouse of Yongsheng Group (for further details of the bonded warehouse of Yongsheng Group, please refer to the paragraphs headed “Master Bonded Warehouse Storage Services Agreement” set out in the section headed “Continuing Connected Transactions” in this prospectus) and warehouses of Independent Third Parties in Jiangsu Province. For our trading inventory, we would also receive information about the textile industry such as the market price and demand to determine the timing and quantity to purchase our textile-related products for our trading inventory.

SALES AND MARKETING

As of 30 June 2013, our sales and marketing department consisted of 15 personnel. During the Track Record Period, our sales activities were conducted by our sales and marketing department with our customers. For each of the year ended 31 December 2010, 2011, 2012 and the twelve months ended 30 June 2013, we had transactions with approximately 620, 800, 910 and 940 customers respectively during the relevant year/period. During the Track Record Period, our top five customers are manufacturing and trading companies of PTA, MEG, cotton, wood pulp, staple fiber, PET chips, and nylon chips located in Zhejiang Province, Jiangsu Province, Shanghai, Fujian Province, Xinjiang and Hong Kong. We had approximately one to nine years of business relationships with our top five customers during the Track Record Period.

We have a diverse customer base. Our customers of our polyester filament yarn mainly consist of fabric manufacturers located in Zhejiang Province and Jiangsu Province. The end application of our polyester filament yarn products mainly include various style of apparel products and home furnishing products. In addition to sales to our domestic customers, we also sell a portion of our polyester filament yarn to Egypt, Syria, Thailand and Iran.

Our customers of our fabric dyeing and processing business mainly consist of fabric manufacturers and home furnishing and sofa manufacturers which are mainly located in Zhejiang Province and Jiangsu Province. Fabric dyed and processed by us are mainly used for the production of home furnishing products and sofa. Our fabric dyeing and processing business also include some overseas customers located in the US, Brazil and Canada.

Our trading customers mainly consist of trading companies and manufacturers of textile-related products. They are mainly located in different regions of the PRC while we also sold a portion of our textile-related products to customers in Switzerland and Hong Kong.

Sales to our domestic customers accounted for a significant portion of our revenue during the Track Record Period, which accounted for approximately 81.2%, 76.9%, 89.0% and 77.9% of our revenue for each of the three years ended 31 December 2012 and the six months ended 30 June 2013, respectively. Revenue from our five largest customers, accounted for approximately 23.4%, 28.3%, 30.9% and 38.4% of our total revenue for each of the three years ended 31 December 2012 and the six months ended 30 June 2013, respectively. For the year ended 31 December 2012, Yongsheng Trading (HK) was the third largest customer of our Group and our sales to Yongsheng Trading (HK) accounted for approximately 5.2% of our total revenue during the year; for each of the two years ended 31 December 2011, Yongsheng Trading (HK) was our largest customer and our sales to Yongsheng Trading (HK) accounted for approximately 11.6% and 10.4% of our total revenue for the relevant year respectively. Immediately prior to the acquisition of Yongsheng Trading (HK) by our Group, Yongsheng Trading (HK) was wholly owned by Yongsheng Holdings, a company which Mr. Li exercised control, and hence was a connected person of our Group. For further details of the relationship between Yongsheng Trading (HK) and our Group, please refer to the sub-paragraph headed "Yongsheng Trading (HK)" under the paragraph headed "Corporate history" under the section headed "History and development" in this prospectus.

Our largest customer accounted for approximately 21.5% of our total revenue for the six months ended 30 June 2013. To the best of the Directors' knowledge, our five largest customers, other than Yongsheng Trading (HK), are Independent Third Parties and none of our Directors, chief executives, management, associates or Shareholders holding 5% of our issued share capital had any interest in any of our five largest customers during the Track Record Period.

Our sales via Yongsheng Trading (HK)

We sold textile-related products mainly including PTA and MEG to Yongsheng Trading (HK) which in turn mainly sold such products to our customers which preferred to settle the payment in foreign currency other than RMB. Upon the acquisition of Yongsheng Trading (HK) by us in December 2012, Yongsheng Trading (HK) has become our wholly-owned subsidiary and transactions between us and Yongsheng Trading (HK) will be eliminated upon consolidation.

According to *the Interim Regulations of the PRC on Enterprise Income Tax* (中華人民共和國增值稅暫行條例), enterprises engaging in sale of goods within the territory of the PRC shall be the taxpayers of the value-added tax and shall pay value-added tax accordingly. *The Implementing Rules of the Provisional Regulations Concerning Value-Added Tax of the PRC* (中華人民共和國增值稅暫行條例實施細則) further elaborates that "sale of goods within the territory of the PRC" shall mean the place of shipment or location of goods to be sold is within the PRC territory for customs purposes. In respect of the trading goods purchased by us and sold to our Group's customers via Yongsheng Trading (HK), the title and ownership of the trading were either passed outside the territory of the PRC or onshore but within the PRC bonded area. As advised by our PRC Legal Advisers, PRC bonded area is a special area under customs supervision and control which is regarded as outside the PRC territory for customs purposes according to the *Measures on Customs Supervision and Control over Bonded Zones* (保稅區海關監管辦法), hence the purchase of goods by us, sale of goods to Yongsheng Trading (HK), and subsequent sales of goods to our Group's customers by Yongsheng Trading (HK), either took place outside the territory of the PRC or onshore but within the PRC bonded area, are not subject to value-added tax.

Further, according to *Interim Regulations Concerning Value-added Tax of the PRC* (中華人民共和國增值稅暫行條例), enterprises engaging in import of goods within the territory of the PRC shall be the taxpayers of the value-added tax and shall pay value-added tax accordingly. As advised by our PRC Legal Advisers, according to *Customs Law of the PRC* (中華人民共和國海關法) and *Interim Regulations Concerning Value-added Tax of the PRC* (中華人民共和國增值稅暫行條例), for those goods whose title and ownership were passed outside the territory of the PRC, our customers shall be obliged to pay value-added tax when they go through the necessary procedures for customs declaration to collect those goods at the ports if they decided to import such goods from outside the territory of the PRC. As for the goods whose title and ownership were passed in the PRC bonded area, our PRC Legal Advisers advise that the tax liability for value-added tax shall fall on our customers when our customers go through the necessary procedures for customs clearance to collect those goods in the PRC bonded area if they decided to import those goods from PRC bonded area into the non-bonded area of PRC since their activities shall be regarded as import of goods according to Article 13 of the *Measures on Customs Supervision and Control over Bonded Zones* (保稅區海關監管辦法), which provides that goods entering non-bonded areas from bonded areas shall go through the same formalities as that of import of goods.

As advised by our PRC Legal Advisers, there is no other material tax and legal implications in the PRC arising from our Group's transactions handled by Yongsheng Trading (HK).

For further details of the transactions, please refer to the sub-paragraph headed "Transaction with Yongsheng Trading (HK)" under the section headed "Financial information" in this prospectus.

Overseas sales

The geographical breakdown of the sales to our overseas customers during the Track Record Period is as follows:

	Year ended 31 December						Six month period ended 30 June	
	2010		2011		2012		2013	
	US$'000	*%*	*US$'000*	*%*	*US$'000*	*%*	*US$'000*	*%*
Indonesia	42	0.4%	1,362	9.9%	2,776	21.0%	42	0.4%
Hong Kong	160	1.5%	1,179	8.6%	1,672	12.6%	489	4.1%
United States	379	3.5%	1,157	8.4%	1,236	9.3%	Nil	Nil
Egypt	461	4.2%	231	1.7%	939	6.6%	Nil	Nil
Syria	–	0.0%	1,471	10.7%	918	6.9%	309	2.6%
Philippines	723	6.7%	1,042	7.6%	1,061	8.0%	381	3.2%
Brazil	273	2.5%	897	6.5%	792	6.0%	2,186	18.3%
Spain	235	2.2%	384	2.8%	720	5.4%	126	1.1%
Canada	751	6.9%	854	6.2%	516	3.9%	87	0.7%
Thailand	485	4.5%	622	4.5%	459	3.2%	178	1.5%
Iran	1,355	12.4%	376	2.7%	94	0.7%	64	0.5%
Others	6,021	55.2%	4,144	30.2%	2,045	16.4%	8,083	67.6%
Total	**10,890**	**100.0%**	**13,718**	**100.0%**	**13,229**	**100.0%**	**11,946**	**100%**

Note: Others refer to our sales to more than 30 other countries including Turkey.

During the Track Record Period, we had exported yarn, cloths and other household goods to customers in Iran and Syria ("**Sanctioned Countries**"). The total revenue generated from the Sanctioned Countries for each of the three years ended 31 December 2012 and the six months ended 30 June 2013 was approximately RMB9.6 million, RMB11.7 million, RMB8.6 million and RMB2.3 million, respectively, representing approximately 0.6%, 0.6%, 0.4% and 0.2% of our Group's total revenue for the same years/period, respectively. Our Directors do not expect any significant increase or decrease in our Group's sales to Sanctioned Countries upon Listing.

As advised by our PRC Legal Advisers, the goods exported by our Group to customers in the Sanctioned Countries fall outside the scope of the goods prohibited for export by the PRC government authorities under the relevant PRC laws and regulations. Our PRC Legal Advisers advised that our Group has not violated any PRC laws or regulations in relation to the PRC export bans.

The Sole Sponsor, based on the above advices from our PRC Legal Advisers and DLA Piper Hong Kong as set out in the paragraph headed "Summary of relevant laws and regulations on import and export of goods" in the "Regulatory overview" section of this prospectus, is of the view that the risk of sanctions violations as a results of our Group's sales to Sanctioned Countries during the Track Record Period and the expected sales to Sanctioned Countries upon Listing is remote.

Our Directors and our PRC Legal Advisers are of the view that the regulatory measures applicable to our Group, which have been summarised in the paragraph headed "Summary of relevant laws and regulations on import and export of goods" in the "Regulatory overview" section of this prospectus have no material impact on our Group's import and export activities for the following reasons:

1. the goods imported and exported by our Group fall outside the scope of goods prohibited from import or export by PRC governmental authorities;

2. our Group has complied with the requirements for customs declaration, collection and payment of foreign exchange and any other formalities during the Track Record Period and up to the Latest Practicable Date;

3. no fine or penalty has been imposed on our Group by the relevant governmental authorities for any violation of relevant regulatory requirements; and

4. our Group has adopted a series of measures to ensure the compliance with relevant regulatory requirements, including, among others:

    - requiring our staff to adhere to all the required formalities for the import and export of goods;

    - adopting a pricing policy for the export of goods, which ensures the export price of our goods complies with the anti-dumping laws of the import country or region; and

    - implementing a monitoring system, which allows our Group to minimise any adverse effect that may impose on our Group in case of any failure of such compliance.

Our Directors understand that (a) a prerequisite for the breach of anti-dumping law is that the export price of the products is lower than the normal market value of such products and (b) it is very unlikely to breach anti-dumping law if the export price of products is comparable to or exceeds the normal market value of such products. As regards our products sold to our domestic customers, our PRC Legal Advisers opine that such sales will not cause our Group to violate anti-dumping law. For our exported products, as confirmed by our Directors, the export price of those products is determined in management's reasonable discretion, and is not lower than the normal market value of such products, which is usually determined by reference to (i) the comparable price of the products of the same category as that of the exported products in the ordinary course of trade in the domestic market of the exporting country or region; (ii) the comparable price at which the products of the same category are exported to an appropriate third country or region; or (iii) the cost of production of the products of the same category in the country or region of origin plus a reasonable amount for expenses and profits. Therefore, the export price of our products will not constitute our Group in causing material threat to an established industry of the import country or region, or causing material impediment to the establishment of such an industry. Furthermore, in considering that there have not been any anti-dumping measures or any anti-dumping proceedings brought or initiated against our Group, our Directors believe that our products did not violate any anti-dumping law.

Internal control measures to monitor sanction risks

Our management will circulate a list of sanctioned countries to staff handling export trades (such list will be provided and updated by external legal advisers from time to time whenever there are changes and the list will be circulated to our staff after each update) and request them to check with the head of internal audit department for any trade with sanctioned countries before entering into any contract or agreement with customers. In the event that the head of internal audit consider entering into contract or agreement with a particular customer may violate relevant regulatory requirements related to sanctions, he/she should report directly to the Board, which shall decide on whether to enter into contract or agreement with that customer, based on the advice of external legal advisers. The head of internal audit department is responsible for liaising with external legal advisers on the updates of the list of sanctioned countries and will seek further professional advice from external legal advisers whenever necessary. We have implemented our internal control measures to monitor sanction risks set out above since August 2013. Taking into account the formulated internal control measures, the internal monitoring by the head of internal audit department with the assistance from external legal advisers, the Sole Sponsor considers such internal control measures are adequate and effective.

The geographical breakdown of our revenue from sales of polyester filament yarn during the Track Record Period is as follows:

	Year ended 31 December						**Six months ended**	
	2010		**2011**		**2012**		**30 June 2013**	
	Revenue	**Percentage**	**Revenue**	**Percentage**	**Revenue**	**Percentage**	**Revenue**	**Percentage**
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
Domestic sales	226,880	96.3	343,635	93.8	310,555	91.7	146,778	94.3
Zhejiang province	93,232	39.6	126,182	34.5	116,547	34.4	74,820	48.1
Jiangsu province	62,062	26.3	180,062	49.2	158,349	46.8	60,123	38.6
Other provinces	71,586	30.4	37,391	10.2	35,658	10.5	11,835	7.6
Export sales	8,656	3.7	22,611	6.2	27,977	8.3	8,914	5.7
Total	235,536	100	366,246	100	338,532	100	155,692	100

The geographical breakdown of our revenue from sales and processing of differentiated polyester fabric during the Track Record Period is as follows:

	Year ended 31 December						Six months ended 30 June 2013	
	2010		2011		2012			
	Revenue	Percentage	Revenue	Percentage	Revenue	Percentage	Revenue	Percentage
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
Domestic sales and processing	85,975	87.2	103,506	92.0	103,114	87.6	39,151	65.4
Zhejiang province	66,905	67.9	92,531	82.2	88,275	75.0	30,685	51.3
Jiangsu province	16,172	16.4	8,215	7.3	12,382	10.5	7,220	12.1
Other provinces	2,898	2.9	2,760	2.5	2,457	2.1	1,246	2.0
Export sales and processing	12,593	12.8	9,061	8.0	14,549	12.4	20,717	34.6
Total	98,568	100	112,567	100	117,663	100	59,868	100

The geographical breakdown of our revenue from trading of textile-related products during the Track Record Period is as follows:

	Year ended 31 December						Six months ended 30 June 2013	
	2010		2011		2012			
	Revenue	Percentage	Revenue	Percentage	Revenue	Percentage	Revenue	Percentage
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
Domestic sales	958,939	77.9	1,119,563	71.8	1,554,623	88.6	679,560	76.0
Export sales	272,587	22.1	438,970	28.2	200,035	11.4	215,722	24.0
Total	1,231,526	100	1,558,533	100	1,754,658	100	895,282	100

Our sales and marketing department is responsible for conducting marketing activities and building relationships with potential customers. We use various marketing channels to promote our brand name and reach out to our potential customers, including advertising on industry magazines, online marketing and attending trade exhibitions.

We have online marketing for our differentiated polyester filament yarn products, at which we posted our product list with product details, payment and shipping terms and our contact details on business to business website. We also occasionally advertise our products in industry magazines.

During and after the Track Record Period, we participated and would continue to participate in various trade exhibitions or textile-related conference of textile industry in both China and overseas such as Turkey. We consider participating in these trade exhibitions will provide us with available access and exposure to potential customers and also collection of market information.

For sales of our polyester filament yarn products, we compile product lists which sets out specifications of the products as requested by our customers. Our sales and marketing department will also compile a pricing list which sets out the reference selling price of each of our products, but the actual price would be subject to the final order from our customers. For our direct sales and processing service of differentiated polyester fabric, we compile product lists which set out the dyeing and processed products in which we produce. We would supply a sample of finished products to our customers, and if our customers are satisfied with our sample finished products, we would negotiate the product price/processing fee and terms of sale and enter into sales contract when agreed upon. Our products would be manufactured according to the agreed schedule. Transportation of our products to our customers shall be arranged in accordance with the term of delivery agreed and set out in the sales contracts.

Our sales staff provides post-sales services to our customers such as follow up on feedbacks or issues from our customer when using our products, handling complaints on quality and arranging for goods return, and conducting annual surveys with our customers to understand the level of satisfaction of our customers. For certain of our customers, we may provide approximately one to two weeks for them to return the products if the customers consider that the products do not meet the specifications as stipulated in the contract, and we shall re-deliver products up to the specification of the customers if necessary. In general, for other customers, upon receipt of complaints from customers, the defective goods shall be returned to us if there are any defects or standards not up to the specifications as stipulated in the contract and we shall re-deliver products up to the specification if necessary. During the Track Record Period, as confirmed by our Directors, we do not have any product recalls, customer complaints, or product liability claims which had a material effect on our operations. Our sales staff will visit our customers in which our Directors are of the view that such can enable us to have a better understanding of their needs and explore further cooperation opportunities. For our trading business, we also have sales representatives located at Zhang Jia Gang.

Overlapping of customers and suppliers ("OCS")

According to the Industry Report, in the textile industry, textile manufacturers (being the end users) usually source the raw materials they need via trading companies, who will then (a) purchase different kinds of textile-related products from the relevant suppliers based on their expectation about future prices and customers' demand and (b) resell those products to manufacturers and other trading companies upon receipt of their purchase orders. Therefore, it is common for textile-related products trading companies to purchase from and sell to each other, resulting in overlapping of customers and suppliers.

Independent Third Parties overlapping customers and suppliers of trading activities

For each of the three years ended 31 December 2012 and for the six months ended 30 June 2013, certain of our trading customers were also our trading suppliers. We had 19 independent trading OCS during the Track Record Period, which can be categorised into three main types, namely 12 trading companies, 5 manufacturing companies, and 2 conglomerates engaged in both manufacturing and trading businesses. The following table shows our sales to and purchases from independent trading OCS during the Track Record Period. Please note that when any of the independent trading OCS had entered into both sales and purchase transactions with us in any particular year or period during the Track Record Period, we also included the sales to and/or purchases from such independent trading OCS in all years/period during each of the three years ended 31 December 2012 and for the six months ended 30 June 2013. In other words, certain independent trading OCS had both sales and purchases transactions with us only in one particular year/period while only had sales or purchases (but not both) transactions with us in other years/period during the Track Record Period (i.e. not OCS in those other years/period), but nevertheless, their sales and purchases transactions with us were all included in the table below.

	Our sales				Our purchases			
Type of independent trading OCS	Year ended 31 December			Six months ended 30 June	Year ended 31 December			Six months ended 30 June
	2010	2011	2012	2013	2010	2011	2012	2013
A. Trading companies								
Amount *(RMB million)*	62	221	390	390	68	283	191	138
Volume *(tonne)*	8,776	20,758	82,594	44,978	6,122	15,826	22,732	14,048
Number of transactions	17	18	44	62	15	29	37	32
Gross profit margin	*0.5%*	*(3.4%)*	*5.0%*	*0.3%*	*11.4%*	*7.0%*	*(1.0%)*	*5.2%*
Products involved	Cotton, PTA, MEG, PET chips/nylon chips, wood pulp, etc.							
B. Manufacturing companies								
Amount *(RMB million)*	61	59	55	24	64	250	210	8
Volume *(tonne)*	5,734	9,465	7,930	5,543	3,392	26,166	28,747	1,001
Number of transactions	5	7	8	3	9	17	20	1
Gross profit margin	*5.8%*	*(11.1%)*	*(8.8%)*	*(14.2%)*	*17.2%*	*(14.4%)*	*(2.0%)*	*(0.5%)*
Products involved	PTA, MEG, wood pulp, staple fiber, cotton pulp, cotton yarn, PET chips							
C. Conglomerates								
Amount *(RMB million)*	12	–	218	30	14	–	309	17
Volume *(tonne)*	1,500	–	31,680	4,004	1,635	–	39,790	2,589
Number of transactions	2	–	31	1	4	–	22	1
Gross profit margin	*21.7%*	*n/a*	*(0.9%)*	*4.3%*	*6.3%*	*n/a*	*0.2%*	*11.1%*
Products involved	PTA, MEG, PET chips, etc.							
Total								
Amount *(RMB million)*	135	280	663	444	146	533	710	163
Volume *(tonne)*	16,010	30,223	122,204	54,525	11,149	41,992	91,269	17,638
Number of transactions	24	25	83	66	28	46	79	34
Gross profit margin	*4.8%*	*(5.0%)*	*1.9%*	*(0.2%)*	*13.1%*	*(2.2%)*	*(0.7%)*	*5.6%*

Note 1: Gross profit/gross profit margin of our sales to and purchases from independent trading OCS is calculated from sales of goods to independent trading OCS and sales of goods purchased from independent trading OCS respectively. Gross profit arising from sales to independent trading OCS is determined as the difference between sales amount and weighted average cost of inventory at the time of sales. Gross profit arising from purchases from independent trading OCS is estimated as the difference between weighted average selling price of goods and the purchase price, multiplied by quantity of goods purchased, and assuming all purchases of goods from independent trading OCS in respective years/period were sold during the relevant years/period.

Certain transactions with independent trading OCS set out in the above table might involve the same batch of goods being purchased and then sold back to the same independent trading OCS by our Group. To the best knowledge of our Directors, such transactions were immaterial to our Group as a whole in terms of number of transactions as well as contributions to total revenue and profit, and substantially all of the transactions with independent trading OCS were not related to the same batch of goods during the Track Record Period.

Substantially all goods purchased from independent trading OCS for each of the three years ended 31 December 2012 and for the six months ended 30 June 2013 were subsequently sold. Goods purchased from independent trading OCS remained unsold at the end of the Track Record Period amounted to only approximately RMB13.9 million (equivalent to approximately 0.9% of total purchases from independent trading OCS during the Track Record Period).

Our Group's transactions with independent trading OCS increased in 2012 for the following reasons –

- In 2011 where market demand for textile-related products was strong, trading companies in general have accumulated inventory in anticipation of rising customer orders. When average market prices of textile-related products dropped in the second half of 2011 and first half of 2012, trading companies would have to reduce their inventory level to minimise losses and enhance their liquidity position. As such, in addition to manufacturers and/or end users, they began to sell their inventory to other trading companies like our Group; and

- When market demand returned to normal level and average market prices of textile-related products began to stabilise, trading companies needed to rebuild their inventory. They therefore purchased from both manufacturers and other trading companies like our Group.

Reasons for fluctuations in gross profit margin of transactions with independent trading OCS

Gross profit margin from sales to independent trading OCS decreased from approximately 4.8% in 2010 to negative gross margin of approximately 5.0% in 2011 mainly due to the gross loss of approximately RMB23.6 million in sales of wood pulp to independent trading OCS. We purchased wood pulp when the price of wood pulp was at a relatively high level during the first half of 2011 and the price of wood pulp declined unexpectedly and significantly when we sold the wood pulp during the second half of 2011. Gross profit margin of sales to independent trading OCS increased to approximately 1.9% in 2012 as we recorded gross profit of approximately RMB19.2 million in trading cotton with independent trading OCS in 2012, partially offset by our limited trading sales of wood pulp with independent trading OCS in 2012 which recorded gross loss of approximately RMB3.7 million. Gross profit margin of sales to independent trading OCS dropped to approximately negative 0.2% for the six months ended 30 June 2013 mainly due to the negative gross margin of 14.2% recorded from sales to manufacturing companies as we recorded loss of approximately RMB3.5 million in trading of staple fiber with one of the manufacturing companies due to the sharp decrease in price of staple fiber during the first half of 2013, offset by positive gross profit margin of 0.3% and 4.3% from sales to trading companies and conglomerates respectively.

Gross profit margin from sales of goods purchased from independent trading OCS decreased from approximately 13.1% in 2010 to negative gross margin of approximately 2.2% in 2011 mainly due to the gross loss of approximately RMB29.1 million in sales of wood pulp purchased from independent trading OCS. The reason of gross loss recorded was the same as explained above. Gross loss narrowed to approximately 0.7% in 2012 as we recorded gross loss of approximately RMB5.4 million from sales of PTA purchased from independent trading OCS due to the downward price trend of PTA in 2012. Gross profit margin from sales of goods purchased from independent trading OCS increased to approximately 5.6% for the six months ended 30 June 2013 as (1) we generally recorded positive gross profit margin for most of the trading goods for the six months ended 30 June 2013, and (2) approximately 40.8% of the gross profit we earned is from trading of cotton which overall recorded gross profit margin of 7.5% for the first half of 2013.

Circumstances under which our Group was willing to sell our products to OCS at a negative or low gross profit margin

During the Track Record Period, we recorded negative or relatively low gross profit margin for certain sales to independent trading OCS from time to time. This is due to our management's operating decision that as and when our management anticipated an adverse market and downward price trend for the textile-related products we traded, taking into account our then customers' demand and inventory level, we decided to sell our goods to independent trading OCS at a negative or relatively low gross profit margin during the Track Record Period in order to mitigate our loss or realise our profits albeit at a relatively low gross profit margin. This is consistent with our Group's sales to non-overlapping customers and suppliers which also recorded negative or relatively low gross profit margin during the Track Record Period.

In respect of our pricing policy with independent trading OCS, we adopt the same pricing policy with other non-overlapping customers and suppliers of our Group and the purchases and sales transactions conducted with the independent trading OCS were negotiated on arms' length basis. We set the sale price mainly based on the market trend observed after considering information in the textile industry such as the market price and demand.

Reasons for transactions with independent trading OCS of trading companies

Textile-related products trading companies source from each other for the following reasons: (i) there are many different types of textile-related products and trading companies normally just focus on supplying a few types of textile-related products but not all of them. Hence, when trading companies receive orders from their customers but they don't have sufficient stock of the relevant raw material on hand or where certain of the raw materials required by their customers are not supplied by them, they will try to source and purchase from other trading companies the raw materials they lack to fulfill their customers' request. This is because the relationship with customers/end-users is key to sustaining trading companies' competitiveness, trading companies will strive to provide one-stop service to their customers and try to meet their customers' requirements to secure their relationship with their customers; (ii) because of the fluctuating price of textile-related products, trading companies do not tend to purchase excessive quantity so as to lower their risk. When they don't have sufficient stock to fulfill their customers' orders, they will purchase from other trading companies with excess stock.

Reasons for transactions with independent trading OCS of manufacturing companies

During the Track Record Period, we purchased from independent trading OCS of manufacturing companies (i) products they made , and (ii) their excess raw materials for onward sales to satisfy demand of our customers.

We sold to independent trading OCS manufacturing companies (i) raw materials for their production, and (ii) other textile-related products they produce for their sales to customer when they do not have sufficient stock on hand for such products.

Reasons for transactions with independent trading OCS conglomerates which engaged in both manufacturing and trading business

During the Track Record Period, we purchased from independent trading OCS conglomerates mainly because (i) we purchased the products manufactured by the production arm of the independent trading OCS conglomerates for onward sales, and (ii) we purchased from the trading arm of independent trading OCS conglomerates in view of expected increase in price or to fulfill our customers' demand.

We sold to independent trading OCS conglomerates mainly because (i) we supplied them with raw materials for the production of their manufacturing arm, and (ii) we sold to the trading arm of independent trading OCS conglomerates during normal trading activities to earn trading profit.

Potential competition with independent trading OCS

The overlapping customers/suppliers did not enter into any processing agreement with our Group during the Track Record Period.

As it is common for players in the textile-related products market to sell and purchase the same or similar types of products among themselves, our Directors cannot rule out the possibility that the overlapping customers/suppliers may sell the goods to our customers and thus compete with us.

Impact on our Group's financial results

The following table shows the contribution breakdown of independent trading OCS and other customers/suppliers to the overall revenue, purchases, gross profit and net profit of our trading business segment during the Track Record Period:

RMB million	Year ended 31 December									Six months ended 30 June		
	2010			2011			2012			2013		
	Independent trading OCS	Others	Total	Independent trading OCS	Others	Total	Independent trading OCS	Others	Total	Independent trading OCS	Others	Total
Revenue	135	1,431	1,566	280	1,757	2,037	663	1,548	2,211	444	667	1,111
As % of total revenue of our Group	*8.6*	*91.4*	*100*	*13.7*	*86.3*	*100*	*30.0*	*70.0*	*100*	*40.0*	*60.0*	*100*
Purchases	146	1,367	1,513	533	1,365	1,898	710	1,289	1,999	163	814	977
As % of total purchases of our Group	*9.7*	*90.3*	*100*	*28.1*	*71.9*	*100*	*35.5*	*64.5*	*100*	*16.7*	*83.3*	*100*
Gross profit (estimate) *(Note 1)*	24	114	138	(21)	135	114	5	104	109	5	56	61
As % of total gross profit of our Group	*17.4*	*82.6*	*100*	*(18.4)*	*118.4*	*100*	*4.6*	*95.4*	*100*	*8.2*	*91.8*	*100*
Gross profit margin	*8.8%*	*8.8%*	*8.8%*	*(2.9%)*	*10.2%*	*5.6%*	*0.5%*	*8.4%*	*4.9%*	*1%*	*9%*	*5.5%*
Net profit after taxation *(Note 2)*	17	66	83	(17)	77	60	1	32	33	3	16	19
As % of total net profit after taxation of our Group	*20.5*	*79.5*	*100*	*(28.3)*	*128.3*	*100*	*3.0*	*97.0*	*100*	*15.8*	*84.2*	*100*
Net profit margin	*6.4%*	*5.1%*	*5.3%*	*(2.4%)*	*5.8%*	*2.9%*	*0.1%*	*2.6%*	*1.5%*	*0.7%*	*2.6%*	*1.7%*

Note 1: Gross profit/gross profit margin of our sales to and purchases from independent trading OCS is calculated from sales of goods to independent trading OCS and sales of goods purchased from independent trading OCS respectively. Gross profit arising from sales to independent trading OCS is determined as the difference between sales amount and weighted average cost of inventory at the time of sales. Gross profit arising from purchases from independent trading OCS is estimated as the difference between weighted average selling price of goods and the purchase price, multiplied by quantity of goods purchased, and assuming all purchases of goods from independent OCS in respective years/period were sold during the relevant years/period.

Note 2: Net profit after taxation is arrived at after deducting direct sales taxes and surcharges from gross profit and enterprise income tax applied on remaining profit after deducting direct sales taxes and surcharges.

Despite the negative/low profit margin, we will continue to trade with overlapping customers and suppliers as and when appropriate opportunities arise for the following reasons:

- the negative/low profit margin on transactions with overlapping customers and suppliers during the Track Record Period was largely resulted from fluctuations in market prices of textile-related products, which also similarly affected the profit margin of transactions with other non-overlapping customers and suppliers;

- it is common for textile-related products trading companies to purchase from and sell to each other, resulting in overlapping of customers and suppliers, according to the Industry Report; and

- the pricing policy, the risks and rewards associated with the transactions with OCS are consistent with those of the non-overlapping customers and suppliers of our Group.

Independent Third Parties overlapping customers and suppliers of dyeing and processing business

During the Track Record Period, ten of our dyeing and processing customers were also our suppliers, three of which are principally engaged in providing processing services of fabric (such as stamping and lamination services) and also engaged in the sales of fabric as an ancillary business ("**Processing Customers**"), and the remaining seven are principally engaged in the manufacturing of fabric ("**Fabric Manufacturing Customers**").

During the Track Record Period, we provided fabric dyeing and processing services to the Processing Customers to satisfy the needs of their ancillary fabric business with total revenue amounts of approximately RMB1.1 million, RMB0.9 million, RMB2.9 million and RMB3.0 million respectively, representing approximately 0.07%, 0.04%, 0.13% and 0.27% of our total revenue respectively. On the other hand, we used stamping and laminating services from the Processing Customers with total purchase amounts of approximately RMB2.7 million, RMB1.5 million, RMB3.7 million and RMB2.5 million respectively, representing approximately 0.18%, 0.08%, 0.19% and 0.26% of our total purchases respectively during the Track Record Period, which is in line with our normal business activity as some of our customers have additional requests, such as stamping different patterns and/or lamination of fabric which we need to subcontract to other third parties for further processing.

During the Track Record Period, we provided dyeing and processing services to the Fabric Manufacturing Companies with total revenue amounts of approximately RMB5.4 million, RMB6.5 million, RMB7.5 million and RMB3.4 million respectively, representing approximately 0.34%, 0.32%, 0.34% and 0.31% of our total revenue respectively. On the other hand, we purchased some differentiated polyester fabric from the Fabric Manufacturing Companies with total purchases of approximately RMB7.5 million, RMB6.2 million, RMB11.0 million and RMB6.1 million respectively, representing approximately 0.49%, 0.33%, 0.55% and 0.63% of our total purchases respectively during the Track Record Period for further dyeing and processing in order to conduct direct sales of such finished differentiated polyester fabric to other customers.

We may continue to engage in the above activities in relation to trading and dyeing and processing services with the overlapping customers. To the best information and knowledge of our Directors, save as disclosed in this section, none of our Group's overlapping customers and suppliers have any past or present relationship with our Group, shareholders, directors, senior management, employees or their respective associates.

Related parties overlapping customers and suppliers

During the Track Record Period, we also conducted certain sales and purchases transactions with our related parties, details of which are set out in the paragraph headed "Related party transactions" under the section "Financial information" of this prospectus. During the Track Record Period, related parties overlapping customers and suppliers with shareholding interests held by the Controlling Shareholders or person who has beneficial interest in our Company consisted of Yongsheng Haiyi, Yongsheng Trading (HK), Yongzhuo Chemical Fiber, Yongsheng Weaving and Hangzhou Xiaoshan HongChang Chemical Fiber Co., Ltd ("**Related Parties OCS**"). Our total sales to Related Parties OCS amounted to approximately RMB207.8 million, RMB231.5 million, RMB143.9 million and nil for each of the three years ended 31 December 2012 and the six months ended 30 June 2013 respectively, accounted for approximately 13.3%, 11.4%, 6.5% and nil out of total revenue respectively, and our total purchases from Related Parties OCS amounted to approximately RMB8.7 million, RMB7.4 million, RMB47.5 million and RMB4.2 million for each of the three years ended 31 December 2012 and the six months ended 30 June 2013 respectively, accounted for approximately 0.6%, 0.4%, 2.4% and 0.4% out of total purchases respectively. By deducting direct cost of sales, direct sales taxes and surcharges and enterprise income tax applied to remaining profit after deducting all direct costs, net profit generated from the sales and purchase transactions with Related Parties OCS during the Track Record Period were approximately RMB10.8 million, RMB(5.7) million, RMB0.7 million and nil, accounted for approximately 13.0%, (9.5)%, 2.1% and nil out of our Group's total profit after taxation respectively. Other than Related Parties OCS, HUVIS and Hangzhou Qingwang Trading Co., Ltd were also related parties which had only sales or only purchase transactions with our Group. Hence, not all related parties which had sales and/or purchases transactions with our Group were Related Parties OCS. Profit/(loss) arising from sales and purchase transactions with all related parties were approximately RMB11.4 million, RMB(6.7) million, RMB(0.6) million and RMB0.5 million for each of the three years ended 31 December 2012 and the six months ended 30 June 2013 respectively. (*Note*: for purchases of raw materials used in manufacturing processes, relevant profit contribution is impracticable to estimate as it is not possible to accurately trace those raw materials to the corresponding final products after various manufacturing procedures.)

After our acquisition of Yongsheng Trading (HK) in December 2012, all of our transactions with it will be eliminated upon consolidation. All other insignificant overlapping sales and purchases with related parties which occurred during the Track Record Period will cease upon Listing.

Summary of sales and purchases with all OCS

(RMB million)	Year ended 31 December 2010	2011	2012	Six months ended 30 June 2013
Revenue				
Independent Third Parties OCS – Trading	135	280	663	444
Independent Third Parties OCS – Processing	7	7	10	6
Related Parties OCS	208	232	144	–
Total revenue from OCS	350	519	817	450
Purchases				
Independent Third Parties OCS – Trading	146	533	710	163
Independent Third Parties OCS – Processing	10	7	12	9
Related Parties OCS	9	7	48	4
Total purchases from OCS	165	547	770	176

The Sole Sponsor, based on the above reasons and analysis and its due diligence work done regarding the OCS, is of the view that the transactions with OCS were fair and reasonable and entered into on normal commercial terms by our Group during the Track Record Period.

PRICING AND TERMS OF SALES

In respect of our trading business, we set the sales price mainly based on market trend. We would also receive messages in the textile industry such as the market price and demand and send our staff to Xinjiang from time to time to assess the supply of cotton. Based on the above factors, we would then set our sales price and decide when to sell our textile-related products.

For our differentiated polyester fabric dyeing and processing service, we set the processing fee on a cost-plus basis based on a variety of factors, including complexity of the dyeing and processing techniques involved as well as quantity of our differentiated polyester fabric.

We set the reference selling prices of our polyester filament yarn based on a variety of factors, including raw material price, payment method of our customers and quality and specification of our products. We review and adjust the reference selling price of our products from time to time taking into consideration of, among others, the raw material costs and inventory level. We may also negotiate with our customers and adjust the selling price. Our sales orders with our customers provide for mutually agreed sales price and do not provide for price adjustment mechanisms.

We enter into individual purchase orders with our customers for sales of our products and the provision of dyeing and processing service. The terms included in these purchase orders include, among others, specification and quantity of the product, unit price, delivery terms and payment terms.

Our Group's sales are mainly made on credit terms of normally 30 to 90 days depending on various factors, including the credibility of such customer. Our management performs credit evaluation on all customers demanding for credit sales.

Depending on the delivery terms of each purchase order, delivery of our products can be arranged either by us or our customers and the delivery costs under which shall be borne by the party stipulated thereto. In the event transportation shall be arranged by us, we shall engage third party transportation companies for delivery of our products whereby such transportation cost would usually be borne by us.

For sales to our overseas customers, we usually arrange the transportation to the designated delivery points for pick-up by our customers and we may arrange for customs clearance if necessary.

QUALITY ASSURANCE AND QUALITY CONTROL

We have adopted a set of quality control procedures at different stages of production or processing to ensure our product quality. Our quality control system ensures that our polyester filament yarn and differentiated polyester fabric comply with the various standards set by us.

Our quality control procedures start at the raw materials procurement stage which our staff members confirms the brand and grade of the raw materials delivered by our qualified suppliers prior to accepting the raw materials. Our quality control staff conducts sample checking from time to time at which they shall take sample from the incoming batch of raw materials for testing to ensure the raw materials are up to our quality requirements for use in production or processing. During the Track Record Period, our Directors confirm that we did not experience any material quality defects for our raw materials purchased from our suppliers.

During the production process, we conduct regular inspection of our production or processing line from time to time in order to detect any problems encountered and properly record the inspection results. Visual appearance inspection is carried out with focus on any broken yarn, yarn with uneven thickness and colour and lustre of yarn. We will also conduct sample testing on physical properties of our semi-finished products with various testing standards including linear density, tensile strength, elongation at break, and boiling water shrinkage.

In respect of the quality control of our polyester filament yarn end-product in Nantong Facilities and Fiber Facilities, we conduct similar visual appearance inspection and sample testing on physical properties as those carried out for our semi-finished products. For quality control in Dyeing Facilities, we conduct visual appearance inspection for our finished differentiated polyester fabric, focusing on whether there are any broken holes or broken edges, scratches and creases, oil and colour stain or sanding mark. Our products which passed the quality control stage would then be packaged and stored in our warehouse. For the quality control for our textile-related products, staff members shall ensure that the textile-related products from our suppliers would meet the specifications as required by the customers' contract.

Based on the confirmations issued by 杭州市質量技術監督局蕭山分局 (Bureau of Quality and Technology Supervision*) of Xiaoshan, Hangzhou, our production and principal products in Yongsheng Chemical Fiber, Yongsheng Dyeing and Hangzhou Yongsheng Trading complied with the relevant product quality rules and regulations since establishment, and no penalties had been imposed upon us for any violation of any product quality laws or regulations as at 21 February 2013. Based on the confirmation issued by 江蘇省南通質量技術監督局 (Bureau of Quality and Technology Supervision*) of Nantong, Jiangsu Province, no penalties had been imposed upon Nantong Yongsheng for any violation of any product quality laws or regulations as at 7 March 2013. Also, we have an internal control guideline for our quality control. We have set up our quality control system with the ISO9001:2008 and ISO14001:2004 standards. As at 30 June 2013, we had a team of 18 quality control personnel. In addition, we conduct training sessions for our quality control team in order for them to stay current in their testing knowledge and skills.

RESEARCH AND DEVELOPMENT

We believe that our research and development efforts are crucial to our competitiveness and market share. We focus our research and development efforts on dyeing techniques on differentiated polyester fabric and on differentiated polyester filament yarn production process improvements. We believe we may further increase our market share by providing high-quality products to our customers.

We are committed to research and development regarding production of differentiated polyester filament yarn and dyeing and processing technique of differentiated polyester fabric. Supported by our research and development staff, as at 30 June 2013, we have developed 21 types of differentiated polyester filament yarn products, while we are also in the process of developing three additional types of differentiated polyester filament yarn. The following chart shows the achievements in our research and development up to the Latest Practicable Date:

Time	Event
September 2006	Recognition of the application of our differentiated polyester filament – 竹節緯向麂皮 (slubbed chamois leather*) was selected as 中國流行面料 (Fabrics China of the 2007/08 autumn and winter fall) by China Textile Information Centre and China Textiles Development Centre
August 2008	Recognition as a 國家差別化聚酯纖維染織產品開發基地 (Fabric China Pioneer Plant on Differential Polyester Fibers and Yarn-dyed Fabric) (August 2008 to July 2010) and 國家差別化纖維及染織產品開發基地 (Fabric China Pioneer Plant on Differential Fibers and Yarn-dyed Fabric) (from August 2010 to July 2014) in relation to our production and development of differentiated polyester filament yarn and dyeing and processing of differentiated polyester fabric by China Textiles Development Centre
October 2011	Recognition of the application of our differentiated polyester filament yarn – 複合超細尼龍絨織物 (composite ultrafine nylon velvet fabric*) was selected as 中國流行面料 (Fabrics China of the 2012/13 autumn and winter fall) by China Textile Information Centre and China Textiles Development Centre
October 2012	Recognition of the application of our differentiated polyester filament yarn – SPH (天欣) was selected as 中國流行面料 (Fabrics China of the 2013/14 autumn and winter fall) by China Textile Information Centre and China Textiles Development Centre
November 2012	Yongsheng Dyeing was awarded 高新技術企業 (High and New Technology Enterprise*)
October 2013	Recognition of the application of our differentiated polyester yarn – 天杰緞 with the best application of materials award by the competition committee of the China International Fabrics Design (中國國際面料設計大賽)

Our Group has also cooperated with third parties, such as suppliers and universities, in relation to research and development. For example, in 2009, we entered into a cooperation agreement with one of our suppliers, Shanghai ANOKY Textile Chemicals Co., Ltd. (上海安諾其紡織化工股份有限公司) for research and development of 超細纖維織物環保染色技術研究 (environmental friendly dyeing technique for micro-fiber fabrics*). In 2010, we began our technological cooperation with 嘉興學院 (Jiaxing University*) for the research and development of 納米氧化亞銅抗菌劑及抗菌纖維 (nano copper oxide anti-bacterial agents and anti-bacterial polyester filament yarn*). The aforesaid project was categorised as one of 2010年重大科技專項和優先主題項目 (2010 major and prioritised science and technology project*)" by 浙江省科學技術廳 (Science Technology Department of Zhejiang Province*).

HUVIS, a chemical fiber manufacturing company based in South Korea with operating manufacturing factories in Jeonju, Ulsan and China and a research and development centre in Daejeon, has been our business partner since the initial set up stage of Yongsheng Dyeing and Yongsheng Chemical Fiber, and at the time assigned a total of around 10 management and technical staff to our production facilities and provided us with general products know-how and technical advice and managed our production facilities. As we accumulated relevant experience and know-how over the years, the role of HUVIS diminished over the years and only one of the technical staff from HUVIS had remained stationed at Yongsheng Chemical Fiber responsible for providing technical advice and the operations of our production of differentiated polyester filament yarn as at the Latest Practicable Date.

In August 2010 and August 2011, we entered into certain agreements ("**HUVIS Agreements**") with HUVIS whereby HUVIS granted us rights to use specific know-how and technology, including on the dyeing processing of synthetic leather fabric and dyeing processing of a type of differentiated polyester filament yarn for a period of 10 years.

Pursuant to the HUVIS Agreements, HUVIS shall provide the necessary technology and know-how, data, staff, and training to our Group in order to ensure our staff would be able to use the know-how and technique for production up to the required specifications. The consideration payable by our Group under the HUVIS Agreements, in aggregate was approximately RMB7.2 million.

During the Track Record Period, revenue generated from products/processing techniques derived from the HUVIS Agreements accounted for approximately 5% of the total revenue generated from the production and dyeing/processing segment of our Group each year.

For each of the three years ended 31 December 2012 and the six months ended 30 June 2013, our research and development expenses were approximately RMB6,242,000, RMB4,730,000, RMB4,405,000 and RMB3,462,000 respectively.

INTELLECTUAL PROPERTY

We rely on a combination of patents, trademarks and contractual rights to protect our industrial and intellectual property rights. As at the Latest Practicable Date, we owned seven patents and eight trademarks in Hong Kong and the PRC. Our intellectual properties include domain names, patents and trademarks. Please refer to "Appendix VI – Statutory and General Information" of this prospectus for more information regarding our intellectual property rights.

The following table sets out the major intellectual property rights which are used in our business operations with brief descriptions of their nature and usage:

	Patents	Type of patent	Nature and usage	Main industry segments served
1	shaped thin nylon elastic fiber (異型錦綸細旦纖維)	practical new model	producing textile fabric	polyester filament yarn
2	a type of dyeing machine system (一種染色機系統)	practical new model	automatic control of dyeing	dyeing
3	a type of recovery device for residual heat of smoke (一種煙氣餘熱回收裝置)	practical new model	energy saving	dyeing
4	a type of recycle system for hot water of dyeing machine (一種染色機熱水回用系統)	practical new model	energy saving	dyeing
5	a type of dust removal machine (一種除塵器)	practical new model	reduction of pollutant	dyeing
6	a type of desulfurisation tower (一種脫硫塔)	practical new model	reduction of pollutant	dyeing
7	a type of device for the recovery of residual heat of smoke for drying dyed cloth (一種回收烘乾染布煙氣餘熱的裝置)	practical new model	energy saving	dyeing

During the Track Record Period, we do not have any material dispute or infringement of trademarks and patents.

WORK SAFETY

We are subject to the relevant PRC laws and regulations regarding occupational health and safety, including the Work Safety Law of the PRC. Our staff in the production department oversees our compliance with the relevant PRC laws and regulations, conduct safety performance reviews, identify safety risks, implement accident prevention measures and ensure our compliance with safety performance requirements. We established safety procedures and policies to ensure that our working environment is safe for our employees, such as our employees are required to sign letters of responsibility in relation to work safety for Yongsheng Chemical Fiber. We implement and ensure that all our employees are aware of our safety procedures, which include guidelines for safety management, emergency situations and proper operation of machineries.

According to our PRC Legal Advisers, we complied with all relevant PRC laws and regulations regarding health and safety during the Track Record Period and were not subject to any material occupational health and safety claims or penalties as of the Latest Practicable Date.

ENVIRONMENTAL MATTERS

Our operations are subject to, among other relevant PRC environmental protection laws and regulations, the following: (i) the Environmental Protection Law; (ii) the Prevention and Control of Water Pollution Law; (iii) the Prevention and Control of Environmental Noise Pollution; (iv) the Prevention and Control of Atmospheric Pollution Law; (v) the Law of the PRC on Promoting Clean Production; (vi) the Prevention and Control of Solid Waste Pollution; and (vii) the Law of the PRC on Appraising the Environmental Impact. Under the relevant PRC laws and regulations, we may commence a construction project only after we register or file an environmental impact assessment for such project and obtain approval from the relevant PRC environmental authorities. Please refer to the section headed "Regulatory overview" of this prospectus for further details of the relevant PRC laws and regulations regarding environmental matters.

Hangzhou Yongsheng Trading is not a manufacturing enterprise, and the normal business activities of which do not involve material discharge of pollutants. During the Track Record Period and up to the Latest Practicable Date, as advised by our PRC Legal Advisers, in respect of our manufacturing PRC subsidiaries, save for the disclosure made in the section headed "Non-compliance with environmental regulations" below in the prospectus, our Group had complied with all laws and regulations in relation to environmental protection and had obtained all necessary environmental approvals and licences for the operation of our manufacturing PRC Subsidiaries.

According to Article 7 of the *Environmental Protection Law* (中華人民共和國環境保護法), the competent departments of environmental protection administration of the local people's government at or above the county level shall conduct unified supervision and management of the environmental protection work within areas under their jurisdiction. Yongsheng Dyeing had obtained a confirmation letter from Hangzhou Xiaoshan Environmental Protection Authority on 20 February 2013, confirming that the building construction, the production and operation of Yongsheng Dyeing had gone through all the required formalities in relation to environmental protection. Taking into account that: (i) the supervision and management of the environmental protection work within Hangzhou Xiaoshan District is one of the major responsibilities of Hangzhou Xiaoshan

Environmental Protection Authority, a government authority at the county level, as shown on its official website; (ii) Yongsheng Dyeing is a company located in such district; and (iii) Hangzhou Xiaoshan Environmental Protection Authority has issued a confirmation letter to confirm its competency (dated 16 August 2013), our PRC Legal Advisers are of the view that Hangzhou Xiaoshan Environmental Protection Authority is the competent authority to confirm that Yongsheng Dyeing has obtained all necessary environmental approvals for its operation. Furthermore, a permit for discharge of pollutants was issued by the relevant governmental authority to Yongsheng Dyeing on 31 December 2012, with a term of one-year validity.

We have implemented environmental standards for our operations, for example, for our dyeing fabric, we use addictives which complies with industry environmental standard of OTEX-100.

In August 2003 and November 2005, the relevant PRC environmental authorities had issued to us a guideline regarding the construction of our facilities in Xiaoshan District. We have installed environmental protection devices and equipment that treat and recycle waste water and reduce gas pollution to ensure full compliance with the PRC environmental laws and regulations. In addition, the low levels of waste water, gas pollution, noise pollution and solid waste we generate during our operations, are all within permitted levels according to the relevant authorities.

In March 2011, the relevant environmental governmental authorities in Nantong City approved our new production construction project in Nantong City.

For each of the three years ended 31 December 2012 and the six months ended 30 June 2013, our expenditure in respect of compliance with the relevant PRC laws and regulations amounted to approximately RMB1.7 million, RMB2.3 million, RMB2.4 million and RMB0.9 million respectively. We expect to incur approximately RMB2.6 million on compliance with the relevant PRC environmental laws and regulations for the year ending 31 December 2013.

REAL PROPERTIES

We have obtained all land use right certificates for our Dyeing Facilities located in Xiaoshan District, Zhejiang Province, which occupies a site area of approximately 65,000 square metres and the processing facilities (including 11 buildings for office, workshop, water purify room) located on top of the land with an aggregate gross floor area of approximately 43,000 square metres. For Yongsheng Chemical Fiber, we also obtained all the land use right certificates for our Fiber Facilities located in Xiaoshan District with an approximate site area of 39,000 square metres and the production facilities (including 3 buildings for office, construction workshop and workshop) located on top of the land with an aggregate gross floor area of approximately 12,500 square metres. Our Group has obtained the land use right certificate for both Dyeing Facilities and Fiber Facilities.

For Nantong Yongsheng, we also obtained all land use right certificates for our Nantong Facilities located in Nantong District with an approximate site area of 37,000 square metres and the production facilities (including 11 buildings for office, workshop and warehouse) located on top of the land with an aggregate gross floor area of approximately 19,300 square metres. As at the Latest Practicable Date, we have obtained all building ownership certificates for our Dyeing Facilities and Fiber Facilities; and for eleven out of twelve buildings of Nantong Yongsheng. We are not able to obtain the building ownership certificate for one building with gross floor area of approximately 70 square metres. The aforesaid building was previously used as warehouse for storage and other ancillary purpose and had been vacated and no longer in use at the Latest Practicable Date. Please refer to the section headed "Non-compliance with PRC laws and regulations" of this section of the prospectus for further details.

Please refer to "Appendix III – Property Valuation" for further details of our owned and leased properties in the PRC and Hong Kong.

EMPLOYEES

We had a total of 533 employees as of 30 June 2013, respectively. The following table provides a breakdown of our full-time employees by function as of 30 June 2013:

Division	**Number of employees**
PRC	
Production	314
Quality control	18
Research and development	54
Support and others	61
Accounting and finance	15
Administration and management	33
Sales and marketing	15
Procurement	3
Trading	14
Hong Kong	
Support and others	1
Accounting and finance	2
Administration and management	1
Trading	2
Total	533

We recruit our personnel from the open market and we enter into employment contracts with them. We offer remuneration packages to our employees, including salaries and bonuses to our employees.

In the PRC, in accordance with relevant national and local labour and social welfare laws and regulations, we are required to pay in respect of our employees in the PRC various social security insurance including basic pension insurance, basic medical insurance, unemployment insurance, occupational injury insurance and insurance for maternity.

As at the Latest Practicable Date, we have not experienced any strikes, work stoppages or labour disputes which affected our operations and we believe we have maintained good working relations with our employees.

INSURANCE

We contribute to social security insurance for our full-time employees in accordance with the relevant PRC laws and regulations, which includes contributions to basic pension insurance, basic medical insurance, occupational injury insurance, maternity insurance and unemployment insurance, save as the non-compliance regarding social insurance and housing provident fund as detailed in the sub-paragraph headed "Non compliance with PRC laws and regulations" in this section of the prospectus. We maintain comprehensive property insurance for primarily all of our production facilities in our production sites and the vehicles used in our operation.

We participated in a provident fund scheme registered under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for all our eligible employees in Hong Kong. We also provide employee compensation insurance for our Hong Kong staff.

COMPETITION

According to the Ipsos Report, for the trading business, the textile-related products trading industry was dominated by international and state-owned trading companies in the previous years. However, with the increase in numbers of domestic trading companies, the market share of domestic middle and small scale trading companies increased in China. We believe our relationship with our customers through different areas of the textile industry, our diversified portfolio of trading products, suppliers and customers in different areas of the world allow us to compete effectively in the textile-related products trading industry.

Regarding the dyeing and processing fabric service industry, according to the Ipsos Report, the dyeing and processing fabric service industry in the PRC is fragmented, in which the top 10 companies accounted for less than 5.0% of total market share in the PRC in 2012. Zhejiang Province was the top production region which accounted for approximately 59.0% of total production in 2012. The entry barriers include, among others, high technical and processing requirements and environmental standards. We believe that our continuing research and development and our reputation build up during the previous years would allow us to compete with other players in the industry.

According to the Ipsos Report, the polyester filament yarn production industry is highly competitive in the PRC. The PRC is the main supplier of polyester filament yarn which accounted for approximately 80.5% of the global production volume of polyester filament yarn in 2012. Most of the production capacities of polyester filament yarn globally are concentrated in the PRC and dominated by large manufacturers in the PRC. Polyester filament yarn manufacturers compete on a variety of factors, such as price, product variety and geographic location. For regular polyester filament yarn, competitive advantage is gained through market share, economies of scale, and cost advantages of raw materials and logistics. For differentiated polyester filament yarn, which our Group aims to focus on, competitive advantage is achieved through product differentiation, customised service, industry experience and operational excellence. The entry barriers for the polyester filament yarn production industry include rising production costs, high capital investment on machineries, and industry knowledge and experience. Our Directors believed that we have the necessary experience and product differentiation know-how to compete effectively in the market, and new market entrants may face obstacles in obtaining customer acceptance without a proven track record.

NON-COMPLIANCE AND LEGAL PROCEEDINGS

Non-compliance with PRC laws and regulations

During the Track Record Period, our Group had failed to comply with certain laws and regulations in the PRC. We may be liable and/or may incur costs in complying with or remedying any non-compliance or settling any legal dispute. The total maximum amount of penalty that might be imposed on our Group in respect of the material non-compliance incidents disclosed below is summarised as follows:

	RMB'000
Non-Compliant Bill Arrangement	–
Inter-enterprise lending	–
PRC social insurance and housing provident fund	304.0
Properties	3.6
Registered capital of Yongsheng Chemical Fiber	–
Non-compliance with environmental regulations	200.0
Total	507.6

As advised by our PRC Legal Advisers, the maximum amount of penalty that might be incurred for the material non-compliance relating to our Group during the Track Record Period is estimated to be approximately RMB507,600. Our Directors consider in view of the relatively immaterial amount of penalty, the potential adverse financial and operational impact on our Group would not be material as a whole.

We set out below the material non-compliance relating to our Group during the Track Record Period:

Non-Compliant Bill Arrangement

Background

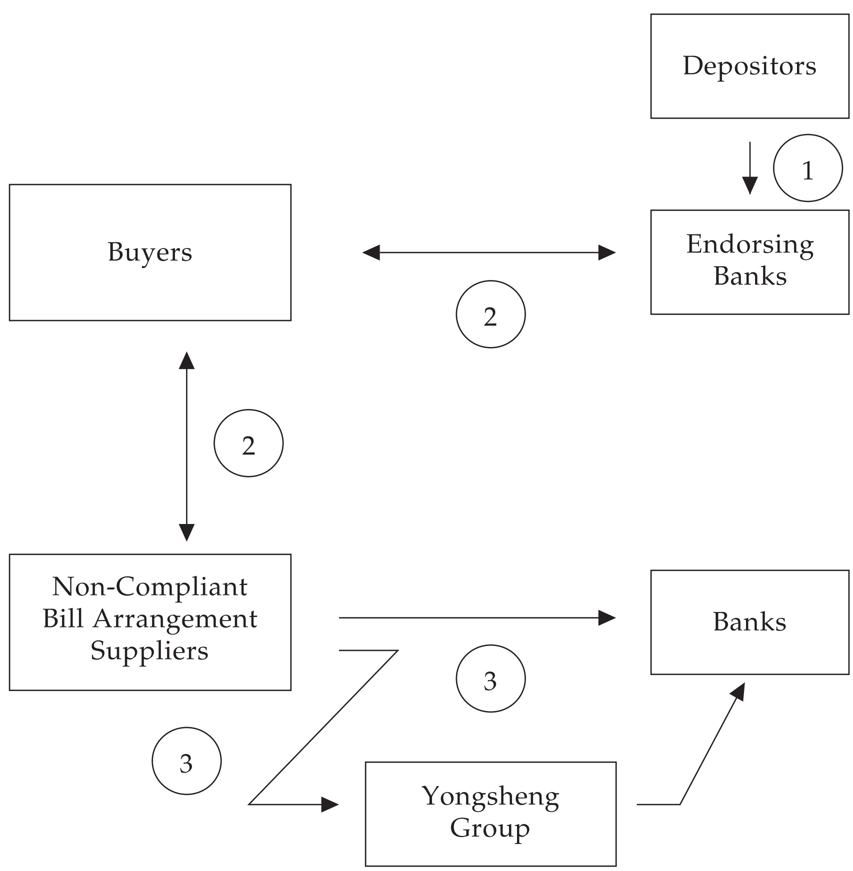
During the Track Record Period, six commercial banks in the PRC ("**Endorsing Banks**") requested Yongsheng Group (the trading business of which is part of our business operations at the relevant time prior to the completion of the Reorganisation), Hangzhou Yongsheng Trading and Yongsheng Chemical Fiber ("**Depositors**") to deposit certain amount as fixed deposit ("**Fixed Deposit**") in the Endorsing Banks in order to increase the business amount of the Endorsing Banks. Due to the Depositors' intention to maintain a long term business relationship with the Endorsing Banks, the Depositors have agreed to the arrangement and the Depositors had deposited the Fixed Deposit in the Endorsing Banks.

Non-Compliant Bill Arrangement

As the Fixed Deposit placed at the Endorsing Banks could not be utilised for a certain period by the Depositors, the Depositors entered into the Non-Compliant Bill Arrangement (as defined below) in order to gain access to the Fixed Deposit. The Non-Compliant Bill Arrangement was conducted by presenting certain supply contracts by Yongsheng Group, Hangzhou Yongsheng Trading and Yongsheng Chemical Fiber ("**Buyers**") to the Endorsing Banks for issuance of bank acceptance notes for purchasing raw materials as stipulated in such supply contracts, but the proceeds from the bank acceptance notes were not used for purchasing supplies. In order for the Endorsing Banks to issue the bank acceptance notes, a security deposit which equals 100% of the value of the bank acceptance notes is required.

As a result, various supply contracts with an aggregate purchase amount net of tax of approximately RMB112.5 million were presented by the Buyers to these Endorsing Banks to issue the bank acceptance notes for an aggregate amount of approximately RMB101.5 million. These supply contracts were genuine supply contracts entered into with certain suppliers ("**Non-Compliant Bill Arrangement Suppliers**") (including Hangzhou Yongsheng Trading (supplier of Yongsheng Group), Yongsheng Group (supplier of our Group) and two Independent Third Parties (each a supplier of our Group)) for procurement of raw materials during the Track Record Period, and the related underlying transactions had been completed. However, as confirmed by our Directors, these supply contracts were presented again to the Endorsing Banks for issuance of bank acceptance notes pursuant to certain credit agreements entered into between the Buyers and the Endorsing Banks, with the security deposit being the Fixed Deposit placed at the Endorsing Banks by the Depositors. The bank acceptance notes were then presented to the Non-Compliant Bill Arrangement Suppliers, which would either cash out the notes itself (in the case of Yongsheng Group or Hangzhou Yongsheng Trading), or endorse the notes back to Yongsheng Group (in the case of the two Independent Third Parties). In this arrangement, the Fixed Deposit at the bank could be utilised through cashing out the bank acceptance notes by Yongsheng Group or Hangzhou Yongsheng Trading and be returned to our business operation as cash for our usage. The presentation of such supply contracts to the Endorsing Banks for issuance of bank acceptance notes to the Non-Compliant Bill Arrangement Suppliers, with the proceeds being used for purposes other than for payment of purchases from the Non-Compliant Bill Arrangement Suppliers ("**Non-Compliant Bill Arrangement**"), did not comply with the terms of the credit agreements and Article 10 of the *PRC Negotiable Instruments Law*. As we were only utilising the Fixed Deposit, no extra financing was received by our Group through the Non-Compliant Bill Arrangement and such arrangement had no material impact to our Group's financial position during the Track Record Period; and our Directors expect that the absence of the Non-Compliant Bill Arrangement will not have any material impact on our Group's financial position going forward. We estimated that extra interest expenses (net of interest received from the Fixed Deposit and interest expenses incurred from the Non-Compliant Bill Arrangements) for each of the three years ended 31 December 2012 amounted to approximately RMB119,000, RMB206,000 and RMB357,000 respectively.

The diagram below illustrates the details of the Non-Compliant Bill Arrangement:



Notes:

(1) Depositors deposited the Fixed Deposit in the Endorsing Banks in order to increase the business of the Endorsing Banks due to the Depositor's intention to maintain a long term business relationship with the Endorsing Banks.

(2) Supply contracts, which Buyers entered into with the Non-Compliant Bill Arrangement Suppliers during their normal business operation and which the related underlying transactions had been completed, were presented again to the Endorsing Banks for issuance of bank acceptance notes, with the security deposit being the Fixed Deposit placed at the Endorsing Banks by the Depositors. The Endorsing Banks then entered into certain credit agreements with us for issuing the bank acceptance notes to the Buyers and the Buyers then presented such bank acceptance notes to the Non-Compliant Bill Arrangement Suppliers.

(3) If the Non-Compliant Bill Arrangement Supplier was either Yongsheng Group or Hangzhou Yongsheng Trading, they would present the bank acceptance notes to the banks to cash out. If the Non-Compliant Bill Arrangement Supplier was an Independent Third Party, the Independent Third Party would endorse the bank acceptance notes to Yongsheng Group. Yongsheng Group then presented the bank acceptance notes to the banks to cash out.

In order to maintain long term business relationship with the Endorsing Banks, the Depositors deposited the Fixed Deposit in the Endorsing Banks at its request and such Fixed Deposit could not be utilised for a certain period by the Depositors. The principal reason for the Non-Compliant Bill Arrangements, as confirmed by our Directors, was to utilise the Fixed Deposit placed at the Endorsing Banks by the Depositors through the above means.

To the best knowledge and belief of our Directors, the Non-Compliant Bill Arrangement Suppliers who are Independent Third Parties were willing to engage in the Non-Compliant Bill Arrangements because of their business relationships with us. Our Directors confirmed that we had not been involved in any similar bill arrangement for the benefit of the Non-Compliant Bill Arrangement Suppliers who are Independent Third Parties during the Track Record Period. Our Directors confirmed that they or any of the respective directors of each of the Non-Compliant Bill Arrangement Suppliers who are Independent Third Parties or their associates did not receive any amount as rebate or benefits in connection with the Non-Compliant Bill Arrangement.

The abovementioned Non-Compliant Bill Arrangement commenced in September 2009. Our Directors confirmed that we ceased entering into any further non-compliant bill arrangement since October 2011, immediately when we realised that such non-compliant bill arrangement do not comply with the relevant rules and regulation, and we fully settled all bank acceptance notes involved on or before April 2012.

Save for Mr. Li CH and Mr. Ye Hongfu, the vice general manager of Yongsheng Chemical Fiber, who were involved in the authorisation of the Non-Compliant Bill Arrangement, none of our Directors or senior management was involved in the Non-Compliant Bill Arrangement. Our Directors confirmed that they have not obtained any personal benefit directly or indirectly from the Non-Compliant Bill Arrangement. Mr. Li CH and Mr. Ye Hongfu further confirmed that they authorised such Non-Compliant Bill Arrangement because they did not have the relevant legal knowledge at the time when they authorised such Non-Compliant Bill Arrangement and was not adequately advised by professionals on matters pertaining to bill arrangement. Our Directors (including our independent non-executive Directors) have undertaken to procure us not to engage in or not to permit the engagement in Non-Compliant Bill Arrangement activities in the future. We have also taken a series of actions to address and rectify this non-compliance, details of which are set out in the sub-paragraph headed "Strengthening our internal control system and corporate governance measures" below.

Our Directors and the Sponsor, based on the due diligence which it has conducted, are of the view that Mr. Li CH, who was involved in the Non-Compliant Bill Arrangement, has the character, experience and integrity required for a Director under Rule 3.08 and Rule 3.09 of the Listing Rules on the following bases:

A. Mr. Li CH has not obtained any personal benefit directly or indirectly from the Non-Compliant Bill Arrangement;

B. the advice of our PRC Legal Advisers that no fraudulent activities were involved in the Non-Compliant Bill Arrangement and did not constitute fraud under the *PRC Negotiable Instruments Law*;

C. the confirmation from five out of six of the Endorsing Banks that the Non-Compliant Bill Arrangement did not constitute fraud;

D. the confirmation from the Endorsing Banks that they, in general, did not incur any loss as a result of the Non-Compliant Bill Arrangement and will not take any action against our Group as a result of the Non-Compliant Bill Arrangement;

E. the respective letter from Xiaoshan Branch of the PBOC and Zhejiang Branch of China Banking Regulating Commission ("**CBRC**") that since 2010, they had not implemented any punitive measures against our Group or the Endorsing Banks regarding any Non-Compliant Bill Arrangement;

F. the advice of our PRC Legal Advisers that our Controlling Shareholders, Directors and senior management will not be personally liable for any civil claim or be imposed upon any administrative punishment in relation to the Non-Compliant Bill Arrangement;

G. as at the Latest Practicable Date, to the best of our Directors' knowledge having made reasonable enquiry, there were no legal proceedings against Mr. Li CH in the PRC and Hong Kong;

H. Mr. Li CH's substantial experience in the textile industry; and

I. the undertaking by Mr. Li CH that he will attend training courses regarding relevant laws and regulations to be conducted by professional training providers accredited by the relevant professional bodies in the areas of financial management, corporate governance and the Listing Rules whenever there is any update to the relevant laws and regulations after the Listing.

Confirmation from Relevant Government Authorities

On 22 February 2013, the Xiaoshan Branch of the Development and Reform Commission enquired with the Xiaoshan Branch of the PBOC, which confirmed on 5 March 2013 that since 2010, they had not implemented any punitive measures against our Group regarding any Non-Compliant Bill Arrangement. Also, on 22 February 2013, the Xiaoshan Branch of the Development and Reform Commission enquired with the Zhejiang Branch of the CBRC, which confirmed on 27 March 2013 that since 2010, they had not identified any breach of PRC laws and regulations pertaining to the bill arrangement by our Group and had not implemented any punitive measures against the Endorsing Banks regarding any Non-Compliant Bill Arrangement. Xiaoshan Branch of PBOC and Zhejiang Branch of CBRC confirmed that none of them has implemented any punitive measures in relation to the Non-Compliant Bill Arrangement against Yongsheng Group, Hangzhou Yongsheng Trading, Yongsheng Chemical Fiber and Yongsheng Weaving, but are silent about our Company, our Directors and senior management.

As at the Latest Practicable Date, we had not received any notice of formal investigation or inquiry regarding the Non-Compliant Bill Arrangement from such government authority.

Confirmation from the Relevant Endorsing Banks

In January and February 2013, each of the Endorsing Banks involved in the Non-Compliant Bill Arrangement, in general, confirmed in writing that:

A. all bank acceptance notes in respect of the Non-Compliant Bill Arrangement have matured and settled;

B. the Non-Compliant Bill Arrangement will not have an adverse effect on any future business relationships between the relevant Endorsing Banks and us;

C. they did not incur any loss as a result of the Non-Compliant Bill Arrangement;

D. they will not take any legal action against us, our shareholders, directors and senior management in connection with the Non-Compliant Bill Arrangement; and

E. five out of six of the Endorsing Banks have further confirmed in writing that the Non-Compliant Bill Arrangement did not constitute fraud under relevant PRC regulation.

To the best knowledge and belief of our Directors, due to its internal procedure and practices, the remaining Endorsing Bank did not confirm in writing in respect of paragraph (E) above. The Sole Sponsor had conducted a physical interview with the assistant to the general manager of the business department of the remaining Endorsing Bank, at which such responsible personnel confirmed verbally that the Non-Compliant Bill Arrangement did not constitute fraud under relevant PRC regulation. Given that such responsible personnel has been in charge of the loan and credit transactions with our Group since 2008, our Directors consider the said responsible personnel is a competent person in providing the confirmation.

Opinion from our PRC Legal Advisers

Our PRC Legal Advisers advised that the presentation of such supply contracts to the Endorsing Banks for issuance of bank acceptance notes to the Non-Compliant Bill Arrangement Suppliers with the use of proceeds for purposes other than for payment of purchases from the Non-Compliant Bill Arrangement Suppliers did not comply with the terms of the credit agreements and Article 10 of the *PRC Negotiable Instruments Law* (中華人民共和國票據法). However, bank acceptance notes issued by us in respect of the Non-Compliant Bill Arrangement were for the purpose of our working capital and not for the purpose of illegal possession and all the relevant fund has been fully repaid to the Endorsing Banks, and as a result, there were no acts of criminal fraudulent activities (such as forgery and issuance of dishonoured cheque) prescribed by the *PRC Negotiable Instruments Law.*

According to our PRC Legal Advisers, there are no specific provisions in the *PRC Negotiable Instruments Law* prescribing definitive administrative penalties for such issuance of bank acceptance notes. Moreover, Article 4 of the *PRC Administrative Penalty Law* (中華人民共和國行政處罰法) stipulated that "regulations which are not published shall not be taken as the basis for administrative penalties". The *PRC Criminal Law* (中華人民共和國刑法) also provides that for those acts that are not explicitly defined as criminal acts in law, the offenders shall not be convicted or punished. Furthermore, our PRC Legal Advisers advise that none of the relevant PRC laws and regulations, including *PRC Law on Negotiable Instruments, Measures for the Implementation of Administration of Negotiable Instruments* (票據管理實施辦法), *Measures for the Payment and Settlement* (支付結算辦法) and *Circular of PBOC on Issues of Improvement of Negotiable Instruments System* (中國人民銀行關於完善票據業務制度有關問題的通知), explicitly provide any punitive measures against any company or any person in relation to the Non-Compliant Bill Arrangement.

Furthermore, the full amounts of the bank acceptance notes in respect of the Non-Compliant Bill Arrangement have been repaid to the Endorsing Banks, without causing any damage or loss to the Endorsing Banks. As at the Latest Practicable Date, we were not aware of any dispute or civil claim regarding the Non-Compliant Bill Arrangement against us. Our Controlling Shareholder, Mr. Li and Ever Thrive, has undertaken to indemnify our Group against all liabilities arising from the Non-Compliant Bill Arrangement and provide full compensation if required.

To assess the potential legal implications of the Non-Compliant Bill Arrangement for us, our Directors and senior management, have sought legal advice from our PRC Legal Advisers. Our PRC Legal Advisers have advised that:

A. the Non-Compliant Bill Arrangement did not involve any fraud, bribery or other illegal activities under *PRC Negotiable Instruments Law* and we will not have any legal liability under any civil claim arising from the Non-Compliant Bill Arrangement;

B. the PBOC and CBRC are the regulatory authorities which may determine whether there is any breach of PRC laws and regulations, or impose any liability, in relation to the Non-Compliant Bill Arrangement. Since our Group is based in Xiaoshan, the PRC, the Xiaoshan Branch of PBOC, and the Zhejiang Branch of the CBRC, which issued the confirmations, are the competent and appropriate government authorities to consult on this matter. The Sole Sponsor concurs with our PRC Legal Advisers' view that the aforementioned authorities are the competent and appropriate government authorities, to consult in relation to the Non-Compliant Bill Arrangement;

C. there are no specific provisions in the *PRC Negotiable Instruments Law* prescribing definitive administrative penalties for such issuance of bank acceptance notes and there are no relevant PRC laws or regulations, nor are there any relevant rules promulgated by the PBOC imposing administrative or criminal liability in respect of such Non-Compliant Bill Arrangement. Hence, there is no legal basis for any punitive measures to be implemented against our Directors and senior managements who are involved in the Non-Compliant Bill Arrangement;

D. our Controlling Shareholders, Directors and senior management will not be personally liable for any civil claim or be imposed upon any administrative punishment; and

E. since our Company was not involved in any of the Non-Compliant Bill Arrangement, our Company did not violate any PRC laws and regulations in relation to the Non-Compliant Bill Arrangement and thus would not be punished.

As a result, our PRC legal advisers are of the view that the relevant PRC governmental authorities will not impose any administrative or criminal liabilities on our Group, our Directors and senior management.

As all parties involved in the Non-Compliant Bill Arrangement are companies and banks in the PRC, all the transactions contemplated thereby happened within the territory of the PRC and all the money involved therein are RMB, the Non-Compliant Bill Arrangement did not involve foreign exchange and interest rate speculation as may be involved in the "overseas loan under domestic guarantee" (內保外貸) arrangements.

Conclusion

Our Directors, based on the factors summarised below, are of the view that no fraudulent activities as prescribed under the *PRC Negotiation Instrument Laws* were involved in the Non-Compliant Bill Arrangement:

(a) the written confirmations from the Endorsing Banks stating that (i) the Endorsing Banks did not incur any loss as a result of the Non-Compliant Bill Arrangement, (ii) they, in general, will not take legal actions against any of us, our shareholders, Directors and senior management in connection with the Non-Compliant Bill Arrangement;

(b) the written confirmation from the Xiaoshan Branch of PBOC that since 2010 they had not implemented any punitive measures against our Group regarding any Non-Compliant Bill Arrangement;

(c) the written confirmation from the Zhejiang Branch of CBRC that since 2010, they had not identified any breach of PRC laws and regulations pertaining to the bill arrangement by our Group and had not implemented any punitive measures against the Endorsing Banks regarding any Non-Compliant Bill Arrangement; and

(d) the view of our PRC Legal Advisers that no acts of criminal fraudulent activities (such as forgery and issuance of dishonoured cheque) as prescribed by the *PRC Negotiable Instrument Law* were involved in respect of the Non-Compliant Bill Arrangement.

Having considered, among others, (i) our Directors' view above; (ii) the advice from our PRC Legal Advisers set out above; (iii) the confirmation from the Endorsing Banks; and (iv) the confirmation from the respective branches of PBOC and CBRC, the Sole Sponsor concurs with our Directors' view that no fraudulent activities as prescribed under the *PRC Negotiation Instrument Law* were involved in the Non-Compliant Bill Arrangement.

Strengthening our internal control system and corporate governance measures

We have adopted a series of rectifying measures to ensure our compliance with the relevant law and regulation, and the status of rectification work performed is as follows:

Rectifying measures	Status of rectification work
• segregation of the power between finance department (to make application for issuance of bank acceptance note) and Mr. Li (to approve the issuance of bank acceptance note)	• procedure implemented since March 2013
• keeping record of bank acceptance notes to record and manage the issuance of bank acceptance	• procedure implemented since March 2013
• our finance department to perform periodic check to identify any discrepancy between the note payables issued and the actual underlying transactions	• procedure implemented since March 2013
• our internal control department to perform periodic check on the compliance regarding non-compliance bill arrangement	• no non-compliance bill arrangement incident is noted since April 2012
• our PRC Legal Advisers provided relevant training to our management personnel (including Mr. Li M, Mr. Li CH and Mr. Ye Hongfu) in July 2013	• completed in July 2013
• our legal advisers and our trained management personnel will provide relevant training to all newly appointed Directors or relevant staff	• ongoing

In order to ensure that our Directors will be fully aware of their duties and responsibilities as directors of a public listed company, and keep abreast of the Listing Rules and legal requirements in Hong Kong and the PRC, we have established a compliance manual setting out the corporate governance policies in compliance with the Listing Rules and training was provided by our Hong Kong legal advisers to our Directors on their duties and responsibilities under the Listing Rules and legal requirements in

Hong Kong. On-going training on the Listing Rules, and in particular the respective duties and responsibilities of directors and senior management of a listed company, will be provided by our Hong Kong legal advisers to our Directors and senior management after Listing.

We will continue to appoint legal advisers as to the laws of Hong Kong and the PRC, respectively, after the Listing to advise our Group on the laws and regulations of Hong Kong (in particular the requirements under the Listing Rules) and the PRC, respectively. We will also appoint the Sole Sponsor as our compliance adviser to assist us with compliance matters and issues in relation to the Listing Rules and seek external legal advice where appropriate and necessary on the compliance matters after Listing.

In addition, we will appoint an independent external consultant for at least the next 12 months after the Listing to examine and monitor the bill financing activities periodically for compliance with the rectifying measures upon the Listing and provide reports for the Audit Committee to review and inclusion in our Company's annual internal control review report, and the findings of the consultant will be disclosed in the corporate governance report of our annual reports for the two full financial years after Listing.

In accordance with the Rule 3A.15(5) of the Listing Rules, the Sponsor has made reasonable due diligence inquiries and has reasonable grounds to believe and does believe that our Company has established procedures, systems and controls (including accounting and management systems) which are adequate and effective.

Indemnity from Controlling Shareholders

Our Controlling Shareholders have undertaken to fully indemnify us from any and all liabilities arising from the Non-Compliant Bill Arrangement.

Inter-enterprise lending

During the Track Record Period, our PRC Subsidiaries might had surplus and/or shortage of funding from time to time. Therefore, with a view to better utilisation of funding from a holding company perspective, as confirmed by the directors of Yongsheng Group, Yongsheng Group was responsible for allocation of funding among our PRC Subsidiaries from time to time so that excess funding from each of our PRC Subsidiaries would be transferred to Yongsheng Group which would in turn transferred to our other subsidiaries and/or other affiliates of Yongsheng Group, which were in need of funding for their business operations. Funding transfers from each of our PRC Subsidiaries to Yongsheng Group were recorded as advances to Yongsheng Group and interests were charged based on the prevailing interest rates of bank borrowings. On the other hand, funding transfers from Yongsheng Group to each of our PRC Subsidiaries were recorded as advances from Yongsheng Group and interests were also charged based on the prevailing interest rates of bank borrowings. Since January 2013, we ceased such funding transfers with Yongsheng Group in preparation for the Listing.

For each of the three years ended 31 December 2012, our lending from our PRC Subsidiaries to Yongsheng Group amounted to approximately RMB928.6 million, RMB760.4 million and RMB446.1 million respectively. As at 31 December 2012, the balance of all the abovementioned inter-enterprise lending has been fully repaid.

As advised by our PRC Legal Advisers, in accordance with 貸款通則 (the Lending General Provision*), non-banking institutions are not permitted to engage in financial lending business in the PRC. Our PRC Legal Advisers are of the view that we breached the Lending General Provision by engaging in the inter-enterprise lending. As such, the PBOC may conduct an investigation and impose a fine which amounts to one to five times of our income resulting from the inter-enterprise lending, i.e. the interests thereof. We accrued interest income resulted from the inter-enterprise lending at approximately RMB6.6 million, RMB5.3 million and RMB8.3 million for each of the three years ended 31 December 2012 respectively.

Taken into account that (i) as at 31 December 2012, balance of all the inter-enterprise lending has been fully repaid; (ii) parties to the inter-enterprise lending has confirmed that there were no dispute between us and Yongsheng Group regarding the inter-enterprise lending; and (iii) the written confirmation issued by the Xiaoshan Branch of the PBOC, being the competent authority to govern on inter-enterprise lending as advised by our PRC Legal Advisers, on 25 February 2013 stating that (a) our PRC Subsidiaries were of good credit records and there were no previous punitive records against our PRC Subsidiaries for violation of relevant laws and regulations; and (b) as at the date of the confirmation, since the balance of all the inter-enterprise lending has been fully repaid and without dispute, PBOC would not impose any disciplinary penalty against our PRC Subsidiaries in relation to the inter-enterprise lending; our PRC Legal Advisers advised that no legal proceedings would be initiated and no disciplinary penalty would be imposed by the competent authority on our PRC Subsidiaries in relation to the inter-enterprise lending.

Non-compliance with PRC social insurance and housing provident fund contribution requirements

We are required under the relevant PRC laws and regulations to contribute to employee social welfare schemes, such as basic pension insurance, basic medical insurance, unemployment insurance, maternity insurance, occupational injury insurance (together, "**social insurance**") and housing provident fund for the benefit of our employees. During the Track Record Period, we did not make full social insurance and housing provident fund contributions for all of our respective employees as required under the relevant national PRC laws and regulations. So far as our Directors are aware, such failure was due to some of our employees' unwillingness to participate in such social insurance and housing provident fund contributions, or that the relevant accounts were not set up accordingly for payment of the housing provident fund by the employees at that time.

Maximum exposure to our Group in respect of non-compliance concerning social insurance and housing provident fund contributions is summarised below:

	Year ended 31 December			Six months ended 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Underpaid social insurance contributions	528	629	574	122
Underpaid housing provident fund	593	812	768	90
Penalty	–	17	171	116
Total exposure	1,121	1,458	1,513	328

As (i) our PRC Subsidiaries had each set up accounts to make social insurance and housing provident fund contributions in accordance with the relevant PRC laws and regulations; (ii) our PRC Subsidiaries have made contributions for social insurance and housing provident fund from March 2013 onwards in compliance with the relevant PRC laws and regulations and local policies; and (iii) the competent local authorities have acknowledged that the underpaid social insurance and housing provident fund contributions of our PRC Subsidiaries; our PRC Legal Advisers are of the view that the risk of having administrative penalty and retrospective payment imposed against our Group in relation to underpaid social insurance and housing provident fund contributions is remote.

Further, as at the Latest Practicable Date, in addition to the views of our PRC Legal Advisers, to the best knowledge of our Directors:

A. since the respective establishment of our PRC Subsidiaries, we had not been subject to any administrative penalty actions in respect of the above non-compliance; and

B. we were not aware of any proceedings, claims, or disputes brought by our employees regarding social insurance or housing provident fund contributions against us.

We had made provisions in relation to the underpaid social insurance and housing provident fund contributions during the Track Record Period and would undertake to pay the retrospective underpaid amount if requested by the competent authorities. Taken into account the above factors and as advised by our PRC Legal Advisers, our Directors share the same view that the risk of having administrative penalty imposed against our Group in relation to underpaid social insurance contributions and housing provident fund contributions is remote, hence our Group did not make provision for the penalties relating to the non-compliance with the PRC social insurance and housing provident fund contributions. Based on the above, the Sole Sponsor concurs with the view of our Directors that the provisions made for the underpaid social insurance and housing provident fund contributions is appropriate. We believe that the aforesaid non-compliance would not cause material impact on the business operation of our PRC Subsidiaries.

Properties

One of our production bases is located in Nantong. We own the land use rights for our Nantong Facilities which occupies a site area of approximately 37,000 square metres. As at the Latest Practicable Date, we have obtained the building ownership certificates for 11 out of 12 buildings with an aggregate gross floor area of approximately 19,300 square metres. We are not able to obtain the building ownership certificate for one building ("**Defective Building**") with gross floor area of approximately 70 square metres. As advised by our PRC Legal Advisers, as we are not able to obtain the building ownership certificate for the Defective Building, the transfer, lease, mortgage, or disposal of the Defective Building would be restricted.

At the time when we acquired the production base in Nantong through auction in June 2010, we are not provided with the building ownership certificates for seven buildings. Due to inadequate understanding of the regulatory requirements, we omitted to apply for the relevant building ownership certificates thereafter. Save for the Defective Building, we subsequently obtained the relevant building ownership certificates for six buildings on 21 May 2013. As advised by our PRC Legal Advisers, since the site where the Defective Building situated failed to meet the construction requirements stipulated in the Provisions of Nantong Municipality on Management Technique of City Planning (南通市區城市規劃管理技術規定), the governmental authority did not agree to issue the construction project planning permit regarding the Defective Building. Since the obtaining of which is a pre-requisite requirement of applying building ownership certificate, there would be legal impediment in obtaining the building ownership certificate for the Defective Building. Our PRC Legal Advisers advised that there was a possibility that the Defective Building would be construed as an illegal building and ordered to be demolished by the relevant PRC governmental authorities with a potential penalty in an amount between 5% and 10% of the construction cost of such building. Accordingly, as the construction cost of the Defective Building was approximately RMB36,000, the potential monetary liability imposed on our Group as to the Defective Building would be between approximately RMB1,800 and RMB3,600. However, since we are not able to obtain the building ownership certificate, the existing title defects will prevent the Defective Building from being bought, sold or being accepted by banks as security for mortgages. The estimated time and cost for demolishment of the Defective Building would be approximately RMB2,000 and two days respectively.

However, we have obtained the confirmation from Nantong Economic and Technological Development Area Planning and Real Estate Authority confirming that we will not be required to demolish the Defective Building and the relevant PRC governmental authorities will also not impose any penalties on us in respect of the Defective Building. According to the PRC Urban and Rural Planning Law (中華人民共和國城市規劃法), where an entity engages in construction without obtaining the construction project planning permit or without complying with the provisions in the said permit, the department in charge of urban and rural planning under the local people's government at or above the county level shall have the right to order the entity to demolish the construction within a time limit if no measures for discontinuation and rectification can be adopted. Taking into account that: (i) urban and rural planning of Nantong Economic and Technological Area is one of the major responsibilities of Nantong Economic and Technological Development Area Planning and Real Estate Authority, a government authority at the county level, as shown on its official website; (ii) Nantong Yongsheng is a company located in such area; and (iii) Nantong Economic and Technological Development Area Planning and Real Estate Authority has issued a confirmation letter (dated 13 August 2013) to confirm its competency, our PRC Legal Advisers are of the view that Nantong Economic and Technological Development Area Planning and Real Estate Authority is the competent authority to confirm that the Defective Building will not be required to be demolished.

Further, our Directors confirm that the Defective Building was previously used as warehouse for storage and other ancillary purpose and had been vacated and no longer in use at the Latest Practicable Date. Our Directors further confirmed that the Defective Building could be demolished if necessary. As the Defective Building only accounted for approximately 0.35% of the site area of the Nantong Facilities, therefore our Directors are of the view that the inability to obtain building ownership certificate for the Defective Building or demolishment of the Defective Building, if necessary, would not affect the production, operation and business of Nantong Yongsheng, hence the financial position of our Group.

Our PRC Legal Advisers provided relevant training regarding the PRC property laws and regulations to Mr. Shi Hongxing, Mr. Li M and our staff of finance department on 12 July 2013 in order to ensure compliance in the future.

Registered capital of Yongsheng Chemical Fiber

On 28 April 2004, Yongsheng Chemical Fiber was established by Yongsheng Group and HUVIS with a registered capital of RMB50,000,000 as a sino-foreign joint venture company. As advised by our PRC Legal Advisers, the respective shareholders shall pay up the registered capital as stipulated in the joint venture agreement and the then articles of association of Yongsheng Chemical Fiber to set up Yongsheng Chemical Fiber according to the relevant PRC sino-foreign joint venture laws and regulations, but the registered capital were not paid up according to the time limit stipulated under the said agreement and articles of association. As advised by our PRC Legal Advisers, since (i) all the then shareholders, namely Yongsheng Group and HUVIS, did not pay up for their respective equity interest, in which, as advised by our PRC Legal Advisers, both of them had breached the joint venture agreement; (ii) Yongsheng Chemical Fiber had obtained an approval on 8 December 2005 for the extension of registered capital payment; and (iii) Yongsheng Chemical Fiber further obtained a confirmation on 22 February 2013 from the relevant PRC governmental authorities regarding that during the period between 1 January 2006 and 21 February 2013, there had not been any records of administrative penalty being imposed on Yongsheng Chemical Fiber. As advised by our PRC Legal Advisers, based on the above, the non-compliance as stated above would not affect the effective legal status of Yongsheng Chemical Fiber.

Non-compliance with environmental regulations

Yongsheng Dyeing

In 2003, the relevant PRC authorities approved the construction of production facilities at Yongsheng Dyeing. However, the production facilities were in operation before the relevant checks and acceptance procedures were approved by the authorities in 2007, which is not in compliance with the relevant PRC laws and regulations. As advised by our PRC Legal Advisers, as (a) Yongsheng Dyeing has obtained confirmations from the relevant PRC governmental authorities on 20 and 21 February 2013 respectively confirming that Yongsheng Dyeing had obtained all the necessary environmental approvals for its operations, and that there is no breach and penalty in relation to the relevant PRC environmental laws and regulations; (b) the relevant checks and acceptance procedures were approved in July 2007; and (c) there is a limitation period of two years from the day of the breach regarding administrative penalties being imposed. Therefore, as advised by our PRC Legal Advisers, there should not be any administrative penalty being imposed.

Yongsheng Chemical Fiber

In 2005, the relevant PRC authorities approved the construction of production facilities at Yongsheng Chemical Fiber. However, the production facilities were in operation before the relevant checks and acceptance procedures were approved by the authorities in 2012, which is not in compliance with the relevant PRC laws and regulations. As advised by our PRC Legal Advisers, as (a) Yongsheng Chemical Fiber has obtained confirmations from the relevant PRC governmental authorities on 20 and 21 February 2013 respectively confirming that Yongsheng Chemical Fiber had obtained all the necessary environmental approvals for its operations, and that there is no breach and penalty in relation to the relevant PRC environmental laws and regulations; (b) the relevant checks and acceptance procedures were approved in November 2012; and (c) there is a limitation period of two years from the day of the breach regarding administrative penalties being imposed. Therefore, as advised by our PRC Legal Advisers, there should not be any administrative penalty being imposed.

Nantong Yongsheng

In 2011, the relevant PRC authorities approved the construction of production facilities at Nantong Yongsheng. However, the production facilities were in operation before the relevant checks and acceptance procedures were approved by the authorities in 2013, which is not in compliance with the relevant PRC laws and regulations. As advised by our PRC Legal Advisers, as (a) Nantong Yongsheng has obtained confirmations from the relevant PRC governmental authorities on 7 and 13 February 2013 respectively confirming that Nantong Yongsheng had obtained all the necessary environmental approvals for its operations, and that there is no breach and penalty in relation to the relevant PRC environmental laws and regulations; and (b) the relevant checks and acceptance procedures were approved in March 2013. Therefore, as advised by our PRC Legal Advisers, there should not be any administrative penalty being imposed.

Save as disclosed above, as advised by our PRC Legal Advisers, our PRC Subsidiaries obtained all requisite certificates, permits and licences from the relevant regulatory authorities in the PRC in relation to their establishment and business operations, and complied with the relevant laws and regulations in relation to their operations in all material respects during the Track Record Period.

During the Track Record Period and up to the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to our Directors to be pending or threatened by or against any member of our Group.

As at the Latest Practicable Date, remedial actions have been taken and measures have been put in place by us to prevent recurrence of all such non-compliance incidents in the future.

Non-compliant incidents	Responsible personnel, cause(s) of non-compliance, legal consequences and any potential penalties and financial losses	Remedial actions	Time of implementation of remedial actions	Personnel in charge of the rectification	Monitoring process after implementation of the remedial actions	Implementation time of internal control measures
Non-compliant bill arrangement						
We used the proceeds from bank acceptance notes for purposes other than for payment of purchase from the Non-Compliant Bill Arrangement Suppliers *(Note)*	Mr. Li CH and Mr. Ye Hongfu, the vice general manager of Yongsheng Chemical Fiber, were involved in such non-compliant incident. Our Directors confirm that such arrangements was to utilise the Fixed Deposit placed at the Endorsing Bank. According to our PRC Legal Advisers, there are no specific provisions in the *PRC Negotiable Instruments Law* prescribing definitive administrative penalties for such issuance of bank acceptance notes. Our PRC Legal Advisers are of the view that the relevant PRC governmental authorities will not impose any civil or criminal liabilities on our Group, our Directors and senior management.	We ceased entering into any further non-compliant bill arrangement activities since October 2011 and all related bills involved in the Non-Compliant Bill Arrangement were fully settled on or before April 2012.	• Completed in April 2012	Mr. Li M, head of internal audit department	• Segregation of the power between finance department (to make application for issuance of acceptance note) and Mr. Li (to make approval of the issuance acceptance note) • Record on bank acceptance notes is required to be made in order to record and manage the bank acceptance note being issued • The finance department of our Group to perform periodic department check to identify any discrepancy between the note payables issued and the actual underlying transactions	• Procedure implemented since March 2013 • Procedure implemented since March 2013 • Procedure implemented since March 2013

Non-compliant incidents	Responsible personnel, cause(s) of non-compliance, legal consequences and any potential penalties and financial losses	Remedial actions	Time of implementation of remedial actions	Personnel in charge of the rectification	Monitoring process after implementation of the remedial actions	Implementation time of internal control measures
					• The internal control department of our Group to perform periodic check on the compliance regarding non-compliance bill arrangement	• No non-compliance bill arrangement is noted since April 2012
					• Our PRC Legal Advisers provided relevant training to our management personnel (including Mr. Li M, Mr. Li CH and Mr. Ye Hongfu) in July 2013	• Completed in July 2013
					• Our legal advisers and our trained management personnel will provide relevant training to all newly appointed Directors or relevant staff	• Ongoing

Non-compliant incidents	Responsible personnel, cause(s) of non-compliance, legal consequences and any potential penalties and financial losses	Remedial actions	Time of implementation of remedial actions	Personnel in charge of the rectification	Monitoring process after implementation of the remedial actions	Implementation time of internal control measures
Inter-enterprise lending						
Our Group engaged in inter-enterprise lending with Yongsheng Group between 2010 and 2011	Mr. Li M, former head of accounting department, was involved in such non-compliant incident. Our Directors confirmed that the arrangement of such inter-enterprise lending between our Group and Yongsheng Group was made out of management decision to utilise surplus financial resources among Yongsheng Group and its then subsidiaries, a group of companies in which Mr. Li exercised control prior to our Reorganisation. The PBOC can impose on our Group a fine which amounts to one to five times of our Group's income resulting from the inter-enterprise lending, i.e., the interests thereof. As confirmed by the Xiaoshan Branch of the PBOC and advised by our PRC Legal Advisers, no disciplinary penalty would be imposed by the competent authority on our PRC Subsidiaries in relation to the inter-enterprise lending, therefore no provision has been made in our financial statements.	As at 31 December 2012, balance of all the inter-enterprise lending has been fully repaid.	Completed in December 2012	Mr. Leung Ho Yan, Julian, our financial controller	Mr. Leung Ho Yan, Julian, our financial controller, to ensure that approval by the general manager is required for any lending transactions and that no further inter-enterprise lending shall be entered into. Our finance department will monitor all lending transactions in a timely manner and report to our Directors if any inter-enterprise lending occurs.	January 2013

Non-compliant incidents	Responsible personnel, cause(s) of non-compliance, legal consequences and any potential penalties and financial losses	Remedial actions	Time of implementation of remedial actions	Personnel in charge of the rectification	Monitoring process after implementation of the remedial actions	Implementation time of internal control measures
Housing provident fund contributions						
We did not timely provide housing provident fund contributions for certain employees *(Note)*	Mr. Xu Bing, head of human resources, was involved in such non-compliant incident. So far as our Directors are aware of, such failure was due to some of our employees' unwillingness to participate in such housing provident fund contributions or relevant accounts were not set up for payment of housing provident fund. Our PRC Legal Advisers advised that the relevant housing provident fund authority in the PRC may require our PRC Subsidiaries to make up for the previously underpaid housing provident fund contributions. Please refer to the paragraph headed "Social insurance" under the section headed "Regulatory Overview" of the prospectus for a detailed description of the penalties. However, as our Group has taken the remedial actions, and pursuant to the consultations with the relevant governmental authorities, our PRC Legal Advisers advised that the risk of penalty and making of retrospective payment is remote. In any event, we have made provisions for the underpaid housing provident fund contributions.	Yongsheng Dyeing, Hangzhou Yongsheng Trading, Yongsheng Chemical Fiber, Nantong Yongsheng have arranged for bank accounts for housing provident fund to be opened for all entitled employees of our PRC Subsidiaries from 18 October 2012, 19 October 2012, 18 October 2012 and 24 May 2011 onwards respectively and the contributions for all entitled employees of our PRC Subsidiaries were made in March 2013. Our Group has made provision for the underpaid housing provident fund contributions whereby our Group could timely pay the retrospective underpaid housing provident fund contributions if requested by the competent authorities.	Completed in March 2013	Mr. Zhao, our Director	Our PRC Legal Advisers provided relevant training to Mr. Zhao, Mr. Li M and our staff of finance department in July 2013. Mr. Zhao with the assistance of our PRC Legal Advisers shall ensure that housing provident funds for all our employees shall be made timely in the future. Mr. Li M will ensure that all PRC employees are entitled to housing provident fund according to our written policy and embedded in their respective payroll calculation. Our finance department will review the payment details of housing provident fund and ensure that they are timely provided to all our employees in the PRC.	April 2013

Non-compliant incidents	Responsible personnel, cause(s) of non-compliance, legal consequences and any potential penalties and financial losses	Remedial actions	Time of implementation of remedial actions	Personnel in charge of the rectification	Monitoring process after implementation of the remedial actions	Implementation time of internal control measures
Social insurance contributions						
We did not timely provide social insurance contributions for certain employees *(Note)*	Mr. Xu Bing, head of human resources, was involved in such non-compliant incident. So far as our Directors are aware of, such failure was due to some of our employees' unwillingness to participate in such social insurance contributions. Our PRC Legal Advisers advised that the relevant social insurance authority in the PRC may require our PRC Subsidiaries to make up for previously underpaid social insurance contributions. Please refer to the paragraph headed "Social insurance" under the section headed "Regulatory Overview" of the prospectus for a detailed description of the penalties. However, as our Group has taken the remedial actions and pursuant to the consultations with the relevant authority, our PRC Legal Advisers advised that the risk of penalty and making of retrospective payment is remote. In any event, we have made provisions in relation to the underpaid social insurance contributions.	Yongsheng Dyeing, Hangzhou Yongsheng Trading, Yongsheng Chemical Fiber, Nantong Yongsheng have arranged for bank accounts for social insurance to be opened for all entitled employees of our PRC Subsidiaries from 21 October 2003, 23 January 2007, 14 December 2005 and 5 July 2010 onwards respectively and the contributions for all entitled employees of our PRC Subsidiaries were made in March 2013. Our Group has made provision for the underpaid social insurance contributions whereby our Group could timely pay the retrospective underpaid social insurance contributions if requested by the competent authorities.	Completed in March 2013	Mr. Zhao, our Director	Our PRC Legal Advisers provided relevant training to Mr. Zhao, Mr. Li M and our staff of finance department in July 2013. Mr. Zhao with the assistance of our PRC Legal Advisers shall ensure that social insurance contributions for all our employees shall be made timely in the future. Mr. Li M will ensure that all PRC employees are entitled to social insurance according to our written policy and embedded in their respective payroll calculation. Our finance department will review the payment details of social insurance and make sure they are timely provided to all our employees in the PRC.	April 2013

Non-compliant incidents	Responsible personnel, cause(s) of non-compliance, legal consequences and any potential penalties and financial losses	Remedial actions	Time of implementation of remedial actions	Personnel in charge of the rectification	Monitoring process after implementation of the remedial actions	Implementation time of internal control measures
Regulations on property law						
Nantong Yongsheng had not obtained the building ownership certificates for some of its properties	Mr. Tao Jianjun, former general manager of Nantong Yongsheng, was involved in such non-compliant incident. Due to our inadequate understanding of the regulatory requirements, we omitted to apply for the relevant building ownership certificates after we purchased the production bases in Nantong through auction in June 2010. As advised by our PRC Legal Advisers, the properties without building ownership certificates might be ordered to be demolished by the relevant authorities. Moreover, the transfer, lease, mortgage, or disposal of properties without building ownership certificates would be restricted. Our Directors confirm that the Defective Building was previously used as warehouse for storage and other ancillary purpose and had been vacated and no longer in use at the Latest Practicable Date. As such, our Directors considered the inability to obtain building ownership certificate for the Defective Building would not affect the production, operation and business of Nantong Yongsheng and hence are of the view that no provision shall be made.	We have obtained the building ownership certificates for the said properties on 21 May 2013, save for the Defective Building. We have obtained confirmation from the relevant governmental authorities confirming that we will not be required to demolish the Defective Building and the relevant governmental authorities will not impose any penalties on us in respect of the Defective Building. Our Directors confirm that the Defective Building could be demolished if necessary.	We have obtained the building ownership certificates for the said properties on 21 May 2013, save for the Defective Building.	Mr. Shi Hongxing, vice general manager of Nantong Yongsheng	Our PRC Legal Advisers provided relevant training to Mr. Shi Hongxing, Mr. Li M and our staff of finance department in July 2013. Mr. Shi Hongxing shall report the progress of demolition of the Defective Building if necessary. Mr. Li M will ensure that the regulatory requirements of applying building ownership certificates for buildings are written into the Company's fixed assets policy. Our finance department shall ensure registration of buildings and all the necessary building ownership certificates to be obtained and report to Mr. Li M if there are any non-compliance to be remediated immediately.	July 2013

Non-compliant incidents	Responsible personnel, cause(s) of non-compliance, legal consequences and any potential penalties and financial losses	Remedial actions	Time of implementation of remedial actions	Personnel in charge of the rectification	Monitoring process after implementation of the remedial actions	Implementation time of internal control measures
Registered capital of Yongsheng Chemical Fiber						
Yongsheng Chemical Fiber not timely making contribution to its original registered capital within the required period	Mr. Li M, former head of accounting department, was involved in such non-compliant incident. We inadvertently omitted to keep track of the timeframe for making the requisite contribution. According to the relevant PRC laws and regulations, where sino-foreign joint venture enterprises had not paid up their registered capital within the prescribed time limit, the joint venture partner who had paid up its portion of the registered capital could claim damages from the non-complying joint venture partner. As advised by our PRC Legal Advisers, there shall not be any material adverse effect on our business operations as the registered capital had been fully paid up as at the Latest Practicable Date. Further, pursuant to the confirmation issued by Hangzhou AIC Xianshan Branch (杭州市工商行政管理局蕭山分局) on 22 February 2013, there had not been any records of administrative penalty being imposed on Yongsheng Chemical Fiber during the period between 1 January 2006 and 21 February 2013. Our Directors are of the view that no provision shall be made.	Full payment of the requisite contribution has been made.	The original registered capital had been fully paid up on 18 August 2007.	Mr. Li M, head of internal audit department	Our PRC Legal Advisers provided relevant training to Mr. Li M in July 2013. Mr. Li M with the assistance of our PRC Legal Advisers shall ensure that timely contributions shall be made to registered capital within the required period of any of our PRC Subsidiaries in the future.	July 2013

Non-compliant incidents	Responsible personnel, cause(s) of non-compliance, legal consequences and any potential penalties and financial losses	Remedial actions	Time of implementation of remedial actions	Personnel in charge of the rectification	Monitoring process after implementation of the remedial actions	Implementation time of internal control measures
Environmental Regulations						
In 2003 when Yongsheng Dyeing started operating its production facilities, it did not timely undertake the corresponding checks and acceptance procedures for the production facilities	Mr. Wang, a director of Yongsheng Dyeing, was involved in such non-compliant incident. There was inadequate communication with the relevant governmental authority at the relevant time and oversight in designating competent staff in handling compliance work in this regard. The maximum penalty would be suspending the operation of the facilities and also a penalty of RMB100,000. As advised by our PRC Legal Advisers, there should not be any administrative penalty being imposed. As such, our Directors are of the view that no provision shall be made.	The relevant corresponding checks and acceptance procedures have been completed and the approval letter has been obtained in July 2007.	Completed in July 2007	Mr. Ma	Our PRC Legal Advisers provided relevant training to Mr. Ma and Mr. Li M in July 2013. Mr. Ma with the assistance of our PRC Legal Advisers shall ensure that corresponding checks and acceptance for the production facilities shall be completed on time in the future. Mr. Li M will ensure that the regulatory requirements regarding checks and acceptance procedures according to production facilities are established in the company's written policy.	July 2013
In 2004 when Yongsheng Chemical Fiber started operating its production facilities, it did not timely undertake the corresponding checks and acceptance procedures for the production facilities	Mr. Zhao Yaofat, infrastructure manager of Yongsheng Group at the relevant time, was involved in such non-compliant incident Due to our inadequate understanding of the regulatory requirements, there was oversight in designating competent staff in handling compliance work in this regard. The maximum penalty would be suspending the operation of the facilities and also a penalty of RMB100,000. As advised by our PRC Legal Advisers, there should not be any administrative penalty being imposed. As such, our Directors are of the view that no provision shall be made.	The relevant corresponding checks and acceptance procedures have been completed and the approval letter has been obtained in November 2012.	Completed in November 2012	Mr. Zhao Ganghua, general manager of Yongsheng Chemical Fiber	Our PRC Legal Advisers provided relevant training to Mr. Zhao Ganghua and Mr. Li M in July 2013. Mr. Zhao Ganghua with the assistance of our PRC Legal Advisers shall ensure that corresponding checks and acceptance for the production facilities shall be completed on time in the future. Mr. Li M will ensure that the regulatory requirements regarding checks and acceptance procedures according to production facilities are established in the company's written policy.	July 2013

Non-compliant incidents	Responsible personnel, cause(s) of non-compliance, legal consequences and any potential penalties and financial losses	Remedial actions	Time of implementation of remedial actions	Personnel in charge of the rectification	Monitoring process after implementation of the remedial actions	Implementation time of internal control measures
In 2010 when Nantong Yongsheng started operating its production facilities, it did not timely undertake the corresponding checks and acceptance procedures for the production facilities	Mr. Tao Zhijun, vice general manager of Nantong Yongsheng, was involved in such non-compliant incident. Due to our inadequate understanding of the regulatory requirements, there was oversight in designating competent staff in handling compliance work in this regard. The maximum penalty would be suspending the operation of the facilities and also a penalty of RMB100,000. As advised by our PRC Legal Advisers, there should not be any administrative penalty being imposed. As such, our Directors are of the view that no provision shall be made.	The relevant corresponding checks and acceptance procedures have been completed and the approval letter has been obtained in March 2013.	Completed in March 2013	Mr. Shi Hongxing, vice general manager of Nantong Yongsheng	Our PRC Legal Advisers provided relevant training to Mr. Shi Hongxing and Mr. Li M in July 2013. Mr. Shi Hongxing with the assistance of our PRC Legal Advisers shall ensure that corresponding checks and acceptance for the production facilities shall be completed on time in the future. Mr. Li M will ensure that the regulatory requirements regarding checks and acceptance procedures according to production facilities are established in the company's written policy.	July 2013

Note: Our Company has engaged an independent consulting firm (the "**Internal Control Consultant**") as our internal control consultant in November 2012 to review selected areas of our Group's internal controls over financial reporting. During the review, the Internal Control Consultant identified internal control deficiencies of non-compliance incidents relating to (i) non-compliant bill arrangements, (ii) housing provident fund contributions and (iii) social insurance contributions and has recommended remedial measures to enhance our internal control system, which form part of remedial action and monitoring process as disclosed above.

Upon receipt of the recommendations made by the Internal Control Consultant, our Group had adopted the remedial measures recommended by the Internal Control Consultant by the end of the first quarter of 2013. The Internal Control Consultant performed a follow-up review in March and April 2013 to review the status of the remedial actions taken by the management to address the findings identified by the Internal Control Consultant in the November 2012 review; and the Internal Control Consultant raised no further recommendations.

The internal control review was conducted based on the information provided by our Company and no assurance or opinion on internal controls was expressed by the Internal Control Consultant.

Our Group has undertaken the remedial measures set out below to address the internal control deficiencies related to non-compliance incidents.

(i) non-compliant bill arrangement

- established segregation of duties between application and approval of issuance of bank acceptance notes;
- when the bank acceptance note is issued, the finance department reviews and makes record to ensure each bank acceptance note is tracked and managed;
- the finance department performs checking on a monthly basis to identify any discrepancy between the note payables issued and the actual underlying transactions; and
- the internal control department of our Group performs checking on the compliance regarding non-compliance bill arrangement on a monthly basis.

(ii) and (iii) housing provident fund and social insurance contributions

- the finance department reviews the payment details of housing provident fund and social insurance to ensure that they are timely provided to all the employees; and

- the internal control department performs checking on the compliance regarding housing provident fund contributions and social insurance contributions on a monthly basis.

Despite Mr. Li M being previously involved in various non-compliance incidents, our Directors consider that he is a competent personnel in charge of the internal audit department since:

A. Mr. Li M's involvement in those non-compliance incidents was not intentional. Instead, it was due to inadvertence and inadequate understanding of relevant regulatory requirements;

B. Mr. Li M has not obtained any personal benefit directly or indirectly from those non-compliance incidents;

C. no fraudulent activities were involved in those non-compliance incidents;

D. as at the Latest Practicable Date, to the best of our knowledge having made reasonable enquiry, there were no legal proceedings against Mr. Li M in the PRC and Hong Kong;

E. Mr. Li M's over 20 years' experience in accounting and his qualification as a senior accountant;

F. Mr. Li M joined Yongsheng Group in March 2000 and has accumulated substantial and comprehensive experience in the businesses, management and operation of our Group; and

G. Mr. Li M, with other personnel in charge of rectifications, had received training relating to the compliance with the relevant laws and regulations in the PRC from our PRC Legal Advisers and will receive similar training whenever there is any update to the relevant laws and regulations.

MEASURES DESIGNED TO PREVENT FUTURE NON-COMPLIANCE AND IMPROVE CORPORATE GOVERNANCE

In order to improve our corporate governance and to prevent future non-compliance, we have adopted or intend to adopt the following measures:

1. we adopted or will adopt the measures and policies to improve our internal control systems and to ensure our compliance with the Listing Rules and the relevant laws in the PRC and Hong Kong;

2. we have taken remedial measures to address certain deficiencies in our internal control systems, including monitoring the ongoing compliance with the internal control measures put in place;

3. we have engaged and will continue to appoint external professional advisers, including auditors, legal advisers or other advisers to render professional advice as to compliance with the statutory requirements as applicable to our Group from time to time;

4. we will also appoint a compliance adviser to provide advice to our Directors and management team on matters relating to the Listing Rules;

5. regular trainings will be provided to all Directors and senior management after Listing by our external professional advisers on compliance with the Listing Rules and all relevant laws and regulations, including timely preparation and laying of accounts. Our Directors attended a seminar organised by our Company's legal advisers, Loong & Yeung in March 2013 regarding the duties of directors of companies listed in Hong Kong. Our executive Directors also attended training in July 2013 in respect of the compliance with the relevant laws and regulations in the PRC organised by our PRC Legal Advisers, Tian Yuan Law Firm;

6. our audit committee is responsible for overseeing the financial reporting and internal control procedures of our Company. It will also periodically review our compliance status with all relevant laws and regulations after Listing. Our audit committee will exercise its oversight by reviewing our Company's internal control and legal compliance, discussing the internal control system with management to ensure management has performed its duty to have an effective internal control system, and considering major investigation findings on internal control matters as delegated by the board of Directors or on its own initiative and management's response to these findings; and

7. our Board (which shall be responsible for monitoring the corporate governance of our Group) will also periodically review our compliance status with all relevant laws and regulations after Listing.

Our Directors confirmed that the internal control measures and recommendations from the Internal Control Consultant have been fully implemented and our Directors are of the view that our Group's internal control measures are adequate and effective under Rule 3A.15(5) of the Listing Rules. The Sole Sponsor has reviewed the measures and policies adopted by us to improve our internal control systems and has discussed with the Internal Control Consultants on effectiveness of such measures and policies and the progress of the implementation of the internal control procedures adopted by us, concurs with our Directors that our Group's internal control measures are adequate and effective under Rule 3A.15(5) of the Listing Rules.

The Sole Sponsor, based on the due diligence which it has conducted, are of the view that, our Directors has the character, experience and integrity required for a Director under Rule 3.08 and Rule 3.09 of the Listing Rules on the following bases:

- the past non-compliance incidents were mainly due to the inadvertence and inadequate understanding of the regulatory requirements of our staff and do not involve any dishonesty on the part of our Directors or impugn on their integrity;

- our Directors have not obtained any personal benefit directly or indirectly from those non-compliance incidents;

- no fraudulent activities were involved in those non-compliance incidents;

- public searches including litigation searches, bankruptcy searches and directorship searches were conducted in April and November 2013 against each of our Directors and no adverse findings are noted;

- remedial internal control measures have been adopted to address certain deficiencies in our internal control systems, including monitoring the ongoing compliance with the internal control measures, to prevent further incidents of non-compliance and to ensure our compliance with the Listing Rules and the relevant laws in the PRC and Hong Kong;

- follow-up review conducted from March and April 2013 by the Internal Control Consultant did not identify any further internal control deficiencies;

- our Directors attended training in March 2013 in respect of the duties of directors of companies listed in Hong Kong organised by our Company's Hong Kong legal advisers, Loong & Yeung, and which they were reminded to seek professional advice whenever necessary to ensure compliance with relevant rules and regulations;

- all our executive Directors attended training in July 2013 in respect of the compliance with the relevant laws and regulations in the PRC organised by our PRC Legal Advisers, Tian Yuan Law Firm;

- our Directors will receive training whenever there is any update to the relevant laws and regulations;

- external professional advisers, including the Sole Sponsor (compliance adviser), Loong & Yeung (Company's Hong Kong legal advisers), Tian Yuan Law Firm (Company's PRC legal advisers) or other advisers will be appointed to render professional advice to our Directors and assist our Directors in ensuring ongoing compliance with the statutory requirements and the Listing Rules as applicable to our Group from time to time; and

- the substantial experience in the textile industry possessed by our executive Directors.

Having considered the above non-compliance incidents of our Group and the above internal control measures and remedial actions taken by us, the Sole Sponsor is of the view that with regard to the above non-compliance incidents, there is no further matter that the Sole Sponsor would consider affecting the suitability of our executive Directors to become directors of an issuer under Rules 3.08 and 3.09 of the Listing Rules, and the suitability of our Company as a listing applicant under Rule 8.04 of the Listing Rules.

OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Share Offer and the Capitalisation Issue, Mr. Li and Ever Thrive will control approximately 51.62% of our issued share capital, assuming no exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme. For the purpose of the Listing Rules, Mr. Li and Ever Thrive are our Controlling Shareholders.

Our Controlling Shareholders confirm that they do not have any business or interest which competes or may compete with the business of our Group. Apart from our Group's business, Mr. Li is also interested in certain companies which had or will continue to have business relationship with our Group during the Track Record Period and after Listing. Particulars of such transactions are set out in the paragraphs headed "Related parties transactions" in the section headed "Financial Information" and the section headed "Continuing connected transactions" in this prospectus.

INDEPENDENCE OF OUR GROUP

In the opinion of our Directors, our Group is capable of carrying on our businesses independently of, and does not place undue reliance on, the Controlling Shareholders, their respective associates or any other parties, taking into account the following factors:

(i) *Financial independence*: Our Group has an independent financial system and we rely principally on cash generated from operations, borrowings from banks and other financial institutions and other loans for our developments during the Track Record Period. This is expected to continue after the Listing. As at the Latest Practicable Date, the non-trade related amount due to or from Mr. Li or companies controlled by him, was fully settled. All guarantees provided to us by Mr. Li and his associates for our bank borrowings have been released. We have sufficient capital to operate our business independently, and have adequate internal resources and a strong credit profile to support our daily operations.

(ii) *Operational independence*: We have established our own organisational structure comprising of individual departments, each with specific areas of responsibility. As at the Latest Practicable Date, our Group did not share its operational resources, such as suppliers, customers, marketing, sales and general administration resources with our Controlling Shareholders and/or their respective associates. Our Directors believe that our Group is able to operate independently from our Controlling Shareholders after the Listing.

(iii) *Independence of management*: Our Board comprises four executive Directors and three independent non-executive Directors. Mr. Li, a Controlling Shareholder, is an executive Director and chairman of the Board. He is also a director of Ever Thrive and Shun Sheng which are our corporate Shareholders in which he has a controlling interest in Ever Thrive. Further, Mr. Li is a director of the Yongsheng Holdings and Yongsheng Group. In addition, Mr. Wang and Mr. Li WH, each a director of Yongsheng Dyeing, Ms. Zhang, a director of Yongsheng Trading (HK) also serve executive or management role in the companies controlled by Mr. Li other than our Group. Mr. Zhao, Mr. Ma and Mr. Li M, all being our Directors or senior management have resigned as directors of Yongsheng Group as at the date of this prospectus, as such, save as disclosed above, none of our executive Directors, directors of our subsidiaries or senior management serves any executive or management role in our Controlling Shareholders or any of their respective associates as at the date of this prospectus.

Each of our Directors is aware of his or her fiduciary duties as a Director which require, among other things, that he or she acts for the benefit and in the best interests of our Company and does not allow any conflict between his or her duties as a Director and his or her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In particular, Mr. Li will not attend any board meetings in respect of those matters or transactions which may give rise to potential conflicts of interest and would not be counted as quorum in the relevant meetings so far as required by the Listing Rules or other applicable laws and regulations. Furthermore, Mr. Li and his associates will not attend, or be counted as quorum of, any meeting of our Shareholders for consideration and approval of matters which may give rise to potential conflicts of interest so far as required by the Listing Rules or other applicable laws and regulations. In addition, our Group has an independent senior management team as detailed in the paragraph headed "Senior Management" under the section headed "Directors, Senior Management and Employees" of this prospectus, none of whom has any managerial role or beneficial interest in our Controlling Shareholders or any of their respective associates, to carry out the business decisions of our Group independently.

Our independent non-executive Directors who are all well-educated, having extensive experience in different areas or professionals and they have been appointed pursuant to the requirements under the Listing Rules to ensure that the decisions of our Board are made only after due consideration of independent and impartial opinions. Our Directors believe that the presence of Directors from different backgrounds provides a balance of views and opinions. Furthermore, our Board acts collectively by majority decisions in accordance with the Articles and applicable laws, and no single Director is supposed to have any decision-making power unless otherwise authorised by our Board.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that our Group is capable of managing its business independently from our Controlling Shareholders and their respective associates after the Listing.

RULE 8.10 OF THE LISTING RULES

Our Controlling Shareholders and our Directors do not have any interest in a business apart from our Group's business which competes or is likely to compete, directly or indirectly, with our Group's business, and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

NON-COMPETITION UNDERTAKING

In order to avoid any possible future competition between our Group and each of Mr. Li and Ever Thrive (the "**Covenantors**"), the Covenantors have executed a deed of non-competition on 7 November 2013 (the "**Deed**") in favour of us (for ourselves and for the benefit of each member of our Group). Pursuant to the Deed, during the period that the Deed remains effective, each of the Covenantors irrevocably and unconditionally undertakes with us (for ourselves and for the benefit of each member of our Group) that he/it shall not, and shall procure his/its associates (other than members of our Group) not to, directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of any member of our Group or any business activity to be conducted by any member of our Group from time to time in the future save for the holding of not more than 5% shareholding interests (individually or with his/its associates) in any company listed on a recognised stock exchange and at any time the relevant listed company shall have at least one shareholder (individually or with his/her associates, if applicable) whose shareholding interests in the relevant listed company is higher than that of the relevant Covenantor (individually or with his/its associates).

When business opportunities which may compete with the business of our Group arise, the relevant Covenantor(s) shall, and shall procure his/its associates to, give us notice in writing and we shall have a right of first refusal to take up such business opportunities. We shall only exercise the right of first refusal upon the approval of all our independent non-executive Directors (who do not have any interest in such proposed transactions). The relevant Covenantor(s) and the other conflicting Directors (if any) shall abstain from participating in and voting at and shall not be counted as quorum at all meetings of our Board where there is a conflict of interest or potential conflict of interest including but not limited to the relevant meeting of our independent non-executive Directors for considering whether or not to exercise the right of first refusal. Any decision on matters reviewed by our independent non-executive Directors relating to the compliance and enforcement of the Deed will be disclosed in the annual report of our Company, and if appropriate, our Company will consider issuing announcements.

Our Board will establish a committee comprising all of our independent non-executive Directors which will be delegated with the authority to review on an annual basis the above undertakings from the Covenantors. The Covenantors also undertake to provide all information necessary for the enforcement of the Deed as requested by the committee from time to time, and make an annual declaration on compliance with the Deed in the annual report of our Company.

The undertakings mentioned above are conditional upon the fulfilment of the conditions stated in the paragraph headed "Conditions of the Share Offer" under the section headed "Structure and conditions of the Share Offer" in this prospectus. If any such condition is not fulfilled on or before the date falling 30 days after the date of this prospectus, the Deed shall become null and void and cease to have any effect whatsoever and no party shall have any claim against the other under the Deed.

The Deed shall terminate on the earliest of the date on which (i) the Covenantors and their associates (collectively or individually) shall cease to hold in aggregate 30% or more of the entire issued share capital of our Company or otherwise cease to be a Controlling Shareholder and Mr. Li ceases to be a Director; or (ii) our Shares shall cease to be listed and traded on the Stock Exchange (except for temporary suspension of trading of our Shares on the Stock Exchange due to any reason).

DIRECTORS

Our Board comprises 7 Directors, among whom there are 4 executive Directors and 3 independent non-executive Directors.

The following table sets forth certain information regarding our Directors:

Name	Age	Position	Roles and responsibilities	Date of Appointment/ Redesignation
Mr. Li Cheng (李誠)*	51	Chairman and executive Director	Overall business strategies and management of our Group	Appointed as Director on 19 April 2012 and re-designated as executive Director and Chairman of the Board on 7 November 2013
Mr. Zhao Jidong (趙繼東)	49	Chief executive officer and executive Director	General management and overall operations of our Group	Appointed as chief executive officer of the Company and executive Director on 7 November 2013
Mr. Li Conghua (李聰華)*	39	Executive Director	Managing and supervising the daily operations of the trading businesses of our Group	Appointed as executive Director on 7 November 2013
Mr. Ma Qinghai (馬青海)	38	Executive Director	Managing and supervising the daily operations of the manufacturing businesses of our Group	Appointed as executive Director on 7 November 2013

* Mr. Li Conghua is the nephew of Mr. Li Cheng.

Name	Age	Position	Roles and responsibilities	Date of Appointment/ Redesignation
Mr. Duan Xiaoping (端小平)	44	Independent non-executive Director	Providing independent judgment on issues of strategy, performance, resources and standard of conduct of our Company	Appointed as independent non-executive Director on 7 November 2013
Ms. Wong Wai Ling (黃慧玲)	52	Independent non-executive Director	Providing independent judgment on issues of strategy, performance, resources and standard of conduct of our Company	Appointed as independent non-executive Director on 7 November 2013
Mr. Shiping James Wang	53	Independent non-executive Director	Providing independent judgment on issues of strategy, performance, resources and standard of conduct of our Company	Appointed as independent non-executive Director on 7 November 2013

EXECUTIVE DIRECTORS

Mr. Li Cheng (李誠), aged 51, was appointed as a Director on 19 April 2012 and re-designated as the chairman and an executive Director on 7 November 2013. Mr. Li has more than 20 years of experience in textile and trading industry. From August 1985 to May 1993, Mr. Li had been engaged in trading of textile products as a sole proprietorship. From March 1993 to November 1997, he worked as the general manager of Xiaoshan Yongsheng Trading Company (蕭山永盛貿易公司). From November 1997 to June 1999, he assumed the role of general manager of Xiaoshan Yongsheng Chemical Fiber Company Limited (蕭山市永盛化纖有限公司) (the current Yongsheng Group). After that, he became the general manager of Hangzhou Yongsheng Weaving Limited* (杭州永盛紡織有限公司) from June 1999 to April 2003. Since 2003, Mr. Li has been appointed as chairman of the board of director of Yongsheng Group.

Mr. Li completed his professional study major in dyeing and processing engineering in Zhejiang Institute of Silk Textile (浙江絲綢工學院) (now known as Zhejiang Sci-Tech University (浙江理工大學)) in July 1985. In March 2004, he completed a course on corporate director advanced business administration which was held by Ningbo Jianfeng Management Technology Research Centre (寧波健峰管理技術研修中心). Between 2006 and 2012, Mr. Lee had also completed various courses including the Senior Training Course on the Philosophy of New Technology and Enterprise Growth – Growth enterprise (浙大新科技與企業成長之道-成長型企業高級研修班) and the Senior Training Course on Financial Investment in Real Operations (金融投資實戰運營高級研修班) respectively offered by the school of humanities and the school of media of Zhejiang University (浙江大學), the Senior Training course for Business Administration Executives (工商管理總裁高級研修班) offered by Zhejiang Gongshang University (浙江工商大學), the training course for senior enterprise operators and managers in Hangzhou City on "356 Engineering Programme" in relation to investment, financing and capital operation training (杭州市企業高級經營管理者培訓"356工程"投融資與資本運作研修班) offered by Fudan University (復旦大學).

Mr. Li was appointed as the deputy chairman of The Professional Committee of Zhejiang Province Privately-operated Economic Research Centre (浙江省民營經濟研究中心專業委員會) in December 2002. Mr. Li has been elected as a member of the Hangzhou City Xiaoshan District Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議杭州市蕭山區委員會) since May 2005. He was also elected as the chairman of the Hangzhou City Xiaoshan District Wenzhou Chamber of Commerce (杭州市蕭山區溫州商會) in July 2010, the vice-chairman of the Hangzhou City Xiaoshan District General Chamber of Commerce (杭州市蕭山區總商會) in December 2012 and the standing council member of the China Chemical Fiber Association (中國化學纖維工業協會) in April 2012. In October 2008, Mr. Li was named the "Staff Caring Outstanding Entrepreneur" (關愛員工優秀企業家) of Hangzhou City jointly awarded by the Federation of Trade Union of Hangzhou City (杭州市總工會) and the Industry and Commerce Joint Committee of Hangzhou City (杭州市工商業聯合會). In February 2013, Mr. Li was awarded the "Outstanding Socialist Builder" (優秀社會主義事業建設者) for the years 2010 – 2012 by The office of China Hangzhou City Xiaoshan District (中共杭州市蕭山區委辦公室) and The People's Government Office of Hangzhou City Xianshan District (杭州市蕭山區人民政府辦公室).

Mr. Li is also the authorised representative of the Company.

Mr. Zhao Jidong (趙繼東), aged 49, was appointed as an executive Director and chief executive officer of the Company on 7 November 2013, responsible for general management and overall operations of our Group. Mr. Zhao has more than 25 years of experience in textile industry. As confirmed by Mr. Zhao, during the period from July 1985 to October 2006, Mr. Zhao assumed various positions in Yangzhou Cloth Factory (楊州布廠), including being factory director. Further confirmed by Mr. Zhao, he had also served as the deputy director and director of Yangzhou Textile Research Institute (揚州紡織研究所) from February 1990 to October 2006. From September 2006 to July 2011, Mr. Zhao had been the director of Shanghai Huayuan Company Limited (上海華源股份有限公司) a company whose shares are listed on the Shanghai Stock Exchange (stock code: 600094). From November 2006 to July 2011, Mr Zhao had been the deputy general manager and chief engineer of Shanghai Huayuan Company Limited. And Mr. Zhao joined Yongsheng Group and had assumed the position of chief executive officer since June 2010. Mr. Zhao was previously also a director of Yongsheng Group.

Mr. Zhao obtained his bachelor degree major in textile engineering from Wuxi Light Industry Institute (無錫輕工業學院) (now known as Jiangnan University (江南大學)) in July 1985. Mr. Zhou has also completed 青年經營者財務管控與資本運營高級研修班 (the Senior Training Course for Young Entrepreneur in Financial Control and Capital Operation) offered by Tsinghua University (清華大學) in December 2011.

Mr. Zhao was elected a council member of 楊州市紡織工程學會 (Yangzhou City Textile Construction Association*) in June 1991. He joined the 江蘇省紡織工程學會 (Jiangsu Textile Engineering Association*) as a product professional committee member in January 2004.

Mr. Zhao has been granted as the government special allowance certificate by the State Council (國務院) of the PRC in 2000. Mr. Zhao also obtained a number of awards throughout his career including the 3rd prize of Yangzhou Science and Technology Advancement Awards (揚州市科技進步三等獎) and the 1st prize of Yangzhou Science and Technology Advancement Awards (揚州市科技進步一等獎) awarded by Yangzhou Science and Technology Advancement Awards Judging Committee (揚州市科學技術進步獎評審委員會) in December 1987 and 1998 respectively, the "National Textile Labour Working Role Model" (全國紡織工業勞動模範) awarded by 中國紡織工業部 (China Textile Industrial Bureau) in December 1994, the 3rd prize of Jiangsu Province Science and Technology Advancement Awards (江蘇省科技進步三等獎) twice respectively on his projects of "High Stimulation Twisted Peach Skin flannel" (高仿真倍捻桃皮絨) and "The Ultrafine Composite Fabric Thread" (超細複合織物摩絲) and the 2nd prize of Jiangsu Province Science and Technology Advancement Awards (江蘇省科技進步二等獎) on his projects of "The Sea-island Ultrafine Composite Synthetic Chamois Leathers" (海島極細複合纖維織物麂皮) by Jiangsu Province Science and Technology Advancement Awards Judging Committee (江蘇省科學技術進步獎評審委員會) in September 1996, October 1999 and December 2001 respectively. He has also been awarded by Yangzhou City with "Yangzhou City Technology Contributor" (楊州市科技功臣) in May 2000, the "Central Enterprise Labour Working Role Model" (中央企業勞動模範) awarded jointly by the National Ministry of Personnel (國家人事部) and State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會) in September 2004, the "2nd Prize of Sang Ma Textile Technology" (桑麻紡織科技弍等獎) by The Sang Ma Trust Fund (香港桑麻基金會) in October 2002 and as one of the "Candidate of the First Batch National Engineering Talents of the National New Century Project (首批新世紀百千萬人才工程國家級人選)" by The Ministry of Personnel of the PRC (中華人民共和國人事部) in April 2004 and passed its advanced training in July 2005.

He was accredited as a senior engineer on textile engineering (紡織工程高級工程師) by Jiangsu Province Textile Industry Bureau Job Title Reform Office (江蘇省紡織工業廳職稱改革辦公室) and professor level senior engineer by Jiangsu Department of Personnel (江蘇省人事廳) respectively in June 1995 and November 2000. He has completed and passed the Training Course for Senior Management of Listed Companies (上市公司高級管理人員

培訓班) offered by China Securities Regulatory Commission Shanghai Regulatory Bureau (中國證券監督管理委員會上海監管局) respectively in July 2007 and November 2008. Mr. Zhao was engaged by the Graduate School of Donghua University (東華大學研究生部) as out-campus mentor in September 2012.

Mr. Li Conghua (李聰華), aged 39, was appointed as an executive Director on 7 November 2013. Mr. Li CH has more than 15 years of experience in textile industry. From June 1997 to December 2000, he worked as a chemical fiber materials salesperson in the chemical fiber department in Xiaoshan Yongsheng Trading Company Limited (蕭山永盛貿易有限公司). From January 2000 to December 2004, he was the department manager in chemical fiber department of Yongsheng Group. Since March 2005, he has been the general manager of Hangzhou Yongsheng Trading.

Mr. Li CH has also completed 成長型企業總裁高級研修班 (the Senior Training Course for Chief Executive Officer of Growth Enterprise*) offered by the school of humanity of Zhejiang University (浙江大學) in January 2008.

Mr. Ma Qinghai (馬青海), aged 38, was appointed as an executive Director on 7 November 2013. Mr. Ma has more than 15 years of experience in textile industry.

Mr. Ma was the technical supervisor and workshop officer of Zhejiang Hongli Group Limited Printing and Dyeing Branch Company (浙江紅利集團有限公司印染分公司) from August 1994 to February 2001. Mr. Ma was in the position of internal trading manager of Yongsheng Group from January 2002 to July 2005 and was previously a director of Yongsheng Group. Between August 2005 and June 2007, Mr. Ma assumed several positions in Yongsheng Dyeing, including vice factory director and factory director between August 2005 and January 2006 and deputy general manager between January 2006 and February 2008. Since February 2008, he has become the general manager of Yongsheng Dyeing.

In July 1994, Mr. Ma completed his professional study major in dyeing and processing in Zhejiang Province Common Intermediate Professional School (浙江省普通中等專業學校). He completed the Senior Training Course for Chief Executive Officer of Growth Enterprise offered by the school of humanity of Zhejiang University (浙江大學) in April 2007.

Mr. Ma was awarded the Progressive Individual of Xiaoshan Dongpian Printing, Dyeing and Chemical Industry Provincial Level Environmental Protection Key Regulatory Area Remediation Work (蕭山東片印染染化行業省級環保重點監管區整治工作先進個人) by the People's Government of Xiaoshan District of Hangzhou City (杭州市蕭山區人民政府) in October 2007. In July 2010, Mr. Ma obtained the award of Outstanding Contract Manager of Xiaoshan District jointly offered by the Hangzhou Administration for Industry and Commerce Xiaoshan Branch (杭州市工商行政管理局蕭山分局) and Hangzhou City Xiaoshan District Enterprise Contract Management Association (杭州市蕭山區企業合同管理協會).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Duan Xiaoping (端小平), aged 44, was appointed as an independent non-executive Director on 7 November 2013.

As confirmed by Mr. Duan, in August 1991 to August 1998, Mr. Duan was the deputy division head of China Textile Association (中國紡織總會). Further confirmed by Mr. Duan from January 2002 to September 2007, Mr. Duan held the position of deputy general manager in China National Chemical Fiber Corp. (中國化纖總公司); from September 2007 to November 2008, Mr. Duan assumed the position of deputy general manager of Zhejiang Hengyi Group (浙江恒逸集團); and from November 2008 to August 2010, he was the general manager of 中國服裝股份有限公司 (China Garments Co., Ltd*), a company whose shares are listed on the Shenzhen Stock Exchange (stock code: 000902). Since September 2010, Mr. Duan has been the director of Research and Development Centre of Textile Chemical Fiber Products (紡織化纖產品開發中心). Since September 2010, Mr. Duan was the director of China Chemical Fiber Association (中國化學纖維工業協會). Since July 2012, Mr. Duan was appointed as director of the chemical fiber professional committee of China Textile Engineering Society (中國紡織工程學會).

Mr. Duan graduated in chemical fiber from China Textile University (中國紡織大學) (now known as Donghua University (東華大學)) in July 1991 and further obtained a master degree in materials engineering there in May 2004. In July 2007, he was awarded a master of business administration of senior management by Fudan University (復旦大學).

Mr. Duan has been the independent director of Tong Kun Group Co., Ltd. (桐昆集團股份有限公司) ("**Tong Kun Group**") (stock code: 601233) and Tangshan Sanyou Chemical Industries Co., ltd (唐山三友化工股份有限公司) ("**Tangshan Sanyou**") (stock code: 600409) since April 2011 and September 2011 respectively. Tong Kun Group and Tangshan Sanyou are companies whose shares are listed on the Shanghai Stock Exchange and Tong Kun Group was a holding company of 桐昆集團浙江恒通化纖有限公司 a supplier of our Group as at the Latest Practicable Date. Mr. Duan has also been the independent director of Zhejiang Huafon Spandex Co., Ltd. (浙江華峰氨綸股份有限公司) (stock code: 002064) and Zhejiang Hengyi Group Co., Ltd. (恒逸石化股份有限公司) (stock code: 000703) since February 2008 and May 2011, both being a company whose shares are listed on the Shengzhen Stock Exchange.

Mr. Duan was awarded the first prize of science technological advancement in relation to his project of "Ten Thousand Tonnes Level Nationalization PBT Continuous Integration Setting and Fiber Product Development" (萬噸級國產化PBT連續聚合裝置及纖維產品開發) by China National Textile and Apparel Council (中國紡織工業協會) in October 2011. He also completed the Training Course for Senior Management of Listed Company (上市公司高級管理人員培訓班) offered by Shenzhen Stock Exchange in March 2011.

Ms. Wong Wai Ling (黃慧玲), aged 52, was appointed as an independent non-executive Director on 7 November 2013.

Ms. Wong has over twenty years of experience in accounting and auditing. She had worked for more than seven years in major international accounting firms and local accounting firms before she set up her own accounting firm in Hong Kong in 1993. Since June 1991, she has been registered as a Certified Public Accountant in Hong Kong.

Ms. Wong received a bachelor of arts degree from the University of Hong Kong in November 1983 and a postgraduate diploma in account and finance from the London School of Economics and Political Science, University of London, in the United Kingdom in July 1989. Ms. Wong has become a fellow member of the Association of Chartered Certified Accountants and a fellow member of Hong Kong Institute of Certified Public Accountants since May 1995 and February 2001 respectively.

Ms. Wong is an independent non-executive director of China Ruifeng Galaxy Renewable Energy Holdings Limited (stock code: 527), Overseas Chinese Town (Asia) Holdings Limited (stock code: 3366) and AVIC International Holdings Limited (previously known as CATIC Shenzhen Holdings Limited) (stock code: 161), all of which are companies whose shares are listed on the Main Board of the Stock Exchange. She also acts as the chairperson of the audit committees of these main board listed companies. As at the date of this prospectus, Ms. Wong is also an executive director of JC Group Holdings Limited, a company proposed to be listed on the Growth Enterprise Market of the Stock Exchange.

Mr. Shiping James Wang, aged 53, was appointed as an independent non-executive Director on 7 November 2013.

Mr. Wang had been the Foreign General Legal Counsel of Zhongxin Law Firm Shanghai Branch from July 2009 to March 2013 and has been the Foreign General Legal Counsel of Shanghai Hanyuan Law Firm since 30 June 2013. Mr. Wang was admitted as an attorney at law in the Supreme Court of New Jersey and the US District Court for the District of New Jersey in December 1994.

Mr. Wang obtained his master degree of science in biochemical engineering from Massachusetts Institute of Technology in May 1988. He further completed his Juris Doctoris in Seton Hall Law School in June 1994.

There is no information of each of the Directors which needs to be disclosed pursuant to the requirement under Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules.

Save as disclosed in this prospectus, none of the Directors hold any directorship in any public listed company in the three years preceding the Latest Practicable Date and there are no other matters that need to be brought to the attention of the Shareholders under Rule 13.51(2) of the Listing Rules in connection with his/her appointment as a Director.

SENIOR MANAGEMENT

Mr. Leung Ho Yan, Julian (梁浩仁), aged 34, is the financial controller of our Group. Mr. Leung is responsible for financial reporting and planning of our Group. Mr. Leung has over 12 years of experience in audit and accounting industry. Mr. Leung worked in KPMG from August 2001 to January 2012 and his last position with KPMG was manager. Mr. Leung had acquired PRC audit and accounting experience during his secondment to KPMG Huazhen Beijing Office from January 2008 to September 2009. Mr. Leung obtained his bachelor of arts in accountancy at The Hong Kong Polytechnic University in November

2001 and has been awarded the champions of the ACCA Inter-tertiary Accounting Solutions Competition in as a member of the contesting team from the Hong Kong Polytechnic University held by The Association of Chartered Certified Accountants in June 2000 and June 2001. Mr. Leung has been a member and a fellow member of The Association of Chartered Certified Accountants since December 2004 and December 2009 respectively and has been a fellow member and a certified public accountant of the Hong Kong Institute of Certified Public Accountants since May 2012 and March 2005. Mr. Leung is also the company secretary and an authorised representative of our Company.

Mr. Li Min (李敏), formerly known as Li Ming (李明), aged 46, is the head of our internal audit department responsible for internal control and risk management of our Group. Mr. Li Min has over 20 years of accounting experience. Mr. Li Min joined Yongsheng Group in March 2000 as financial manager. Mr. Li M was previously also a director of Yongsheng Group. Mr. Li Min worked as assistant accountant in various factories including Xiaoshan Agricultural Machinery Factory (蕭山農機廠) (currently known as Hangzhou Safe Company Limited (杭州保險箱櫃有限公司)) between 1986 and 1987, Xiaoshan Building Materials Factory (蕭山建材廠) between 1993 and 1997 and his last position prior to joining Yongsheng Group was assistant accountant with Saintyear Holding Co., Ltd. (三元控股集團有限公司) between 1997 and 1999.

Mr. Li Min completed his higher education in industrial statistic in Hangzhou Business School (杭州商學院) in June 1992 and has been conferred by the Ministry of Finance (財政部) of the PRC as a senior accountant since November 2009. Mr. Li Min was also awarded as the "2003 Outstanding Statistics Financial Worker of Hangzhou Township Enterprises (2003年度杭州鄉鎮企業優秀統計財務工作者)" by the Hangzhou Economic Commission (杭州市經濟委員會) in 2004.

Ms. Zhang Yingli (張穎莉), aged 39, is a director of Nantong Yongsheng. Ms. Zhang joined Yongsheng Group in October 2003, responsible for financial reporting and treasury management at subsidiaries of our Group and is currently the head of finance department of our Group. Prior to joining Yongsheng Group, she was the financial accountant of Zhejiang Asia Pacific Electrical and Mechanical Group Limited (浙江亞太機電集團有限公司) from July 1995 to November 2001.

Ms. Zhang completed her higher education in accounting in Central China Agricultural University (華中農業大學) in July 1995. Ms. Zhang has also been conferred by the Ministry of Finance (財政部) of the PRC as an intermediate accountant since May 2002.

Mr. Xu Bing (徐冰), aged 33, is the head of human resources and administration department of our Group responsible for human resources management and administration. Mr. Xu Bing has over 10 years in human resources and administration management. Between July 2002 and May 2003, he worked as section manager of the human resources department of Zhejiang Chenhui Lighting Company Limited (浙江晨輝照明有限公司). In May 2003, he joined Yongsheng Weaving as office manager. From August 2005 to December 2008, he rotated to Yongsheng Dyeing as office manager responsible for human resources, administration and purchasing management. He rotated to Yongsheng Group as head of human resources and administration department in December 2008.

Mr. Xu Bing graduated in Hubei Xiangfan Institute (襄樊學院) majoring in business administrative management in June 2002.

Mr. Zhao Ganghua (趙崗華), aged 50, is the general manager of Yongsheng Chemical Fiber. Mr. Zhao has over 15 years of experience in management. As confirmed by Mr. Zhao, he worked in 新加坡東園中國投資有限公司 (Singapore Dongyuan China Investment Company Limited*) as chairman assistant to be responsible for management of 金獅食品(西安)有限公司 (Golden Lion Food (Xi'an) Company Limited*) between February 1995 and January 1999. He further confirms that he also worked in 深圳市零售商業行業協會秘書處 (Shenzhen Franchise Association) as vice secretary-general between November 2001 and November 2002. As confirmed by Mr. Zhao, from May 2003 to December 2005, he was also the management advisory counsellor of Hangzhou Shidai Guanghua Limited (杭州時代光華有限公司). Mr. Zhao was the deputy director of Yongsheng Group between January 2007 and December 2011. Mr. Zhao joined Yongsheng Chemical Fiber as general manager as well as the chairman of the Labour Union of the Group in February 2008.

Mr. Zhao completed the enterprise management course held by Vigor Management Consulting Co., Ltd. (健峰管理技術研修中心) in March 2001 and further obtained his master of business administration from University of Ballarat in Australia in May 2003. Mr. Zhao has been a senior economist since December 2009. He was invited by Huzhou University (湖州師範學院) as guest lecturer in June 2005. He was named the "Asia Top Ten Trainer (亞洲十大培訓師)" by the International Profession Training Business Society (國際職業培訓師行業協會) in 2006.

Mr. Xu Hua (徐華), aged 48, is the supervisor of product information department of our Group responsible for product research and development and market research. Mr. Xu Hua joined Yongsheng Group in March 2011. Mr. Xu Hua has over 20 years of experience of fabric product development. Throughout his experience, as confirmed by Mr. Zhao himself, he had been the head of product development department of Yangzhou Cloth Factory (楊州布廠) from December 1993 to June 1997 and had been the head of product development department and general engineer of Yangzhou Huayuan Company Limited (楊州華源有限公司) from November 2004 to February 2011.

Mr. Xu Hua graduated from Nantong Textile Institute (南通紡織工學院) majoring in textile engineering in July 1987 and accredited as senior engineer in 2002. Mr. Xu Hua was awarded by Jiangsu Province Science and Technology Advancement Judging Committee (江蘇省科學技術進步獎評審委員會) the 3rd prize, the 3rd prize and the 2nd prize of Jiangsu Province Science and Technology Advancement Awards (江蘇省科學技術進步獎) in September 1996, October 1999 and December 2001 respectively on his projects of "High Stimulation Twisted Peach Skin flannel" (高仿真倍捻桃皮絨), "The Ultrafine Composite Fabric Thread" (超細複合織物摩絲) and "The Sea-island Ultrafine Composit Synthetic Chamoic Leather" (海島極細複合纖維織物麂皮). He was appraised by People's Government of Jiangsu Province in September 1997 for the achievement made from his work in relation to technological transformation in production between 1991 and 1996. He was also named as the "Young Professional with outstanding contribution (有突出貢獻的中青年專家)" by People's Government of Yangzhou in February 2006 and awarded with 五一勞動獎章 (Five-One Labour Medal) by Yangzhou Federation of Trade Unions (揚州市總

工會) in April 2006. Furthermore, he was also named as the head of young professionals in respect of scientific technology of "333 Training Programme for Talented Individuals" (高層次人才培養工程) by Leading Group for Talented Individuals in Jiangsu Province (江蘇省人才工作領導小組) between April 2007 and December 2010.

Mr. Shi Hongxing (石紅星), aged 44, is the vice general manager and production factory director of Nantong Yongsheng. Mr. Shi joined our Group in June 2010 since incorporation of Nantong Yongsheng. As confirmed by Mr. Shi, from July 1993 to June 2008, he had been the general manager assistant and head of production department of Nantong Huatong Chemical Fiber Limited (南通華通化纖有限公司) and from August 2008 to May 2010, he had also been the general manager assistant in Shenghong Group Jiangsu Zhonglu Technology Company Limited (盛虹集團江蘇中鱸科技股份有限公司).

Mr. Shi obtained his bachelor degree majoring in chemical fiber from Suzhou Silk Technical Institute (蘇州絲綢工學院) in July 1993. Mr. Shi has also been accredited as a senior engineer since December 2008.

COMPANY SECRETARY

Mr. Leung Ho Yan, Julian (梁浩仁), aged 34, was appointed as the Company Secretary on 7 November 2013. His biographical details are set out above under the paragraph headed "Senior Management" of this section.

BOARD COMMITTEES

Audit Committee

We have established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The audit committee consists of three independent non-executive Directors namely, Wong Wai Ling (黃慧玲), Duan Xiaoping (端小平) and Shiping James Wang. The chairman of the audit committee is Wong Wai Ling (黃慧玲). The primary duties of the audit committee are to assist our Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of our Group, overseeing the audit process and performing other duties and responsibilities assigned by our Board.

Remuneration Committee

We have established a remuneration committee with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The remuneration committee consists of Wong Wai Ling (黃慧玲), Mr. Zhao and Duan Xiaoping (端小平). The chairman of the remuneration committee is Wong Wai Ling (黃慧玲). The primary duties of the remuneration committee are to evaluate the performance and make recommendations to our Board regarding the remuneration package of our Directors and senior management and employee benefit arrangements, so as to ensure that the levels of remuneration and compensation are appropriate.

Nomination Committee

We have established a nomination committee with written terms of reference as recommended under the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The nomination committee consists of Mr. Li, Duan Xiaoping (端小平) and Shiping James Wang. The chairman of the nomination committee is Mr. Li. The primary function of the nomination committee is to make recommendations to our Board on the appointment and removal of Directors.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management receive compensation in the form of salaries, bonuses, other allowances and benefits in kind, including society security insurance for our executive Directors. We determine our Directors' (including independent non-executive Directors) salaries based on each Director's qualification, position and seniority. In addition to salaries, our Directors may receive discretionary bonuses and/or options under the Share Option Scheme. The aggregate amount of remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses) which was paid to our Directors for each of the three years ended 31 December 2012 and the six months ended 30 June 2013 was RMB747,000, RMB1,031,000, RMB444,000, and RMB362,000 respectively. Details of the remuneration of each individual Director during the Track Record Period are set out in note 28 to the Accountant's Report in Appendix I to this prospectus.

The aggregate amount of remuneration (including salaries and allowances, discretionary bonuses and social security insurance) which were paid to our five highest paid individuals (excluding the Directors) for each of the three years ended 31 December 2012 and the six months ended 30 June 2013 were RMB499,000, RMB386,000, RMB1,051,000, and RMB1,068,000 respectively.

No remuneration was paid by our Group to our Directors or the five highest paid individuals as an inducement to join or upon joining our Group or as a compensation for loss of office in the Track Record Period.

EMPLOYEES

As at 30 June 2013, our Group had 533 employees. Set out below is a breakdown of the number of our full-time employees by function:

Division	Number of employees
PRC	
Production	314
Quality control	18
Research and development	54
Support and others	61
Accounting and finance	15
Administration and management	33
Sales and marketing	15
Procurement	3
Trading	14
Hong Kong	
Support and others	1
Accounting and finance	2
Administration and management	1
Trading	2
Total	533

The Local Labour and Social Protection Bureau or the institution under its supervision and management has confirmed that no contravention of labour laws and regulations by us has been noted. As advised by our PRC Legal Advisers, we have complied with the relevant labour laws and regulations (including but not limited to the Employment Contracts Law of the PRC (《中華人民共和國勞動合同法》)).

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarised in Appendix VI to this prospectus.

COMPLIANCE ADVISOR

We will appoint Sole Bookrunner as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules.

Pursuant to Rule 3A.23 of the Listing Rules, the compliance advisor will advise us on the following matters:

(i) the publication of any regulatory announcement, circular or financial report;

(ii) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;

(iii) where we propose to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and

(iv) where the Stock Exchange makes an inquiry with us regarding unusual movements in the price or trading volume of the Shares.

The term of the appointment shall commence on the Listing Date and end on the date on which the Company complies with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year after the Listing Date, subject to extension by mutual agreement.

So far as our Directors are aware, immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares that may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme or the Over-allotment Option and without taking into account the arrangement under the Stock Borrowing Agreement), the following persons will have interests or short positions in our Shares or underlying Shares which will fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any of our subsidiaries:

Long Positions in our Shares

Name	Capacity	Number of Shares	Approximate percentage of issued Shares
Ever Thrive	Beneficial owner	206,471,700	51.62%
Shun Sheng	Beneficial owner	93,528,300	23.38%
Mr. Li(1)	Interest of controlled corporations	300,000,000	75%
Ms. Chen Fangqin(2)	Interest of Spouse	300,000,000	75%

Notes:

(1) Mr. Li beneficially owns approximately 79.61% of the issued share capital of Ever Thrive. Therefore, Mr. Li is deemed or taken to be interested in all our Shares held by Ever Thrive for the purposes of the SFO. Mr. Li is the sole director of Shun Sheng and Shun Sheng is accordingly accustomed to act in accordance with Mr. Li's directions. Therefore, Mr. Li is deemed or taken to be interested in all our Shares held by Shun Sheng for the purposes of the SFO. Mr. Li is also the sole director of Ever Thrive.

(2) Ms. Chen Fangqin is the spouse of Mr. Li. Therefore, Ms. Chen Fangqin was deemed, or taken to be interested in all our Shares which are interested by Mr. Li for the purposes of the SFO.

Substantial Shareholders of our Subsidiaries

HUVIS holds 30% of the equity interest in Yongsheng Chemical Fiber as at the Latest Practicable Date. For details, please refer to the paragraph headed "Yongsheng Chemical Fiber" set out in the section headed "History and development" in this prospectus.

Save as disclosed above, our Directors are not aware of any other persons who will, immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares that may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme or the Over-allotment Option and without taking into account the arrangement under the Stock Borrowing Agreement), have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any of our subsidiaries.

Following the Listing, the following transactions are expected to continue between our Group and the relevant connected persons (as defined in the Listing Rules), which will constitute continuing connected transactions under the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS EXEMPTED FROM REPORTING, ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS

I. Lease Agreement

On 25 December 2012, Yongsheng Dyeing and Yongsheng Group entered into an agreement pursuant to which Yongsheng Dyeing agreed to lease part of its owned land situated at Jingjiang Industry Zone (Qing Six Lane), Xiaoshan District, Hangzhou, Zhejiang Province, the PRC with a gross floor area of approximately 10,260.08 square metres to Yongsheng Group (the "**Lessee**") for a term of two years commencing from 1 January 2013 and ending on 31 December 2014 in accordance with the terms and conditions stipulated therein (the "**Lease Agreement**"). Under the Lease Agreement, Yongsheng Group would pay utilities expenses based on actual usage to Yongsheng Dyeing which would collect the same for and on behalf of the relevant service providers. Particulars of the Lease Agreement are set out below:

Date of the Lease Agreement	Lessor	Lessee	Term	Annual Rental	Particulars of occupancy
25 December 2012	Yongsheng Dyeing	Yongsheng Group	2 years	RMB930,000	Bonded warehouse, canteen and portion of the workshop with a total gross floor area of approximately 10,260.08 square metres (the "**Properties**") situated at Jingjiang Industry Zone (Qing Six Lane), Xiaoshan District, Hangzhou, Zhejiang Province, the PRC.

Reason and benefit for the transaction

During the Track Record Period, Yongsheng Group obtained the approval of Hangzhou Custom (杭州海關) to establish a bonded warehouse (保稅倉庫). Given that Yongsheng Group did not have any self-owned land or property at the relevant time, Yongsheng Group leased the Properties owned by us for establishment of the bonded warehouse and commenced its bonded warehouse storage services business since 2010. For each of the three years ended 31 December 2012 and the six months ended 30 June 2013, the aggregate amount of rental received by Yongsheng Dyeing from Yongsheng Group were approximately RMB104,000, RMB311,000, RMB622,000 and RMB440,000 respectively. As the assets, liabilities and results of operations of the trading of textile-related products previously undertaken by Yongsheng Group from 1 January 2010 up to the date of Reorganisation was included in the Group, such inter-company transaction within the Group was eliminated on consolidation.

As we expect to continue to use the bonded warehouse storage services operated by Yongsheng Group (details of which are set out in the "Master Bonded Warehouse Storage Services Agreement" below) and we do not have any specific plan for the use of the Properties, the Directors consider it would be beneficial to the Group to continue to lease the Properties to Yongsheng Group as long as the relevant rental and other terms are in line with the market rates and negotiated on arm's length basis.

Pricing basis

The rental in respect of the Lease Agreement has been determined with reference to the estimated prevailing market rate.

Annual caps

The annual aggregate rent payable by Yongsheng Group to Yongsheng Dyeing for leasing the Properties under the Lease Agreement for each of the two years ending 31 December 2014 are RMB930,000 and RMB930,000, respectively. As confirmed by our Directors, the annual rental under the Lease Agreement are determined based on the historical rental of the Properties as well as the estimated prevailing market rate of similar properties in the vicinity.

As advised by the valuer of our Company, DTZ Debenham Tie Leung Limited, the annual market rental chargeable under the Lease Agreement represents the market rental and the terms are fair, reasonable and on normal commercial terms.

Listing Rules Implications

As Yongsheng Group is an associate of Mr. Li, the Chairman, the executive Director and the Controlling Shareholder, the transaction contemplated under the Lease Agreement constitutes a continuing connected transaction of our Company after the Listing. Since each of the applicable percentage ratios (other than the profits ratio) under the Listing Rules for the Lease Agreement is less than 0.1%, the Lease Agreement is exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

II. Master Bonded Warehouse Storage Services Agreement

On 7 November 2013, Yongsheng Group and Yongsheng Dyeing entered into an agreement pursuant to which Yongsheng Group agreed to provide its storage services in the Properties to our Group from time to time for a term of two years commencing from 1 January 2013 and ending on 31 December 2014 in accordance with the terms and conditions stipulated therein (the "**Master Bonded Warehouse Storage Services Agreement**").

Pricing basis

The service charges for the storage services provided under the Master Bonded Warehouse Storage Service Agreement will be calculated on a daily basis in tonnage terms and shall be agreed by Yongsheng Group and our Group with reference to, among other things, the terms to be offered to our Group by Independent Third Parties and the then prevailing service charges of comparable services in the market. The agreed service charges shall be no less favourable than the then prevailing service charges of comparable services in the market.

Reason and benefit for the transaction

During the Track Record Period, Yongsheng Group obtained the approval of Hangzhou Custom (杭州海關) to establish a bonded warehouse (保稅倉庫). Given that Yongsheng Group did not have any self-owned land or property at the relevant time, Yongsheng Group leased the Properties owned by us for establishment of the bonded warehouse and commenced its bonded warehouse storage services business since 2010. For each of the three years ended 31 December 2012 and the six months ended 30 June 2013, the aggregate amount of service charges paid by our Group to Yongsheng Group were nil, approximately RMB62,000, RMB625,000 and RMB211,000 respectively. As the assets, liabilities and results of operations of the trading of textile-related products previously undertook by Yongsheng Group from 1 January 2010 up to the date of Reorganisation was included in the Group, such inter-company transaction within the Group was eliminated on consolidation.

As the Group used the bonded warehouse storage services provided by Yongsheng Group during the Track Record Period and is expected to continue to use the bonded warehouse storage services provided by Yongsheng Group. The Directors consider it would be beneficial to the Group to continue to use the bonded warehouse storage services provided by Yongsheng Group and close to our production site so far as the relevant service charge and other terms are in line with the market rates.

Annual caps

The annual aggregate service charges payable by our Group to Yongsheng Group for the storage services under the Master Bonded Warehouse Storage Services Agreement for each of the two years ending 31 December 2014 are RMB600,000 and RMB720,000 respectively. As confirmed by our Directors, the annual caps under the Master Bonded Warehouse Storage Services Agreement are determined based on (i) the historical service charges paid by our Group to Yongsheng Group; (ii) our Group's intention to increase the use of the bonded warehouse storage services provided by Yongsheng Group given that our use of Yongsheng Group's bonded warehouse storage services is only a small portion compared to our use of other service providers' bonded warehouse storage services; and (iii) a reasonable increase of service charges to be charged by Yongsheng Group taken into account the potential inflation for each of the two year ending 31 December 2014.

Our Directors consider the daily storage fee chargeable under the Master Bonded Warehouse Storage Services Agreement represents the market rental and the terms are fair, reasonable and on normal commercial terms.

Listing Rules Implications

As Yongsheng Group is an associate of Mr. Li, the Chairman, the executive Director and the Controlling Shareholder, the transactions contemplated under the Master Bonded Warehouse Storage Services Agreement constitute continuing connected transactions of our Company upon the Listing. Since each of the applicable percentage ratios (other than the profits ratio) under the Listing Rules for the Master Bonded Warehouse Storage Services Agreement is less than 0.1%, the Master Bonded Warehouse Storage Services Agreement is exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS SUBJECT TO THE REPORTING, ANNUAL REVIEW, ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS

III. Master Procurement Agreement

On 12 November 2013, HUVIS and Yongsheng Chemical Fiber entered into an agreement pursuant to which our Group agreed to purchase textile-related products for trading and production of differentiated polyester filament yarn from HUVIS and/or its associate(s) from time to time for a term of three years commencing from 1 January 2013 and ending on 31 December 2015 in accordance with the terms and conditions stipulated therein (the "**Master Procurement Agreement**").

For each of the three years ended 31 December 2012 and the six months ended 30 June 2013, the aggregate amount paid by the Group mainly for purchasing POY for production of differentiated polyester filament yarn and trading from HUVIS and its associate were approximately RMB14,981,000, RMB13,629,000, RMB29,297,000 and RMB29,039,000 respectively.

Pricing basis

The purchasing prices for our products shall be agreed by our Group and HUVIS and/or its associate(s) with reference to, among other things, the terms to be offered to our Group by Independent Third Parties and the then prevailing purchasing prices of comparable products in the market. The agreed purchasing prices shall be no less favourable than the then prevailing purchasing prices of comparable products in the market.

Reason and benefit for the transaction

Our Group purchased POY mainly for production of differentiated polyester filament yarn from HUVIS during the Track Record Period and is expected to continue to purchase POY from HUVIS and/or its associate(s) for manufacturing and in addition, for trading of the same. The Master Procurement Agreement will ensure a steady supply of textile-related products which is important for our Group's existing production and trading business expansion. Our Directors also consider that the Master Procurement Agreement could improve the quality of our textile-related products, enhance our competitiveness and maintain our strategic cooperation relationship with HUVIS.

Annual caps

The annual aggregate amount payable by our Group to HUVIS and/or its associate(s) for the purchase of textile-related products for trading and manufacturing purposes under the Master Procurement Agreement for each of the three years ending 31 December 2015 are RMB60,000,000, RMB68,000,000 and RMB80,000,000 respectively. The annual caps under the Master Procurement Agreement are determined based on (i) the historical amount paid by our Group for purchasing POY for production purpose, including the sum of RMB29,039,000 paid for the six months ended 30 June 2013; (ii) the expected additional purchase of POY by our Group for trading purpose as estimated by our management team; (iii) the expected increase in demand of POY as well as our Group's differentiated polyester filament yarn products as estimated by our management team, which is based on the expected increase in domestic demand and consumption for end products of apparel with special features which requires differentiated polyester filament yarn and the fast-growing trend for differentiated polyester filament yarn in China as illustrated in the Ipsos Report and (iv) a reasonable increase of purchase price to be charged by HUVIS taken into account the potential inflation for the year ending 31 December 2013, 2014 and 2015.

Listing Rules Implications

As HUVIS is a substantial shareholder of Yongsheng Chemical Fiber, a non-wholly owned subsidiary of our Company, the transactions contemplated under the Master Procurement Agreement constitute continuing connected transactions of our Company upon the Listing. Since one or more of the applicable percentage ratios (other than the profits ratio) for the Master Procurement Agreement is/are more than 5%, the Master Procurement Agreement is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Confirmation from our Directors

Our Directors (including the independent non-executive Directors) are of the view that the entering into of and the transactions contemplated under the Master Procurement Agreement are and will be in the ordinary and usual course of business of our Group and on normal commercial terms. The terms and conditions of the Master Procurement Agreement (including the annual caps as set out above) are fair and reasonable and in the interests of our Company and its Shareholders as a whole.

Confirmation from the Sponsor

The Sponsor is of the view that the entering into of and the transactions contemplated under the Master Procurement Agreement are and will be in the ordinary and usual course of business of our Group and on normal commercial terms. The terms and conditions of the Master Procurement Agreement (including the annual caps as set out above) are fair and reasonable and in the interests of our Company and its Shareholders as a whole.

Waiver from the Stock Exchange

As the transactions contemplated under the Master Procurement Agreement described above will continue after the Listing Date, our Company considers that strict compliance with the announcement and the independent shareholders' approval requirements would be impractical and would add unnecessary administrative costs to our Group. As such, we have applied to the Stock Exchange, and the Stock Exchange has granted a waiver to us from strict compliance with the announcement and the independent shareholders' approval requirements relating to the Master Procurement Agreement under the Listing Rules, subject to the aggregate value of the transactions contemplated under the Master Procurement Agreement for each financial year does not exceed the relevant cap as stated above.

We will comply with the requirements specified under Rule 14A.42(3) of the Listing Rules.

The authorised and issued share capital of our Company is as follows:

Authorised share capital:		*HK$*
2,000,000,000	Shares	20,000,000

Assuming the Over-allotment Option is not exercised and without taking into account any Share which may be issued upon exercise of any options that may be granted under the Share Option Scheme, our share capital immediately following the Capitalisation Issue and the Share Offer will be as follows:

Shares		*HK$*
2,672,990	Shares in issue as at the date of this prospectus	26,729.9
297,327,010	Shares to be issued pursuant to the Capitalisation Issue	2,973,270.1
100,000,000	Shares to be issued pursuant to the Share Offer	1,000,000
400,000,000		4,000,000

Assuming the Over-allotment Option is exercised in full and without taking into account any Share which may be issued upon exercise of any options that may be granted under the Share Option Scheme, our Company's share capital immediately following the Capitalisation Issue and the Share Offer will be as follows:

Shares		*HK$*
2,672,990	Shares in issue as at the date of this prospectus	26,729.9
297,327,010	Shares to be issued pursuant to the Capitalisation Issue	2,973,270.1
15,000,000	Shares to be issued pursuant to the Over-allotment Option	150,000
100,000,000	Shares to be issued pursuant to the Share Offer	1,000,000
415,000,000		4,150,000

According to Rule 8.08 of the Listing Rules, at the time of the Listing and at all times thereafter, we must maintain the "minimum prescribed percentage" of 25% of our issued share capital in the hands of the public.

RANKING

The Offer Shares will rank *pari passu* in all respects with all our Shares now in issue or to be issued as mentioned in this prospectus, and, in particular, will qualify in full for all dividends or other distributions declared, made or paid on our Shares in respect of a record date which falls after the date of Listing other than participation in the Capitalisation Issue.

CAPITALISATION ISSUE

Pursuant to the resolutions of our Shareholders passed on 7 November 2013, subject to the share premium account of our Company being credited as a result of the issue of Offer Shares pursuant to the Share Offer, our Directors are authorised to allot and issue a total of 297,327,010 Shares credited as fully paid at par to the holders of Shares on the register of members of our Company at the close of business on 6 November 2013 (or as they may direct) in proportion to their respective shareholdings (save that no Shareholder shall be entitled to be allotted or issued any fraction of a Share) by way of capitalisation of the sum of HK$2,973,270.1 standing to the credit of the share premium account of our Company, and our Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the existing issued Shares.

GENERAL MANDATE TO ISSUE SHARES

Conditional on the conditions as stated in the section headed "Structure and conditions of the Share Offer" in this prospectus, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to allot, issue and deal with (otherwise than pursuant to a rights issue, the exercise of the Over-allotment Option and any options granted under the Share Option Scheme or scrip dividend scheme or similar arrangements, or a specific authority granted by our Shareholders) Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such securities convertible into Shares, and to make or grant offers, agreements and options which might require the exercise of such power, with an aggregate nominal value not exceeding:

(a) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Capitalisation Issue and the Share Offer (excluding Shares to be issued under the exercise of the Over-allotment Option and pursuant to the exercise of any options granted under the Share Option Scheme); and

(b) the aggregate nominal value of the share capital of our Company repurchased (if any) pursuant to the authority granted to our Directors referred to in "General Mandate to Repurchase Shares" below.

This general mandate does not cover Shares to be allotted, issued, or dealt with under a rights issue or upon the exercise of the Over-allotment Option or the options which may be granted under the Share Option Scheme. This general mandate to issue Shares will remain in effect until whichever is the earliest of :

(a) the conclusion of our Company's next annual general meeting;

(b) the expiration of the period within which our Company's next annual general meeting is required to be held by any applicable laws or the Articles of Association; or

(c) the time when it is varied or revoked by an ordinary resolution of our Shareholders at general meeting.

For further details of this general mandate, please refer to the paragraph headed "A. Further Information about our Company – 3. Written resolutions of our Shareholders passed on 7 November 2013" in Appendix VI to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Conditional on conditions as stated in the section headed "Structure and Conditions of the Share Offer" in this prospectus, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose such number of Shares as will represent up to 10% of the aggregate nominal value of our Company's share capital in issue immediately following the completion of the Capitalisation Issue and the Share Offer (excluding Shares which may be issued under the Over-allotment Option or pursuant to the exercise of the options which may be granted under the Share Option Scheme).

This general mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares may be listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and made in connection with all applicable laws and regulations and the requirements of the Listing Rules. An explanatory statement related to the general mandate to purchase Shares is set out in the paragraph headed "A. Further Information about our Company – 6. Repurchase of our Shares by our Company" in Appendix VI to this prospectus.

This general mandate to repurchase Shares will remain in effect until whichever is the earliest of:

(i) the conclusion of our Company's next annual general meeting; or

(ii) the expiration of the period within which our Company's next annual general meeting is required to be held by any applicable laws or the Articles of Association; or

(iii) the time when it is varied or revoked by an ordinary resolution of our Shareholders at general meeting.

For further details of this general mandate, please refer to the paragraph headed "A. Further Information about our Company – 3. Written resolutions of our Shareholders passed on 7 November 2013" in Appendix VI to this prospectus.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. Details of the principal terms of the Share Option Scheme are summarised in the paragraph headed "D. Share Option Scheme" as set out in Appendix VI to this prospectus.

Our Group does not have any outstanding share options, warrants, convertible instruments, or similar rights convertible into the Shares as at the Latest Practicable Date.

*You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial information as of and for each of the three years ended 31 December 2012 and for the six months ended 30 June 2013, as well as the accompanying notes included in the accountant's report set out in Appendix I to this prospectus. Our consolidated financial information have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"). Potential investors should read the whole of the accountant's report set out in Appendix I to this prospectus and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to the section headed "Risk Factors" in this prospectus.*

SELECTED FINANCIAL INFORMATION AND OPERATING DATA

Selected Consolidated Financial Information

The selected consolidated statements of comprehensive income, balance sheets and cash flow information for each of the three years ended 31 December 2012 and for the six months ended 30 June 2013 set forth below are extracted from our consolidated financial statements included in the Accountant's Report set out in Appendix I to this prospectus.

The table below sets forth our selected consolidated statements of comprehensive income information for each of the three years ended 31 December 2012 and for the six months ended 30 June 2013:

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	1,565,630	2,037,346	2,210,853	1,240,999	1,110,842
Cost of sales	(1,428,006)	(1,922,937)	(2,101,708)	(1,189,489)	(1,049,615)
Gross profit	137,624	114,409	109,145	51,510	61,227
Other gains/losses, net	34,119	38,454	(3,118)	1,283	1,807
Selling expenses	(31,149)	(33,265)	(22,693)	(15,073)	(9,706)
Administrative expenses	(21,216)	(26,367)	(24,546)	(11,875)	(18,598)
Operating profit	119,378	93,231	58,788	25,845	34,730
Finance costs, net	(12,480)	(12,972)	(19,740)	(11,053)	(9,733)
Profit before income tax	106,898	80,259	39,048	14,792	24,997
Income tax expense	(23,968)	(20,248)	(6,061)	(2,402)	(5,696)
Profit for the year/period	82,930	60,011	32,987	12,390	19,301
Other comprehensive income	–	–	–	–	(321)
Total comprehensive income for the year/period	82,930	60,011	32,987	12,390	18,980

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Profit attributable to:					
Equity holders of the Company	78,217	54,206	23,173	6,253	15,461
Non-controlling interests	4,713	5,805	9,814	6,137	3,840
	82,930	60,011	32,987	12,390	19,301
Total comprehensive income attributable to:					
Equity holders of the Company	78,217	54,206	23,173	6,253	15,140
Non-controlling interests	4,713	5,805	9,814	6,137	3,840
	82,930	60,011	32,987	12,390	18,980

The table below sets forth our selected consolidated balance sheets information as at 31 December 2010, 2011 and 2012 and 30 June 2013:

	As at 31 December			As at 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	194,899	198,575	190,113	184,892
Current assets	968,688	1,071,870	891,166	427,508
Current liabilities	(1,016,544)	(1,060,990)	(829,977)	(364,454)
Net current (liabilities)/assets	(47,856)	10,880	61,189	63,054
Non-current liabilities	(19,002)	(9,565)	(59,970)	(37,629)
Net assets	128,041	199,890	191,332	210,317

The table below sets forth our selected cash flow information for each of the three years ended 31 December 2012 and for the six months ended 30 June 2013:

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Net cash generated from/(used in) operating activities	49,530	6,820	114,955	(84,391)	(94,096)
Net cash (used in)/generated from investing activities	(131,269)	(108,406)	219,144	(151,852)	236,715
Net cash generated from/(used in) financing activities	95,023	118,698	(304,070)	241,359	(206,046)
Net increase/(decrease) in cash and cash equivalents	13,284	17,112	30,029	5,116	(63,427)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We are principally engaged in the trading of textile-related products, the dyeing and processing of differentiated polyester fabric, and the production of polyester filament yarn, which are three business segments associated with the textile industry in China.

We engage in trading of textile-related products which mainly includes cotton (raw material of natural yarn), PET chips/nylon chips (raw material of polyester filament yarn), PTA (raw material of PET chips), MEG (raw material of PET chips), wood pulp and cotton pulp (raw material of natural fiber) during the Track Record Period. We generally place orders and procure the textile-related products based on our best estimate of customer demand. We are led by our management team with more than 15 years of experience in the textile and trading business. Leveraging on our experience in textile industry accumulated through our involvement in different areas of the textile industry supply chain, our broad customer base and our close proximity to the hub of the textile industry in China, our management are able to estimate demand from our customers by making reference to the previous purchase record of our customers and the local shortage of textile-related products. We may also gather information about the textile industry such as market price trends and demand, in order to analyse the market trends which we may consider when we carry out our trading operating decisions. Furthermore, we would send our staff members to Xinjiang from time to time to assess the supply of cotton as Xinjiang is a major production area of cotton in the PRC. Since we are involved in the production of polyester filament yarn, we believe that we are familiar with the market needs for the textile-related products.

We dye and/or process differentiated polyester fabric from our customers or from our own sourcing. We provide dyeing and processing services on differentiated polyester fabric provided by our customers, in return for processing fee. We also sourced differentiated polyester fabric for further dyeing and processing to conduct direct sales of such finished differentiated polyester fabric to other customers. Our products include various types of synthetic chamois leather. As at 30 June 2013, we had a dyeing and processing capacity of approximately 48 million metres of differentiated polyester fabric per year. We plan to further increase our processing capacity at our Dyeing Facilities to approximately 57 million metres of differentiated polyester fabric per year by the addition of one more processing line by December 2014.

Furthermore, we are a developer and manufacturer of regular and differentiated polyester filament yarn in China. Our products include various types of polyester filament yarn that can be classified into two main categories, regular polyester filament yarn and differentiated polyester filament yarn. During the Track Record Period, the majority of our sales of polyester filament yarn are regular polyester filament yarn, but we are aiming to gradually focus our production and sales on differentiated polyester filament yarn due to its higher profit margin. As at the Latest Practicable Date, the total production capacity at our Fiber Facilities and our Nantong Facilities was approximately 14,600 tpa and 10,900 tpa respectively, with a total production capacity for polyester filament yarn of approximately 25,500 tpa, assuming all our production lines are in operation. We plan to further increase our production capacity at Nantong Facilities by the addition of four production lines by December 2014, which would increase our production capacity by approximately 7,600 tpa. At completion of our expansion, we expect to have a total production capacity of approximately 33,100 tpa of polyester filament yarn at our Fiber Facilities and Nantong Facilities.

One of our differentiated polyester filament yarn products, SPH, which has bright colour, lasting elasticity and a linen-like and cotton-like feel, was developed by us in the PRC. Our SPH could be used to manufacture fabric for the production of, among others, men's dress shirts and pants, and women's dresses. Other products, such as SSY, could be used by fabric manufacturers for production of, among others, lycra fabric and leisure wear. Our differentiated polyester filament yarn also have other special features such as anti-bacterial, ultraviolet resistant, water absorbing, anti-abrasion, ultra-soft, ultra-white, and ultra-bright qualities.

We position ourselves to aim to focus on the niche market of differentiated polyester filament yarn production and differentiated polyester fabric processing as it represented a higher value and have a competitive edge over the production of regular polyester filament yarn production and regular polyester fabric dyeing and processing, and as a result we could gain a higher profit margin. We are also committed to research and development regarding production of differentiated polyester filament yarn and dyeing and processing technique of differentiated polyester fabric. Supported by our research and development team consisting of 54 personnel as at 30 June 2013, we have developed 21 types of differentiated polyester filament yarn and is in the process of developing three different types of differentiated polyester filament yarn, in which the production of those differentiated filament yarn is expected to commence by early 2014. We expect these newly developed differentiated polyester filament yarn shall increase our market share and expand our products portfolio which could increase our sales and expand our customer base and satisfy our customers' diverse needs. Furthermore, as at 30 June 2013, we have developed seven differentiated polyester fabric dyeing techniques and we intend to develop two more differentiated polyester fabric dyeing techniques for improving the dyeing quality of our differentiated polyester fabric by the end of 2013. Furthermore, we have also cooperated with third parties, such as suppliers and universities, in relation to certain research and development projects on dyeing and processing fabric technique and production of polyester filament yarn technique. For example, in 2009, we entered into a cooperation agreement with one of our suppliers, Shanghai ANOKY Textile Chemicals Co., Ltd. 上海安諾其紡織化工股份有限公司 for research and development of 超細纖維織物環保染色技術研究 (environmental friendly dyeing technique for micro-fiber fabric*). In 2010, we began our technological cooperation with 嘉興學院 (Jiaxing University*) for the research and development of 納米氧化亞銅抗菌劑及抗菌纖維 (nano copper oxide anti-bacterial agents and anti-bacterial polyester filament yarn*). The aforesaid project was categorised as one of 2010年重大科技專項和優先主題項目 (2010 major and prioritised science and technology project*) by 浙江省科學技術廳 (Science Technology Department of Zhejiang Province*). Furthermore, during the Track Record Period, we entered into certain agreements with HUVIS (a company listed on the Korea Exchange) on specific product know-how, pursuant to which HUVIS granted us rights to use the specific product know-how. For further details of the aforesaid research and development cooperation, please refer to the paragraph headed "Research and development" in the section headed "Business" of this prospectus.

We have a diverse customer base. For each of the three years ended 31 December 2010, 2011 and 2012 and the twelve months ended 30 June 2013 respectively, we had transactions with approximately 620, 800, 910 and 940 customers respectively during the relevant year. We have both domestics and overseas customers for the aforesaid three business segments, among which, sales to our domestic customers accounted for 81.2%, 76.9%, 89.0% and 77.9% of our revenue for each of the three years ended 31 December 2012 and for the six months ended 30 June 2013. Our customers of our polyester filament yarn business consist of fabric manufacturers which are mainly located in Zhejiang Province and Jiangsu Province. The end applications of our polyester filament yarn products mainly include various style of apparel products and home furnishing products. In addition to sales to our domestic customers, we also export a portion of our polyester filament yarn to Egypt, Syria, Thailand and Iran. Our customers of our fabric dyeing and processing business mainly consist of home furnishing and sofa manufacturers which are mainly located in Zhejiang Province and Jiangsu Province. Our fabric dyeing and processing business also include some overseas customers located in the US, Brazil and Canada. Our customers of our trading business mainly consist of both trading companies and manufacturers of textile-related products which are mainly located in different regions of the PRC. We also sell a portion of our textile-related products to customers located in Switzerland and Hong Kong.

For each of the three years ended 31 December 2012 and for the six months ended 30 June 2013, our revenue were approximately RMB1,565.6 million, RMB2,037.3 million, RMB2,210.9 million and RMB1,110.8 million respectively. Our gross profit for the same periods were approximately RMB137.6 million, RMB114.4 million, RMB109.1 million and RMB61.2 million respectively, our gross profit margin for the same periods were approximately 8.8%, 5.6%, 4.9% and 5.5% respectively, and our net profit for the same periods were approximately RMB82.9 million, RMB60.0 million, RMB33.0 million and RMB19.3 million respectively. The gross profit margin of our trading segment were approximately 8.5%, 4.8%, 2.1% and 1.6% respectively for each of the three years ended 31 December 2012 and for the six months ended 30 June 2013. In relation to our fabric dyeing and processing segment, the gross profit margin were approximately 23.9%, 23.6%, 31.6% and 34.0% respectively for each of the three years ended 31 December 2012 and for the six months ended 30 June 2013. The gross profit margin of our polyester filament yarn production for each of the three years ended 31 December 2012 and for the six months ended 30 June 2013 were approximately 3.9%, 3.4%, 10.3% and 17.2% respectively. Our Directors consider that the relatively lower gross profit margin for our production of polyester filament yarn in 2010 and 2011 is mainly due to the fact that sales of our products are mainly concentrated on the regular polyester filament yarn products, which has a lower or negative gross margin, as compared to that of differentiated polyester filament yarn products, which has a higher gross profit margin and which we gradually shifted our focus to in 2012 and the six months ended 30 June 2013.

In sum of the above factors, as we are engaged in the trading of textile-related products, the dyeing and processing of differentiated polyester fabric, and the production of polyester filament yarn, which are three business segments associated with the textile industry in China, we are well positioned to gain access to industry news and market information for better understanding of the market trend and customers' requirement in the textile industry as a whole. We also have the advantage of being able to develop networking and connections with different industry players, which may become our potential customers. Leveraging on our comprehensive integrated knowledge and experience in the textile industry, we strive to continue to develop our businesses on trading of textile-related products, the dyeing and processing of differentiated polyester fabric as well as the manufacturing of polyester filament yarn. In particular, we consider our differentiated polyester filament yarn production and dyeing and processing of differentiated polyester fabric to have a stronger development potential and could lead to a higher growth drive for our Group in the future, as indicated by (i) the higher gross profit margin in the relevant segments during the Track Record Period; (ii) the favourable policy in the textile manufacturing industry launched by the PRC government, including the Twelfth Five-Year Plan, under which significant funding was provided by the PRC government for the restructuring and development of China's textile manufacturing industry, especially the polyester filament yarn industry; (iii) the expected increase in domestic demand and consumption for end products of apparel with special features which requires differentiated polyester filament yarn; and (iv) the fast-growing trend for differentiated polyester filament yarn and dyeing and processing fabric service in China as illustrated in the Ipsos Report, in which the CAGR of total estimated revenue and production volume of differentiated polyester filament yarn in China from 2013 to 2017 is expected to be approximately 15.9% and 13.1% respectively while the CAGR of total estimated revenue and production volume of dyeing and processing fabric service in China from 2013 to 2017 is expected to be approximately 15.0% and 5.3% respectively.

Basis of Presentation

Immediately prior to and after the Reorganisation, the developing and manufacturing of polyester filament yarn, the provision of dyeing services of differentiated polyester filament fabric and trading of textile-related products in the PRC ("**Listing Business**") is held by the Controlling Shareholder and family, as well as the individual shareholders at the same shareholding percentage and through the four subsidiaries (namely Hangzhou Yongsheng Trading, Nantong Yongsheng, Yongsheng Chemical Fiber and Yongsheng Dyeing). Pursuant to the Reorganisation, these four subsidiaries are transferred to and held by the Company. The Company has not been involved in any other business prior to the Reorganisation and do not meet the definition of a business. The Reorganisation is merely a reorganisation of the Listing Businesses with no change in management of such business and the ultimate owners of the Listing Business remain the same. Accordingly, the accompanying financial information of the companies now comprising our Group is presented using the carrying values of the Listing Businesses for each of the three years ended 31 December 2012 and for the six months ended 30 June 2013 (the "**Relevant Periods**"). This financial information also included the assets, liabilities and results of operations of the trading of textile-related products business previously undertook by Yongsheng Group and Yongsheng Holdings from 1 January 2010 up to the date of completion of the Reorganisation.

During the Relevant Periods, Yongsheng Group and its subsidiary were engaged (i) in trading of textile-related products and (ii) production and sale of those products not relating to the Listing Businesses and other equity investment business (the "**Dissimilar Businesses**"). Yongsheng Group and the subsidiary do not and have never formed part of the Listing Group.

The financial information of the Dissimilar Businesses is not included in the consolidated financial statements, because (i) such businesses had historically been managed by separate management teams different from that of the Listing Businesses, (ii) such businesses were dissimilar from the Listing Businesses in terms of business risks and rewards, customer bases and content and had not formed part of our Group pursuant to the Reorganisation, and (iii) such businesses had limited shared facilities and few inter or intra company transactions with the Listing Businesses.

As Yongsheng Trading (HK) was not under the same management and owners of the Listing Business prior to the Reorganisation, its results have not been included in the financial information of our Group. Instead, acquisition method of accounting for business combinations has been applied to such acquisition at the time when our Company obtained control in Yongsheng Trading (HK).

Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on combination.

Factors Affecting Our Results of Operations and Financial Condition

Our business performance and financial condition have been affected by a number of important factors which we believe will continue to affect our financial condition and results of operations in the future. Our results are primarily affected by the following factors:

General economic conditions and the growth in disposable income of PRC residents

We derive a substantial portion of our revenue from sales in China. According to the Ipsos Report, despite the global economic downturn in 2008 to 2009, China's average annual disposable income per capita for urban households in China grew from approximately RMB11,800 in 2006 to approximately RMB24,600 in 2012, at a CAGR of approximately 13.0%. According to the Ipsos Report, the total revenue of yarn, fabric, garment and home furnishing manufacturing and dyeing and processing service in China grew at CAGR of approximately 11.5%, 13.2%, 12.6% and 15.4% respectively between 2006 and 2012, whereby they are expected to grow at CAGR of approximately 11.3%, 15.0%, 10.7% and 15.0% respectively from 2013 to 2017. With this steady growth, a number of apparel, footwear and home furnishing manufacturers have emerged and grown rapidly in the past several years, along with numerous fabric and textile manufacturers. The demand for our products increased during the Track Record Period as a result of the expansion of textile industry in China as indicated above.

Our main customers for polyester filament yarn production and dyeing and processing business consist of downstream manufacturers based in China who engage in the production of differentiated fabric as well as manufacture of home furnishings and sofa. Our main customers for trading business consist of manufacturing companies and trading companies based in China. Accordingly, consumer demand in the PRC for those consumer products is one of the key drivers of our revenue. Such demand depends in large part on the general economic conditions in the PRC, the growth in disposable income of the PRC residents and their consumption patterns. We expect the increase in the purchasing power of the PRC residents to positively affect our results of operations.

Group strategy and management decisions

Our Group's future business and profitability will be affected by group strategy and management decisions. As mentioned in the paragraph headed "Our business strategies" in the "Business" of the prospectus, it is one of our Group's strategies to enhance our business of differentiated polyester filament yarn production and differentiated polyester fabric dyeing and processing through our research and development effort. Since our dyeing and processing and differentiated polyester filament yarn production businesses are of higher gross profit margin, our strategy to enhance such business and the expected continuous growth in its revenue and gross profit will mitigate the impact of any fluctuations in gross profit margin of our trading business.

Management decisions are essential to the successful operations of our business. For example, our management needs to determine the quantity and appropriate purchase price of raw materials based on their estimate of customer demand and expectation of future price trend. In case such decisions are made on the basis of inaccurate estimate and expectation, our future business and profitability will be adversely affected.

Pricing of our products and product mix

We believe our ability to continue to price our products at profitable levels is important to our financial performance. The following table sets forth the revenue, sales volume and the average sales prices by segments and product for each of the three years ended 31 December 2012 and for the six months ended 30 June 2013:

Fabric dyeing and processing

	Year ended 31 December															Six months ended 30 June									
	2010					2011					2012					2012 (unaudited)					2013				
	Revenue	Percentage	Sales volume	Percentage	Average Unit Price	Revenue	Percentage	Sales volume	Percentage	Average Unit Price	Revenue	Percentage	Sales volume	Percentage	Average Unit Price	Revenue	Percentage	Sales volume	Percentage	Average Unit Price	Revenue	Percentage	Sales volume	Percentage	Average Unit Price
	RMB'000	%	('000 metres)	%	(RMB/ metre)	RMB'000	%	('000 metres)	%	(RMB/ metre)	RMB'000	%	('000 metres)	%	(RMB/ metre)	RMB'000	%	('000 metres) (unaudited)	%	(RMB/ metre)	RMB'000	%	('000 metres)	%	(RMB/ metre)
Processing activity	59,034	59.9%	23,973	87.9%	2.5	79,322	70.5%	35,747	92.8%	2.2	83,479	70.9%	35,558	92.3%	2.3	40,589	77.4%	12,596	91.9%	3.2	39,072	65.3%	16,874	89.7%	2.3
Direct sales	39,534	40.1%	3,309	12.1%	11.9	33,245	29.5%	2,756	7.2%	12.1	34,184	29.1%	2,983	7.7%	11.5	11,818	22.6%	1,103	8.1%	10.7	20,796	34.7%	1,930	10.3%	10.8
	98,568	100.0%	27,282	100.0%		112,567	100.0%	38,503	100.0%		117,663	100.0%	38,541	100.0%		52,407	100.0%	13,699	100.0%		59,868	100.0%	18,804	100.0%	

We set the fabric dyeing and processing unit price based on a variety of factors, including complexity of the dyeing and processing techniques involved and thickness of the fabric processed.

During the Track Record Period, more than 80% of our processing volume was devoted for providing dyeing and processing services on blank differentiated polyester fabric provided by our customers, in return for processing fees ("**Processing Activity**"). In order to increase the utilisation of the capacities of our dyeing and processing facilities, during the Track Record Period, we also sourced differentiated polyester fabric for further dyeing and/or processing to conduct direct sales of such finished differentiated polyester fabric to other customers ("**Direct Sales**").

Average unit price for Processing Activity remained stable during the Track Record Period with small fluctuations year on year, depending on the types and complexities of the orders placed by our processing customers. Average unit price for Processing Activity decreased from RMB3.2 per metre for the six months ended 30 June 2012 to RMB2.3 per metre for the six months ended 30 June 2013 as the fabric we processed during the first half of 2013 were on average thinner than those processed during the first half of 2012, which unit price is on average lower as well.

Average unit price for Direct Sales increased slightly by approximately 1.7% from 2010 to 2011 and then decreased by approximately 5.0% in 2012. Such fluctuation in price was mainly caused by the changes in purchasing price of fabric during the Track Record Period. Average unit price for direct sales remained stable from the six months ended 30 June 2012 to the six months ended 30 June 2013.

Polyester filament yarn production

	Year ended 31 December														
	2010					2011					2012				
	Revenue	Percentage	Sales volume	Percentage	Average Unit Sales Price	Revenue	Percentage	Sales volume	Percentage	Average Unit Sales Price	Revenue	Percentage	Sales volume	Percentage	Average Unit Sales Price
	RMB'000	%	(tonnes)	%	(RMB/ tonne)	RMB'000	%	(tonnes)	%	(RMB/ tonne)	RMB'000	%	(tonnes)	%	(RMB/ tonne)
Regular products	198,138	84.1%	17,902	91.1%	11,068	276,756	75.6%	18,632	82.3%	14,854	182,873	54.0%	14,424	66.4%	12,678
Differentiated products	37,398	15.9%	1,759	8.9%	21,261	89,490	24.4%	3,994	17.7%	22,406	155,659	46.0%	7,290	33.6%	21,352
	235,536	100.0%	19,661	100.0%	11,980	366,246	100.0%	22,626	100.0%	16,187	338,532	100.0%	21,714	100.0%	15,590

	Six months ended 30 June									
	2012 (unaudited)					2013				
	Revenue	Percentage	Sales volume	Percentage	Average Unit Sales Price	Revenue	Percentage	Sales volume	Percentage	Average Unit Sales Price
	RMB'000	% (unaudited)	(tonnes)	%	(RMB/ tonne)	RMB'000	%	(tonnes)	%	(RMB/ tonne)
Regular products	86,677	53.0%	6,692	66.1%	12,952	33,627	21.6%	2,934	32.3%	11,461
Differentiated products	76,779	47.0%	3,434	33.9%	22,358	122,065	78.4%	6,141	67.7%	19,877
	163,456	100.0%	10,126	100.0%	16,142	155,692	100.0%	9,075	100.0%	17,156

We set the sales prices of our polyester filament yarn products based on a variety of factors, including raw material prices, quality and specification of our products, and payment method of our customers.

During the Track Record Period, our differentiated products were generally sold at higher prices on average than regular products because (1) to the best knowledge of our Directors, filament yarn with similar characteristics to our regular products were mass produced by our competitors and were used to produce low-end products such as blankets; (2) differentiated polyester filament yarn are used to produce high-end and functional polyester fabric such as ultra-bright fabric, micro denier fabric and fine denier fabric; and (3) production of differentiated products requires more advanced technology than regular products. Please refer to paragraph headed "Price trend of regular and differentiated polyester filament yarn in China" in the "Industry overview" section to this prospectus for further explanation on why differentiated products are more expensive than regular products. Depending on raw material costs, number and complexity of processing procedures and inventory level, the prices of our differentiated polyester filament yarn may vary from time to time.

The average unit sales price of our polyester filament yarn products increased from RMB11,980 per tonne for 2010 to RMB16,187 per tonne for 2011 and then decreased to RMB15,590 per tonne for 2012. The average unit sales price of our regular and differentiated products follow such trend as well. Average unit sales price for both regular and differentiated products decreased from the six months ended 30 June 2012 to the six months ended 30 June 2013. Such trend was consistent with Ipsos Report as detailed in paragraph headed "Price trend of regular and differentiated polyester filament yarn in China" in the "Industry overview" section to this prospectus.

The average sales price of our regular filament yarn products fluctuated significantly during the Track Record Period. It increased by approximately 34.2% from RMB11,068 per tonne in 2010 to RMB14,854 per tonne in 2011 and decreased by approximately 14.7% to RMB12,678 per tonne in 2012. Average sales price decreased by approximately 11.5% from RMB12,952 per tonne for the six months ended 30 June 2012 to RMB11,461 per tonne for the six months ended 30 June 2013. Raw materials costs accounted for approximately 80% of the total costs of sales of our regular filament yarn products during the Track Record Period. Hence, any fluctuation in the market price of raw materials would have significant effect to the price of our regular filament yarn products. The raw materials of our regular filament yarn products mainly consists of POY, FDY and PET chips, the prices of which also fluctuated in line with the fluctuation of price of our regular filament yarn products during the Track Record Period. For example, the price of POY increased by approximately 25.0% from 2010 to 2011 and decreased by approximately 9.9% from 2011 to 2012.

On the other hand, the average sales price of our differentiated products increased by approximately 5.4% from RMB21,262 per tonne in 2010 to RMB22,406 per tonne in 2011 and decreased by approximately 4.7% to RMB21,352 per tonne in 2012, fluctuating more mildly as compared to that of regular products. This is due to price of the differentiated products is relatively inelastic to fluctuations in the market price of raw materials and hence was less affected by the trend of market price of raw materials. This is because the skills and technology required for production of differentiated filament yarn products is higher and more complex than that of regular filament yarn products and accordingly their prices are less dependent on the prices of raw materials. Average sales price of our differentiated products decreased from RMB22,358 per tonne for the six months ended 30 June 2012 to RMB19,877 per tonne for the six months ended 30 June 2013 by approximately 11.1% as (1) the portion of sales of differentiated products with lower unit prices increased during the first half 2013 as compared to first half 2012, and (2) we lowered the sales prices of our differentiated products in order to expand our market share.

Production capacity and sales volume

Our results of operations have been and are expected to continue to be affected by our production capacity expansion. Please refer to the sub-paragraph headed "Further expand our production and processing capacity and improve our production and processing efficiency and product quality" under the paragraph headed "Our business strategies" in the section headed "Business" of this prospectus for more details.

(i) Fabric dyeing and processing

For each of the three years ended 31 December 2012 and the six months ended 30 June 2013, our fabric dyeing and processing capacities were approximately 38 million metres, 48 million metres, 48 million metres and 48 million metres per annum respectively. The increase from 2010 to 2011 was mainly due to the commencement of operation of a new processing line in January 2011.

The sales volume of fabric dyed and processed by us increased during the Track Record Period from approximately 27.3 million metres for the year ended 31 December 2010 to approximately 38.5 million metres for the year ended 31 December 2011 and 31 December 2012 respectively, and the growth is mainly attributable to the increase in processing capacities during 2011. Sales volume increased from approximately 13.7 million metres for the six months ended 30 June 2012 to 18.8 million metres for the six months ended 30 June 2013 mainly due to (1) the increase in customer demand, and (2) sales contributed by newly developed customers during the first half of 2013. The increase in sales volume during the Track Record Period was also attributable to the increase in the utilisation of our processing capacity during the Track Record Period.

(ii) Polyester filament yarn production

For each of the three years ended 31 December 2012, our polyester filament yarn production capacities were approximately 16,000 tpa, 22,100 tpa and 23,500 tpa respectively. For the six months ended 30 June 2013, our annualised polyester filament yarn production capacity was approximately 22,000 tpa. The increase in production capacity during 2011 was mainly due to that Nantong Yongsheng was established in 2010 and commenced operation only from September 2010 while it operated for the entire year during 2011. The increase in production capacity during 2012 was mainly due to the establishment of two new production lines in Yongsheng Chemical Fiber's production site and one new production line in Nantong

Yongsheng's production site. We plan to further increase our production capacity to approximately 33,100 tpa by December 2014 by adding four more production lines at our Nantong Facilities.

Our sales volume of polyester filament yarn increased from approximately 19,661 tonnes for the year ended 31 December 2010 to approximately 22,626 tonnes for the year ended 31 December 2011, and slightly decreased to approximately 21,714 tonnes for the year ended 31 December 2012. Sales volume decreased from approximately 10,126 tonnes for the six months ended 30 June 2012 to 9,075 tonnes for the six months ended 30 June 2013 mainly as we ceased production and sales of certain types of regular polyester filament yarn which had negative or very small gross profit margin. The increase in sales volume from 2010 to 2011 was consistent with the expansion of our production facilities. The decrease in sales volume in 2012 as compared with 2011 and decrease in sales volume for the six months ended 30 June 2013 as compared to the six months ended 30 June 2012 was mainly due to our strategy in producing and selling more differentiated products which contributed a higher gross profit margin as compared to regular products, hence we sold less of our regular products.

We believe our increasing dyeing and processing and polyester filament yarn production capacities allow us to increase our sales from dyeing and processing of differentiated polyester fabric and polyester filament yarn products.

Price of raw materials

(1) Dyeing and processing

Our primary raw materials for dyeing and processing segment are differentiated polyester fabric, which were used in direct sales to our customers. For each of the three years ended 31 December 2012 and for the six months ended 30 June 2013, the cost of fabric accounted for approximately 29.6%, 18.7%, 16.2% and 24.2%, respectively, of the total cost of sales of the dyeing and processing segment. The price of fabric is mainly affected by the costs of the polyester filament yarn used in weaving the fabric, product quality, and demand and supply of the products.

(2) Polyester filament yarn production

Our raw materials for the production of polyester filament yarn consist of POY, FDY and PET chips. For each of the three years ended 31 December 2012 and for the six months ended 30 June 2013, the cost of our raw materials accounted for approximately 85.9%, 84.5%, 79.6% and 82.6% respectively of the total cost of sales of the polyester filament yarn production business. We consider that it is important for us to obtain from our suppliers sufficient quantities of high-quality raw materials in a timely manner and at competitive prices for our production. The market price of our key raw materials, POY, FDY and PET chips are affected by product type and quality, the price of PTA and MEG, whereby PTA and MEG are the major raw materials used in production of PET chips. All POY, FDY and PET chips are crude oil downstream products and hence the prices of which are affected by the prices of crude oil-based commodities as well. For details of the price trend of our major raw materials during the Track Record Period, please refer to the paragraph headed "Price trend of cotton, MEG, PTA, nylon chips and PET chips in China" in the "Industry overview" section of this prospectus.

Gross profit and gross profit margin of trading goods

Results of our trading segment depend on the gross profit generated by various types of trading goods and whether we are able to achieve high gross profit margin in trading.

The following table sets forth gross profit and gross profit margin for each of the major trading goods during the Track Record Period.

	Year ended 31 December						Six months ended 30 June			
	2010	Gross Profit Margin	2011	Gross Profit Margin	2012	Gross Profit Margin	2012	Gross Profit Margin	2013	Gross Profit Margin
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000* (unaudited)	%	*RMB'000*	%
Cotton	51,444	16.3%	84,969	13.5%	25,453	5.1%	16,224	4.1%	9,943	7.5%
PET chips / nylon chips	6,088	3.0%	14,917	6.7%	(1,266)	-0.6%	(290)	-0.7%	935	0.6%
PTA	10,682	5.8%	6,769	3.9%	(4,011)	-0.7%	(4,057)	-1.2%	3,075	1.0%
MEG	(8,696)	-4.0%	(7,438)	-4.4%	(3,531)	-2.8%	(2,661)	-4.1%	(1,251)	-0.7%
Wood Pulp	25,214	29.9%	(24,182)	-24.1%	19,989	15.8%	6,302	4.9%	116	0.5%
Cotton Pulp	5,035	7.9%	–	–	(3,732)	-11.2%	–	–	–	–
Fabric	1,538	3.6%	1,172	2.7%	1,725	3.4%	673	3.2%	158	1.0%
Others *(Note)*	13,613	11.0%	(644)	-0.3%	2,473	2.1%	1,738	5.1%	1,160	1.2%
	104,918	8.5%	75,563	4.8%	37,100	2.1%	17,929	1.7%	14,136	1.6%

Note: Others mainly consist of trading goods of polyester/nylon filament yarn, cotton yarn and staple fiber.

Our Directors confirm that we strive to seize opportunities to buy low and sell high for each transaction in trading and to generate as high as possible the gross profit margin. Overall during the Track Record Period, we achieved gross profit in each year as a result of (1) staffs in our trading subsidiary have the experience in trading of textile-related products, and (2) our experience in different areas of the textile industry supply chain.

Despite the above, as most of the goods we traded during the Track Record Period are commodities, the prices might fluctuate over time and be affected by global supply and demand of such commodities. During the time of significant decrease in commodities prices, the gross profit margin of our trading goods might be squeezed and we might even suffer losses.

For detailed analysis of fluctuations in gross profit and gross profit margin, please refer to the paragraph headed "Gross profit and gross profit margin" under this section.

PRC taxes

Our primary business activities are conducted through our operating subsidiaries in the PRC, and thus, we are subject to PRC taxes, including but not limited to corporate income tax and value-added tax. Any change in the PRC tax system will have an impact on our Group's profitability and financial position.

Critical Accounting Policies

Our principal accounting policies are set forth in Note 3 to Section II of the Accountant's Report attached as Appendix I to this prospectus. IFRS requires that we adopt accounting policies and make estimates that our Directors believe are most appropriate under the circumstances for the purposes of giving a true and fair view of our results and financial position. Critical accounting policies are those that require management to exercise judgment and make estimates which yield materially different results if management were to apply different assumptions or make different estimates.

We make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom be equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

(a) Useful lives of property, plant and equipment

We determine the estimated useful lives for our property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. We will revise the depreciation charges where useful lives are different from previously estimated, or we will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Impairment of property, plant and equipment, land use rights and intangible assets

Impairment losses for property, plant and equipment, land use rights and intangible assets are recognised for the amount by which the carrying amount exceeds its recoverable amount in accordance with the accounting policy stated in Note 3.8 to Section II of the Accountant's Report attached as Appendix I to this prospectus. The recoverable amounts, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business, are determined with reference to the best information available at each of the balance sheet date. Changing the assumptions selected by our management in assessing impairment, including the discount rates or the operating and growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect our financial position and results of operations.

(c) Impairment of financial assets

(i) Assets carried at amortised cost

We assess at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated comprehensive income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, we may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated comprehensive income statement.

(ii) Assets classified as available for sale

We assess at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, we use the criteria referred to in (i) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated comprehensive income statement on equity instruments are not reversed through the consolidated comprehensive income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated comprehensive income statement.

(d) Net realisable value of inventories

Net realisable value of inventory is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of technical innovations, changes in customer taste and competitor actions in response to severe industry cycle. Our management reassesses these estimates at each balance sheet date.

(e) Income taxes and deferred income tax

We are subject to income taxes in a number of jurisdictions. Significant judgement is required in determining the provision for income taxes in various jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. We recognise liabilities for anticipated tax audit issues based on estimates of whether additional tax will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

Description of Components of Results of Operations

Revenue

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and provision of services in the ordinary course of our Group's activities. Sales are shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within our Group.

During the Track Record Period, our revenue by business segment for each of the three years ended 31 December 2012 and for the six months ended 30 June 2013 are analysed as follows:

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000* (unaudited)	%	*RMB'000*	%
Trading	1,231,526	78,7%	1,558,533	76.5%	1,754,658	79.4%	1,025,136	82.6%	895,282	80.6%
Dyeing and processing	98,568	6.3%	112,567	5.5%	117,663	5.3%	52,407	4.2%	59,868	5.4%
Polyester filament yarn production	235,536	15.0%	366,246	18.0%	338,532	15.3%	163,456	13.2%	155,692	14.0%
	1,565,630	100.0%	2,037,346	100.0%	2,210,853	100.0%	1,240,999	100%	1,110,842	100%

(1) Trading

	Year ended 31 December									Six months ended 30 June					
	2010			2011			2012			2012			2013		
	Revenue	Percentage	Average Unit Sales Price	Revenue	Percentage	Average Unit Sales Price	Revenue	Percentage	Average Unit Sales Price	Revenue	Percentage	Average Unit Sales Price	Revenue	Percentage	Average Unit Sales Price
	RMB'000	%	*(RMB/tonne)*	*RMB'000*	%	*(RMB/tonne)*	*RMB'000*	%	*(RMB/tonne)*	*RMB'000* (unaudited)	%	*(RMB/tonne)*	*RMB'000*	%	*(RMB/tonne)*
Cotton	315,402	25.6%	17,115	628,867	40.3%	17,614	496,031	28.3%	16,681	399,635	39.0%	16,719	132,528	14.8%	13,446
PET chips/nylon chips	200,623	16.3%	17,456	221,126	14.2%	22,972	201,484	11.5%	10,651	43,381	4.2%	14,584	148,393	16.6%	12,129
PTA	184,383	15.0%	6,675	171,969	11.0%	8,388	603,696	34.4%	7,010	334,227	32.6%	7,208	294,942	32.9%	7,413
MEG	217,293	17.6%	5,477	170,475	10.9%	7,419	127,155	7.3%	6,673	65,047	6.4%	6,524	183,875	20.5%	7,404
Wood pulp	84,383	6.8%	11,618	100,486	6.5%	6,467	126,721	7.2%	9,699	128,120	12.5%	9,791	23,080	2.6%	7,607
Cotton pulp	63,543	5.2%	10,603	–	–	–	33,249	1.9%	6,752	–	–	–	–	–	–
Fabric	43,066	3.5%	10,389	43,558	2.8%	9,455	50,090	2.8%	8,488	20,809	2.0%	6,882	15,426	1.7%	9,153
Others *(Note)*	122,833	10.0%	N/A	222,052	14.3%	N/A	116,232	6.6%	N/A	33,917	3.3%	N/A	97,038	10.9%	N/A
	1,231,526	100.0%	N/A	1,558,533	100.0%	N/A	1,754,658	100.0%	N/A	1,025,136	100.0%	N/A	895,282	100.0%	N/A

Note: Others mainly consist of trading goods of polyester/nylon filament yarn, cotton yarn and staple fiber.

During each of the three years ended 31 December 2012 and for the six months ended 30 June 2013, trading revenue represents 78.7%, 76.5%, 79.4% and 80.6% of our total revenue. Revenue derived from trading mainly represents the revenue from sale of textile-related products. During the Track Record Period, we focused our trading activities in textile-related products, which our Directors believe we have expertise and experience in.

(2) Dyeing and processing

	Year ended 31 December														
	2010					2011					2012				
	Revenue	Percentage	Sales volume	Percentage	Average Unit Price	Revenue	Percentage	Sales volume	Percentage	Average Unit Price	Revenue	Percentage	Sales volume	Percentage	Average Unit Price
	RMB'000	*%*	*('000 metres)*	*%*	*(RMB/ metre)*	*RMB'000*	*%*	*('000 metres)*	*%*	*(RMB/ metre)*	*RMB'000*	*%*	*('000 metres)*	*%*	*(RMB/ metre)*
Processing activity	59,034	59.9%	23,973	87.9%	2.5	79,322	70.5%	35,747	92.8%	2.2	83,479	70.9%	35,558	92.3%	2.3
Direct sales	39,534	40.1%	3,309	12.1%	12.0	33,245	29.5%	2,756	7.2%	12.1	34,184	29.1%	2,983	7.7%	11.5
	98,568	100.0%	27,282	100.0%		112,567	100.0%	38,503	100.0%		117,663	100.0%	38,541	100.0%	

	Six months ended 30 June									
	2012					2013				
	Revenue	Percentage	Sales volume	Percentage	Average Unit Price	Revenue	Percentage	Sales volume	Percentage	Average Unit Price
	RMB'000 (unaudited)	*%*	*('000 metres)*	*%*	*(RMB/ metre)*	*RMB'000*	*%*	*('000 metres)*	*%*	*(RMB/ metre)*
Processing activity	40,589	77.4%	12,596	91.9%	3.2	39,072	65.3%	16,874	89.7%	2.3
Direct sales	11,818	22.6%	1,103	8.1%	10.7	20,796	34.7%	1,930	10.3%	10.8
	52,407	100.0%	13,699	100.0%		59,868	100.0%	18,804	100.0%	

Dyeing and processing segment generated 6.3%, 5.5%, 5.3% and 5.4% of total revenue respectively in each of the three years ended 31 December 2012 and the six months ended 30 June 2013.

For each of the three years ended 31 December 2012 and the six months ended 30 June 2013, Processing Activity accounted for 59.9%, 70.5%, 70.9% and 65.3% respectively of segmental revenue of dyeing and processing, while in terms of sales volume, Processing Activity accounted for 87.9%, 92.8%, 92.3% and 89.7% respectively of the total sales volume for dyeing and processing segment. Unit prices of Direct Sales are higher than the unit prices of Processing Activity after taking into account the cost of fabric purchased.

It is our strategy to direct our dyeing and processing capacities to Processing Activity first as it generally lead to a higher gross profit margin. We shall determine whether we will engage in Direct Sales of our own processed differentiated polyester fabric by mainly checking the utilisation rate of our production lines from time to time, and if there is spare capacity, we shall source differentiated polyester fabric for our own processing.

(3) Polyester filament yarn production

	Year ended 31 December															Six months ended 30 June									
	2010					2011					2012					2012					2013				
	Revenue	Percentage	Sales volume	Percentage	Average Unit Sales Price	Revenue	Percentage	Sales volume	Percentage	Average Unit Sales Price	Revenue	Percentage	Sales volume	Percentage	Average Unit Sales Price	Revenue	Percentage	Sales volume	Percentage	Average Unit Sales Price	Revenue	Percentage	Sales volume	Percentage	Average Unit Sales Price
	RMB'000	*%*	*(tonnes)*	*%*	*(RMB/ tonne)*	*RMB'000*	*%*	*(tonnes)*	*%*	*(RMB/ tonne)*	*RMB'000*	*%*	*(tonnes)*	*%*	*(RMB / tonne)*	*RMB'000* (unaudited)	*%*	*(tonnes)*	*%*	*(RMB/ tonne)*	*RMB'000*	*%*	*(tonnes)*	*%*	*(RMB/ tonne)*
Regular products	198,138	84.1%	17,902	91.1%	11,068	276,756	75.6%	18,632	82.3%	14,854	182,873	54.0%	14,424	66.4%	12,678	86,677	53.0%	6,692	66.1%	12,952	33,627	21.6%	2,934	32.3%	11,461
Differentiated products	37,398	15.9%	1,759	8.9%	21,261	89,490	24.4%	3,994	17.7%	22,406	155,659	46.0%	7,290	33.6%	21,352	76,779	47.0%	3,434	33.9%	22,358	122,065	78.4%	6,141	67.7%	19,877
	235,536	100.0%	19,661	100.0%	11,980	366,246	100.0%	22,626	100.0%	16,187	338,532	100.0%	21,714	100.0%	15,590	163,456	100.0%	10,126	100.0%	16,142	155,692	100.0%	9,075	100.0%	17,156

Polyester filament yarn production revenue represents the second largest revenue out of our three business segments during the Track Record Period, which mainly consists of the sales of regular and differentiated polyester filament yarn produced. During the three years ended 31 December 2012, more than 50% of polyester filament yarn production revenue was derived from regular polyester filament yarn, while during the six months ended 30 June 2013, sales of regular polyester filament yarn accounted for 21.6% of polyester filament yarn production revenue. As consistent with our strategy to focus on differentiated products, the percentage of the segmental revenue derived from sales of differentiated polyester filament yarn had steadily increased from approximately 15.9% for 2010 to 24.4% for 2011 and further to 46.0% for 2012, as well as increased from 47% for the six months ended 30 June 2012 to 78.4% for six months ended 30 June 2013.

We produced and sold regular products mainly for the purpose of utilising our production facilities to keep the plant and machineries at the best working status and to share manufacturing fixed costs such as depreciation of plant and equipment.

Cost of sales

Our cost of sales by business segment for each of the three years ended 31 December 2012 and for the six months ended 30 June 2013 are analysed as follows:

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000* (unaudited)	%	*RMB'000*	%
Trading	1,126,608	78.9%	1,482,970	77.1%	1,717,558	81.7%	1,007,207	84.7%	881,146	83.9%
Dyeing and processing	74,977	5.2%	86,056	4.5%	80,466	3.8%	34,659	2.9%	39,485	3.8%
Polyester filament yarn production	226,421	15.9%	353,911	18.4%	303,684	14.5%	147,623	12.4%	128,984	12.3%
	1,428,006	100.0%	1,922,937	100.0%	2,101,708	100.0%	1,189,489	100.0%	1,049,615	100.0%

(1) Trading

The cost of sales for textile-related products trading business represent the purchase cost of trading goods.

(2) Dyeing and processing

A breakdown of cost of sales of dyeing and processing segment is as follows:

By expense nature	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000* (unaudited)	%	*RMB'000*	%
Fabric	22,230	29.6%	16,111	18.7%	13,028	16.2%	5,438	15.7%	9,556	24.2%
Power and utilities	18,860	25.2%	23,256	27.0%	22,413	27.9%	10,863	31.3%	10,223	25.9%
Dyeing materials	7,510	10.0%	14,884	17.3%	15,848	19.7%	6,468	18.7%	7,165	18.1%
Staff costs	7,342	9.8%	14,079	16.4%	10,569	13.1%	5,050	14.6%	5,366	13.6%
Subcontracting fee	9,669	12.9%	8,313	9.7%	8,903	11.1%	2,804	8.1%	3,443	8.7%
Manufacturing overheads	9,366	12.5%	9,413	10.9%	9,705	12.0%	4,036	11.6%	3,732	9.5%
	74,977	100.0%	86,056	100.0%	80,466	100.0%	34,659	100.0%	39,485	100.0%

Fabric was purchased by us and further processed for direct sales to customers. We did not possess ownership to fabric we dyed in processing activities for our customers. Power and utilities costs mainly include costs of electricity, coal, steam and water consumed in dyeing and processing procedures. Dyeing materials mainly include dyeing paints and addictives (助劑). Staff costs mainly consisted of salaries and social insurance expenses paid for employees directly involved in dyeing and processing. Subcontracting fee mainly represents the outsourcing fees paid for stamping patterns and lamination. Manufacturing overheads mainly include depreciation of plant and machinery and consumables for machinery.

(3) Polyester filament yarn production

By expense nature	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000* (unaudited)	%	*RMB'000*	%
Raw material	194,454	85.9%	299,155	84.5%	241,851	79.6%	116,860	79.2%	106,580	82.6%
Manufacturing overhead	19,372	8.5%	31,048	8.8%	36,859	12.2%	18,262	12.4%	13,229	10.3%
Packing and supplementary	8,393	3.7%	14,799	4.2%	14,937	4.9%	7,480	5.1%	4,784	3.7%
Staff cost	4,202	1.9%	8,909	2.5%	10,037	3.3%	5,021	3.4%	4,391	3.4%
total	226,421	100.0%	353,911	100.0%	303,684	100.0%	147,623	100.0%	128,984	100.0%

Raw material costs accounted for a substantial portion of the cost of sales in the manufacturing segment, representing 85.9%, 84.5%, 79.6% and 82.6% of segmental cost of sales for each of the three years ended 31 December 2012 and the six months ended 30 June 2013. Raw materials costs mainly consist of cost of POY, FDY, PET chips and nylon chips. POY and FDY are mainly used by Yongsheng Chemical Fiber, whereas PET chips and nylon chips are mainly used by Nantong Yongsheng to produce regular and differentiated polyester filament yarn. The portion of raw materials' cost out of total cost of sales declined from 2010 to 2012 as the percentage of sales from differentiated polyester filament yarn increased throughout the Track Record Period, and raw material costs account for less percentage out of total costs of sales for differentiated polyester filament yarn than regular polyester filament yarn due to more complicated processing procedures. Percentage of raw material costs out of total cost of sales increased from 79.2% for the six months ended 30 June 2012 to 82.6% for the six months ended 30 June 2013 mainly due to (1) decrease in manufacturing overhead by approximately 27.6% as Nantong Facilities produced higher proportion of FDY and less proportion of DTY for the first half of 2013 as compared to the first half of 2012 and the production of FDY involves fewer procedures than that of DTY, and (2) decrease in packing and supplementary cost by approximately 36.0% as we actively sought suppliers of packaging materials with cheaper prices for the first half of 2013.

Manufacturing overheads mainly represented cost of power and utilities, consumables for machinery, and depreciation of operating plant and machineries, which were incurred directly in the manufacturing process. Packing and supplementary materials mainly consisted of cartons and supplements used in packing the finished goods before delivery. Staff costs mainly consisted of salaries and social insurance expenses paid for employees directly involved in the manufacturing process.

Gross profit and gross profit margin

Our gross profit and gross profit margin by business segment for each of the three years ended 31 December 2012 and for the six months ended 30 June 2013 are analysed as follows:

	Year ended 31 December						Six months ended 30 June			
	2010	Gross Profit Margin	2011	Gross Profit Margin	2012	Gross Profit Margin	2012	Gross Profit Margin	2013	Gross Profit Margin
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000* (unaudited)	%	*RMB'000*	%
Trading	104,918	8.5%	75,563	4.8%	37,100	2.1%	17,929	1.7%	14,136	1.6%
Dyeing and processing	23,591	23.9%	26,511	23.6%	37,197	31.6%	17,748	33.9%	20,383	34.0%
Polyester filament yarn production	9,115	3.9%	12,335	3.4%	34,848	10.3%	15,833	9.7%	26,708	17.2%
	137,624	8.8%	114,409	5.6%	109,145	4.9%	51,510	4.2%	61,227	5.5%

Gross profit decreased by approximately RMB23.2 million, or 16.9% from approximately RMB137.6 million to approximately RMB114.4 million from 2010 to 2011, mainly as a result of decrease in gross profit from trading of approximately RMB29.4 million, offset by improvement of gross profit from both polyester filament yarn production and dyeing and processing business by approximately RMB3.2 million and RMB2.9 million respectively.

Gross profit decreased by approximately RMB5.3 million, or 4.6% from approximately RMB114.4 million to approximately RMB109.1 million from 2011 to 2012, mainly as a result of further decrease in gross profit from trading of approximately RMB38.5 million, offset by increase in gross profit from polyester filament yarn production and dyeing and processing business by approximately RMB22.5 million and RMB10.7 million respectively.

Gross profit increased from approximately RMB51.5 million for the six months ended 30 June 2012 to approximately RMB61.2 million for the six months ended 30 June 2013 by approximately RMB9.7 million, or 18.9%, mainly as a result of increase in gross profit in dyeing and processing by approximately RMB2.6 million and in manufacturing of polyester filament yarn production by approximately RMB10.9 million, offset by decline in gross profit in trading by approximately RMB3.8 million.

Analysis of fluctuations of gross profit and gross profit margin for each segment are set out as below:

(1) Trading

	Year ended 31 December						Six months ended 30 June			
	2010	**Gross Profit Margin**	**2011**	**Gross Profit Margin**	**2012**	**Gross Profit Margin**	**2012**	**Gross Profit Margin**	**2013**	**Gross Profit Margin**
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000* (unaudited)	%	*RMB'000*	%
Cotton	51,444	16.3%	84,969	13.5%	25,453	5.1%	16,224	4.1%	9,943	7.5%
PET chips/ nylon chips	6,088	3.0%	14,917	6.7%	(1,266)	-0.6%	(290)	-0.7%	935	0.6%
PTA	10,682	5.8%	6,769	3.9%	(4,011)	-0.7%	(4,057)	-1.2%	3,075	1.0%
MEG	(8,696)	-4.0%	(7,438)	-4.4%	(3,531)	-2.8%	(2,661)	-4.1%	(1,251)	-0.7%
Wood pulp	25,214	29.9%	(24,182)	-24.1%	19,989	15.8%	6,302	4.9%	116	0.5%
Cotton pulp	5,035	7.9%	–	–	(3,732)	-11.2%	–	–	–	–
Fabric	1,538	3.6%	1,172	2.7%	1,725	3.4%	673	3.2%	158	1.0%
Others *(Note)*	13,613	11.0%	(644)	-0.3%	2,473	2.1%	1,738	5.1%	1,160	1.2%
	104,918	8.5%	75,563	4.8%	37,100	2.1%	17,929	1.7%	14,136	1.6%

Note: Others mainly consists of trading goods of polyester/nylon filament yarn, cotton yarn and staple fiber.

The fluctuations of gross profit and gross profit margin of each of the textile-related products depends on the overall price trend and fluctuation of each product and the timing to buy and sell of each product by us. The prices of the textile-related products we traded generally increased during 2010 till the first half of 2011. The market prices of such products began declining in the second half of 2011 and further to the first half of 2012. The market price stabilised during the second half of 2012 with moderate increase. Market prices of various textile-related products had different directions in price moves during the first half of 2013. Therefore, we recorded satisfactory and positive gross profit during 2010 for most of our products. Gross profit of trading activities began to deteriorate during 2011 and further decreased in 2012 while stabilised during the first half of 2013, which was consistent with the aforesaid overall price trend and can be further explained by the specific factors below. For details of the price trend of major textile-related products we traded during the Track Record Period, please refer to the paragraph headed "Price trend of cotton, MEG, PTA, nylon chips and PET chips in China" in the "Industry overview" section.

2011 compared to 2010

Gross profit from trading activities decreased from approximately RMB104.9 million for 2010 to RMB75.6 million for 2011 by approximately RMB29.3 million, mainly as a result of (1) decrease in gross profit for wood pulp by approximately RMB49.4 million because (i) the market price for wood pulp kept increasing during 2010 so that we achieved a good gross profit in 2010; and (ii) in 2011, we purchased wood pulp when the price of wood pulp was at a relatively high level during the first half of 2011 and the price of wood pulp declined significantly when we sold the wood pulp during the second half of 2011. Our management considered such loss in trading of wood pulp was due to unexpected significant fluctuation of the price of wood pulp in 2011, and (2) decrease in gross profit for polyester/nylon yarn (grouped under "others" in the table above) by approximately RMB4.2 million mainly due to reduction in sales of polyester and nylon yarn in 2011, offset mainly by increase in gross profit from trading of cotton by approximately RMB33.5 million as we conducted a substantial amount in trading of cotton during the first half of 2011 when the cotton price was at a high level.

Gross profit margin of trading activities decreased from approximately 8.5% in 2010 to approximately 4.8% in 2011 by approximately 3.7% mainly due to (1) decrease of gross profit margin of trading in cotton from approximately 16.3% in 2010 to approximately 13.5% in 2011 by approximately 2.8% as the price of cotton began declining from the first half of 2011, and cotton represents the largest portion of our trading revenue in 2010 and 2011 by product type, accounted for approximately 25.6% and approximately 40.3% respectively, and (2) sharp decrease of gross profit margin of trading in wood pulp from approximately 29.9% in 2010 to negative 24.1% in 2011 for reasons explained above.

2012 compared to 2011

Gross profit from trading activities decreased from approximately RMB75.6 million for 2011 to RMB37.1 million for 2012 by approximately RMB38.5 million, mainly as a result of (1) decrease in gross profit for trading of cotton by approximately RMB59.5 million mainly due to (i) the price of cotton decreased during the first half of 2012, and (ii) the fluctuation and decrease of the price of cotton in 2011, as the relevant PRC governmental authority introduced the cotton reserve policy of purchasing cotton from producers at a certain price and reselling at a standard fixed price in order to stabilise the price during the fourth quarter of 2011 to first quarter of 2012 and during the fourth quarter of 2012, hence it was difficult to gain profit from trading cotton grown in the PRC. Therefore, in order to take advantage of the cotton reserve policy, we sourced more cotton from overseas and re-sell it at a price lower than the standard fixed price by the government in order to earn satisfactory profits; and (2) decrease in gross profit for PET chips/nylon chips and PTA by approximately RMB27.0 million mainly due to the downward price trend of these products in 2012, offset mainly by increase in gross profit from wood pulp by approximately RMB44.2 million as its price rebounded significantly in 2012.

Gross profit margin of trading activities decreased from approximately 4.8% in 2011 to approximately 2.1% in 2012 mainly due to (1) significant decrease of gross profit margin of trading in cotton from approximately 13.5% in 2011 to approximately 5.1% in 2012 as (i) the price of cotton decreased during the first half of 2012, and (ii) PRC governmental authority stabilised price of cotton at a standard fixed price during 2012 as explained above, limiting the gross profit that we were able to earn from trading of cotton, and (2) decrease of gross profit margin of trading in PET chips or nylon chips and PTA from approximately 6.7% and 3.9% in 2011 to approximately -0.6% and -0.7% in 2012 due to the downward price trend in 2012, which were among our top three trading products in terms of revenue during 2011 and 2012, accounted for approximately 14.2% and 11.0% in 2011 and approximately 11.5% and 34.4% in 2012 out of the total trading revenue respectively.

Six months ended 30 June 2013 compared to same period in 2012

Gross profit from trading activities decreased from approximately RMB17.9 million for the six months ended 30 June 2012 to approximately RMB14.1 million for the six months ended 30 June 2013 by approximately RMB3.8 million, mainly as a result of (1) decrease in gross profit for trading of cotton by approximately RMB6.3 million as a result of decrease in trading revenue of cotton from approximately RMB399.6 million for the first half of 2012 to approximately RMB132.5 million for the first half of 2013 as a result of fewer trading opportunities of cotton in the market during the six months ended 30 June 2013 due to the decline in cotton price, and (2) decrease in gross profit for trading of wood pulp by approximately RMB6.2 million as we significantly reduced trading volume of wood pulp from approximately RMB128.1 million for the first half of 2012 to approximately RMB23.1 million for the first half of 2013 to control trading risk in view of the fluctuating gross profit margin of wood pulp during the Track Record Period, offset by increase of gross profit for trading PTA by approximately RMB7.1 million as we recorded gross loss for first half of 2012 of approximately RMB4.1 million due to the decrease in price of PTA in the relevant period while we made gross profit for first half of 2013, as on average the unit price of PTA we sold for the first half of 2013 was higher than that for the first half of 2012.

Gross profit margin of trading activities decreased slightly from 1.7% for the six months ended 30 June 2012 to 1.6% for the six months ended 30 June 2013 mainly due to the change of trading product mix that during the first half of 2012 revenue of trading products with gross profit margin higher than 4.0% account for 54.8% of total trading revenue while for the first half of 2013 revenue of trading products with gross profit margin higher than 4.0% account only for 14.8% of total trading revenue, offset by the significant increase of gross profit margin of cotton from 4.1% to 7.5% as we mainly sourced cotton from overseas and sold them in the PRC. The international cotton price based on which we sourced overseas cotton declined more significantly during the first half of 2013 than the cotton price in PRC based on which we sold the cotton as a result of the cotton reserve policy to purchase cotton from producers at a certain price and resell at a standard fixed price to stabilise the price which was effective in the first quarter of 2013.

Trading products with negative gross margin

Despite internal control measures governing our trading business, we have recorded negative gross margin for certain trading products due to unexpected drop in market price of those products after purchase.

The trading revenue contributed by sales of trading products at negative gross margin amounted to approximately RMB222.9 million, RMB323.5 million, RMB985.6 million and RMB194.1 million for each of the three years ended 31 December 2012 and the six months ended 30 June 2013 respectively, representing approximately 18.1%, 20.8%, 56.2% and 21.7% of trading revenue during the Track Record Period respectively. The large percentage of trading revenue contributed by sales of trading products at negative gross margin during 2012 was mainly due to the sales of PTA and PET chips/nylon chips of approximately RMB805.2 million, which accounted for 45.9% of trading revenue. We recorded negative gross margin of 0.7% and 0.6% for PTA and PET chips/nylon chips respectively for 2012 as we purchased PTA and PET chips/nylon chips at various time during 2012; however prices of PTA and PET chips/nylon chips kept on a downward trend during 2012 and hence we recorded negative gross margin when selling them off.

Despite negative gross margin was recorded on certain sales of trading products, our Group has continued to engage in the trading business as (i) overall the trading business has been profitable throughout the Track Record Period, and (ii) it is necessary for our Group to stay in the trading business to maintain our network of trading customers, which is essential for our Group's business development when the average price of trading goods rises.

We recorded gross loss from trading of MEG during the Track Record Period as the prices of MEG fluctuated during the Track Record Period and on average our purchase prices were higher than our selling prices. In view of the unsatisfactory results of MEG, our Directors decided to cease its trading activities from second quarter of 2013 and sold off all inventory of MEG during the first half of 2013 onwards unless opportunities arise where we are confident to earn gross profit.

Our Group recorded gross loss on trading of cotton pulp in 2012. We had accumulated inventory of cotton pulp at relatively higher prices amid strong market demand. As our management expected market price of cotton pulp would continue to drop, we decided to dispose of cotton pulp as soon as possible, even at gross loss, for loss minimisation. Provision has been made to reduce the carrying value of such inventory to net realisable value. Our Directors intend to continue to trade cotton pulp in the future as and when the opportunities for positive return arise in view of the market circumstances.

Trading revenue declined from the six months ended 30 June 2012 to the six months ended 30 June 2013 as we paid attention to control trading risk and made less trading revenue on those products which had negative or fluctuating gross profit margin. As a result, only one category of our trading products, namely MEG recorded negative profit margin for the six months ended 30 June 2013 as a result that we ceased trading of MEG and sold off all inventory during the first half of 2013. Gross profit decreased by approximately RMB3.8 million mainly as a result of reduced trading volume, after taking into account mainly selling expenses directly attributable to trading segment, operating profit of trading segment remained stable of approximately RMB4.5 million for the six months ended 30 June 2013 as compared to approximately RMB4.7 million for the six months ended 30 June 2012.

(2) Dyeing and processing

	Year ended 31 December						**Six months ended 30 June**			
	2010	**Gross profit margin**	**2011**	**Gross profit margin**	**2012**	**Gross profit margin**	**2012**	**Gross profit margin**	**2013**	**Gross profit margin**
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000* (unaudited)	%	*RMB'000*	%
Processing Activity	21,657	36.7%	26,865	33.9%	30,531	36.6%	15,786	38.9%	14,964	38.3%
Direct Sales	1,934	4.9%	(354)	-1.1%	6,666	19.5%	1,962	16.6%	5,419	26.1%
	23,591	23.9%	26,511	23.6%	37,197	31.6%	17,748	33.9%	20,383	34.0%

Gross profit from dyeing and processing segment increased steadily over the Track Record Period. Gross profit increased from approximately RMB23.6 million in 2010 to approximately RMB26.5 million in 2011 by approximately RMB2.9 million, or 12.4%, primarily due to the increase in gross profit from Processing Activity by approximately RMB5.2 million, offset by decrease of gross profit from Direct Sales of approximately RMB2.3 million.

Increase in gross profit from Processing Activity by 24.0% from 2010 to 2011 was mainly due to increase in sales volume from approximately 24.0 million metres in 2010 to approximately 35.7 million metres in 2011 by approximately 49.1%. Sales volume significantly increased as we increased processing capacity from approximately 38 million metres in 2010 to approximately 48 million metres in 2011 by adding a new processing line in January 2011.

Gross profit margin for Processing Activity mildly declined by 2.8% in 2011 as the new processing line was newly set up and started processing in 2011 during which time the production was not cost efficient and hence pulled down the gross profit margin.

Gross loss of Direct Sales in 2011 was caused by (1) the newly setup processing line in 2011 has not reached full cost efficiency, and (2) we conducted certain clearance sales of our aged inventories brought forward from previous years in expectation of potential decrease in price which negatively affected our gross profit margin.

Gross profit increased from approximately RMB26.5 million for 2011 to approximately RMB37.2 million in 2012 by approximately RMB10.7 million, or 40.3%, primarily due to the increase in gross profit from Processing Activity of approximately RMB3.7 million and increase of gross profit from Direct Sales of approximately RMB7.0 million.

Increase in gross profit from Processing Activity by approximately 13.6% from 2011 to 2012 was mainly attributable to the increase in gross profit margin by approximately 2.7% for our Processing Activity as the newly added processing line has reached its efficient capacities.

Significant increase in gross profit margin for Direct Sales from negative 1.1% in 2011 to 19.5% in 2012 was due to the fact that (1) average cost of blank fabric decreased by approximately 30% from 2011 to 2012, (2) our newly added processing line has reached its efficient capacities, (3) the effect of clearance sales of aged inventory during 2011 was not present in 2012, and (4) decrease in staff costs due to tightened cost control.

Gross profit increased from approximately RMB17.7 million for the six months ended 30 June 2012 to approximately RMB20.4 million for the six months ended 30 June 2013 by approximately 15.3%, mainly due to increase in gross profit of Direct Sales by approximately RMB3.5 million mainly as we developed more new customers during the first half of 2013 and hence increased revenue from Direct

Sales, offset by slight decrease in gross profit of Processing Activity by approximately RMB0.8 million mainly due to decrease in revenue of Processing Activity. Revenue of Processing Activity decreased by approximately RMB1.5 million although sales volume increased from approximately 12.6 million metres for the six months ended 30 June 2012 to approximately 16.9 million metres for the six months ended 30 June 2013 as the average unit price of processing decreased from RMB3.2 per metre to RMB2.3 per metre as the fabric we processed during the first half 2013 were on average thinner than those processed during the first half of 2012.

Gross profit margin of Processing Activity stayed stable from first half of 2012 to the first half of 2013, and gross profit margin of Direct Sales increased from 16.6% to 26.1% mainly due to the decrease in unit cost of fabric.

(3) Polyester filament yarn production

	Year ended 31 December						Six months ended 30 June			
	2010	**Gross profit margin**	**2011**	**Gross profit margin**	**2012**	**Gross profit margin**	**2012**	**Gross profit margin**	**2013**	**Gross profit margin**
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
							(unaudited)			
Regular products	681	0.3%	(3,024)	-1.1%	(3,425)	-1.9%	(1,668)	-1.9%	699	2.1%
Differentiated products	8,434	22.6%	15,359	17.2%	38,273	24.6%	17,501	22.8%	26,009	21.3%
	9,115	3.9%	12,335	3.4%	34,848	10.3%	15,833	9.7%	26,708	17.2%

Gross profit from manufacturing segment increased from approximately RMB9.1 million for 2010 to approximately RMB12.3 million in 2011 by approximately RMB3.2 million, primarily due to increase in gross profit generated by sales of differentiated products by approximately RMB6.9 million, or 82.1%, offset by decrease in gross profit of regular products of approximately RMB3.7 million. Gross profit margin slightly declined from 3.9% in 2010 to 3.4% in 2011 as the gross profit margin of both regular and differentiated products deteriorated during 2011.

Increase in gross profit of differentiated products by approximately 82.1% during 2011 was mainly due to the fact that the sales volume of differentiated products in 2011 increased to more than double the sales volume of differentiated products in 2010 as some production volume have been switched from regular products to differentiated products.

Gross profit margin for both regular and differentiated products decreased from 2010 to 2011 primarily as (1) prices of our major raw materials increased significantly, for example, the price of POY increased by approximately 25.0% from 2010 to 2011 (which negative effect, however, was partly offset by the increase in selling price), (2) the production of polyester filament yarn business of Nantong Yongsheng, which commenced during the fourth quarter of 2010, recorded gross loss for 2011 due to initial stage of operation, and (3) we conducted certain clearance sales of our aged inventories brought forward from previous years which negatively affected our gross profit margin in expectation of potential decrease in price.

Gross profit from polyester filament yarn business soared from approximately RMB12.3 million for 2011 to approximately RMB34.8 million in 2012 by approximately RMB22.5 million, primarily due to substantial increase in gross profit of differentiated products by approximately RMB22.9 million, or 149.2%, offset by decrease in gross profit of regular products of approximately RMB0.4 million. Gross profit margin surged from 3.4% in 2011 to 10.3% in 2012 mainly contributed by increase in gross profit margin of differentiated products by 7.4%.

The robust growth in gross profit from differentiated products was consistent with our strategy in focusing on high margin differentiated products as the sales volume of differentiated products increased by approximately 82.5% in 2012. Moreover, the gross profit margin improved from 17.2% in 2011 to 24.6% in 2012 mainly as a result of the decrease of the prices of our major raw materials, for example, the price of POY decreased by approximately 9.5% from 2011 to 2012. As the price of differentiated polyester filament yarn, when compared to the price of regular polyester filament yarn, is less dependable and less sensitive to changes in raw material prices than the price of regular polyester filament yarn, we believe we have more bargaining power in setting the price, therefore, preventing the price from sliding with the market trend, with only mild decrease of approximately 4.7% in price, much less than the scale of decrease of raw materials.

Gross profit margin for regular products further slightly decreased from negative 1.1% for 2011 to negative 1.9% for 2012 mainly due to the significant decrease in average unit sales price of regular polyester filament yarn by approximately 14.6% as a result of downward trend of market price of regular polyester filament yarn, while the decrease of prices of our major raw materials was less significant as compared to the decrease in price of regular polyester filament yarn. For example, the price of POY decreased by approximately 9.5% from 2011 to 2012.

Gross profit increased from approximately RMB15.8 million for the six months ended 30 June 2012 to approximately RMB26.7 million for the six months ended 30 June 2013 by approximately RMB10.9 million, or 68.7%, primarily due to (1) gross profit of regular products turned from approximately negative RMB1.7 million to positive RMB0.7 million mainly due to that we ceased production and sales of certain types of regular polyester filament yarn which had negative or low gross profit margin, and (2) increase in gross profit of differentiated products from approximately RMB17.5 million to approximately RMB26.0 million, which was mainly due to increase in sales volume of differentiated polyester filament yarn as consistent with our strategy in focusing on differentiated products.

Gross profit margin increased significantly from approximately 9.7% to 17.2% mainly due to (1) gross profit margin of regular products turned from approximately negative 1.9% to positive 2.1% as we ceased production and sales of certain types of regular polyester filament yarn which had negative or low gross profit margin, and (2) increase in proportion of sales volume of differentiated products from approximately 33.9% for the first half of 2012 to 67.7% for the first half of 2013, which yielded much higher gross profit margin of approximately 21.3% than regular products of 2.1%. Gross profit margin of differentiated products declined slightly from approximately 22.8% for the six months ended 30 June 2012 to 21.3% for the six months ended 30 June 2013 as we lowered the price of differentiated products during the first half of 2013 in order to earn more market share.

Regular products were not our focus for business development and hence we did not put much efforts on research and development and marketing of regular products during the Track Record Period. We consider that there is excess supply of regular products in the market and the market for regular products is getting overly competitive. Therefore, we are reducing the production of regular products but at the same time increasing production of differentiated products. In fact, we produced and sold regular products mainly for the purpose of utilising our production facilities to keep the plant and machineries at the best working status and to share manufacturing fixed costs such as depreciation of plant and equipment.

Other gains/losses, net

Our other net gains/losses primarily consisted of gain/loss on disposal of financial assets at fair value through profit or loss, interest income, reimbursement for transportation expense, subsidy income and foreign exchange gains/(losses).

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Gains/(losses) on disposal of financial assets at fair value through profit or loss	29,094	26,854	(3,711)	662	(382)
Fair value losses in financial assets at fair value through profit or loss	(1,599)	(117)	(15)	127	18
Interest income from deposit placed at brokers' account in respect of our financial assets at fair value through profit or loss	–	–	1,702	546	–
Reimbursement for transportation expense	2,571	3,398	1,266	1,191	–
Subsidy income	1,631	444	1,262	1	258
Government grant	232	232	645	303	341
Reimbursement by supplier on cancelled purchase	–	6,372	–	–	–
Waiver of deposits by customers on cancelled sales	–	–	785	–	–
Gain/(losses) on disposal of property, plant and equipment	506	(222)	(3)	(3)	106
Foreign exchange gains/(losses)	2,281	1,380	(5,118)	(1,514)	411
Donation expenditure	(400)	–	–	–	–
Commission income	–	–	–	–	551
Others	(197)	113	69	(30)	504
Other gains/(losses) net	34,119	38,454	(3,118)	1,283	1,807

(1) Gains/(losses) in financial assets

Gains/(losses) in financial assets comprises (i) gains/(losses) on disposal of financial assets at fair value through profit or loss (i.e. financial assets which had been settled during the year); and (ii) fair value losses in financial assets at fair value through profit or loss (i.e. financial assets which had not been settled at year end).

During the three years ended 31 December 2012, we have entered into various transactions on (i) future contracts with no physical deliveries; (ii) equity investments; and (iii) mutual fund investments, for investments purposes. Since the end of 2012, we ceased entering into new transactions as our Directors consider that future contracts, equity investments and mutual funds investments are not our principal business activities. We have closed and settled all the remaining open positions of future contracts and equity investments, and closed all of our trading accounts maintained at our brokers by March 2013. Moreover, our Directors confirmed that we have no intention to enter into such investments or speculation activities in the future.

During Track Record Period, we focused our investments in future contracts of cotton and PTA (including both long and short positions) by leveraging our experience and knowledge in the textile industry.

The following is a summary of the gains/(losses) in financial assets during the Track Record Period which aggregates (i) gains/(losses) on disposal of financial assets at fair value through profit or loss; and (ii) fair value losses in financial assets at fair value through profit or loss for the various transactions we entered into for (a) future contracts; (b) equity investments; and (c) mutual fund investment during the Track Record Period:

	Gains (Losses) in financial assets for the year ended 31 December			Six months ended 30 June
	2010	2011	2012 *(Note 1)*	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Future contracts for commodities				
– Cotton	17,364	22,352	(132)	–
– PTA	13,388	10,069	(2,187)	(382)
– Others *(Note 2)*	(1,791)	(4,856)	(1,392)	–
	28,961	27,565	(3,711)	(382)
Mutual funds investments	(24)	(117)	(15)	18
Equities investments	(1,442)	(711)	–	–
Total	27,495	26,737	(3,726)	(364)

Notes:

1. For the year ended 31 December 2012, the loss shown is only 30% of the actual loss incurred in total, as Investment Company (as defined below) is responsible for the 70% of the loss as described below.

2. Others mainly include precious metals, agriculture products and indices.

We noticed the difference in demand trends for cotton and PTA through our sales orders of our trading business in 2010 and 2011. Trading demand for cotton and PTA was strong in 2010 but weak in 2011, accordingly, our Directors perceived the prices for cotton and PTA to rise in 2010 but drop in 2011. Given such, our overall investment decisions were to enter into future contracts to buy cotton and PTA in 2010 and to sell cotton and PTA in 2011 respectively. Through these future contract investments, we made investment profits of approximately RMB29.0 million and approximately RMB27.6 million for the two years ended 31 December 2010 and 2011.

In 2012, majority of the investment decisions in relation to future contracts were made and managed by the Investment Company (as defined and explained below). The price fluctuation for various commodity products was very volatile as a result of the European debt crisis in 2012. Accordingly, we made investment loss of approximately RMB3.7 million for the year ended 31 December 2012 through investment in future contracts.

During the six months ended 30 June 2013, we closed all remaining open positions of future contracts and made loss of approximately RMB0.4 million accordingly. We have no intention to enter into any future contracts in the future.

Future contracts

We invested in future contracts through two trading accounts maintained at our brokers and mainly invested in future contracts of cotton and PTA during the Track Record Period. In such case, future contracts were entered to buy cotton or PTA (when we considered the price of cotton or PTA would rise) or sell cotton or PTA (when we considered the price of cotton or PTA would drop) at the relevant time, at the then spot price. All future contracts entered into during Track Record Period were time-based with a definite expiry date.

In both types of future contracts (buy or sell), there was a commitment to take delivery of an asset if we are buyer of the future contracts, or there is a commitment to deliver an asset if we are seller of the future contracts at the expiry of the contract. During the Track Record Period, all of our future contract investments positions (whether buy or sell) were settled in cash before their expiry dates and we did not make any physical deliveries.

We were also required by our brokers to deposit security deposits in our trading accounts maintained at our brokers in order to maintain sufficient balances to cover the open positions at all times. Therefore, unless there is a significant and sharp decrease in the open positions of the future contracts, the maximum exposure under the future contract is limited to the security deposit placed in our trading accounts maintained at our brokers. Our security deposits were maintained at sufficient balances to cover the open positions during the Track Record Period, and the maximum security deposits placed in our trading accounts maintained at our brokers for each of the three years ended 31 December 2012 amounted to approximately RMB24.2 million, RMB31.6 million and RMB20.2 million respectively.

Although we generated positive investment profits for the investments of future contracts in 2010 and 2011, our Directors considered the price fluctuation of commodities is very volatile and the risk management and expertise involved were complex. Accordingly, in March and April 2012, we entered into two agreements ("**Investment Agreements**") with an investment company in the PRC ("**Investment Company**") for each of our two trading accounts maintained at our brokers. The Investment Company is an Independent Third Party in which its business scope includes investment, investment management, investment consulting and financial consulting and a registered capital of RMB50 million. Pursuant to the Investment Agreements, the Investment Company provided investment services and had the right to carry out futures contract transactions on our behalf with the security deposits placed by us, by operating our trading accounts maintained at our brokers. The salient terms of the two agreements are summarised below:

Terms

– from 1 March 2012 to 31 December 2012 (for the trading account maintained at our broker which was opened on 8 April 2009); and

– from 20 April 2012 to 31 December 2012 (for the trading account maintained at our broker which was opened on 19 March 2012)

Primary responsibilities of the parties

1. Investment Company shall provide investment advice and operate our trading accounts maintained at our brokers and carry out futures contract transactions on our behalf;

2. the profit and loss resulted from the futures contract transaction shall be shared by us and Investment Company in the ratio of 30% and 70% respectively; and

3. Investment Company shall pay 12% annual interest for the security deposit amount placed in our trading account maintained at our brokers.

After entering into the Investment Agreements, all of our investment decisions in relation to future contracts were made and managed by the Investment Company and since then, we have not participated in any of the decision making of the future contract investments made by the Investment Company on our behalf. Our Directors consider the maximum exposure under the Investment Agreements would be limited to the security deposit placed in our trading accounts maintained at our brokers.

Stocks and mutual funds investments

During the years of 2010 and 2011, we invested in the stocks of a number of companies listed in Shanghai Stock Exchange and Shenzhen Stock Exchange engaging in various industries including natural resources, insurance and manufacturing, etc. All stocks were sold by 2011 and we have ceased investment in stocks from 2012 and onwards.

During the Track Record Period, we invested in a mutual fund which mainly invested in stocks of companies engaging in consumer products industry. The mutual fund is an open fund with no restrictions of redemption. We have kept our investment in mutual fund as at the Latest Practicable Date as we would like to maintain good relationship with banks as such investment was made through a PRC commercial bank. The balance of the mutual fund as at 30 June 2013 was approximately RMB663,000, which represented approximately 0.11% of our total assets and approximately 0.32% of our net assets and hence is insignificant to us.

(2) Interest income from deposit placed at brokers' account in respect of our financial assets at fair value through profit or loss

During 2012, we received interest income of approximately RMB1.7 million from the Investment Company pursuant to the Investment Agreements which stated that the Investment Company shall pay us 12% annual interest for the security deposit amount placed in our trading accounts maintained at our brokers.

(3) Reimbursement for transportation expense

This represents reimbursement of transportation expense by the Bureau of Finance in Xinjiang Uygur Autonomous Region, the PRC ("**Xinjiang**") in respect of our purchases and transportation of cotton from Xinjiang in accordance with the relevant PRC regulations pursuant to which the actual reimbursement amounts depend on the actual purchase volumes of cotton transported through the stipulated means in such regulations from Xinjiang by the Company. There was no reimbursement for transportation expenses during the six months ended 30 June 2013 as we did not trade cotton from Xinjiang during the first half of 2013.

(4) Subsidy income

Subsidy income primarily represents tax refunds granted by local taxation bureau to encourage our business growth and other subsidies granted by the Bureau of Finance in Hangzhou, the PRC.

(5) Government grant

Government grants were granted to support (1) our purchases of three land use rights in Hangzhou in 2003, 2005 and 2006 with durations of 50 years, 48 years and 48 years respectively; and (2) our purchase of machineries in Nantong in 2012 with expected useful life of 10 years. Such grants were deferred to match with amortization of the three land use rights and depreciation of machineries respectively.

The following are details of the government grants awarded to our Group:

(a) regarding our Group's purchase of three land use rights in Hangzhou in 2003, 2005, and 2006 respectively, government grants were awarded by the local government of Jingjiang Town, Xiaoshan District, Hangzhou. As confirmed by the aforesaid governmental authority, the government grants from the local government of Jingjiang Town, Xiaoshan District, Hangzhou, to Yongsheng Dyeing and Yongsheng Fiber were based on《杭州市蕭山區國民經濟和社會發展第十個五年計劃綱要》(the Outline of the Tenth Five-year Plan for National Economic and Social Development of Hangzhou Xiaoshan*), which encouraged the upgrade, maintenance and expansion of light textile and dyeing industry in Hangzhou Xiaoshan District. Since Yongsheng Dyeing and Yongsheng Fiber are companies located in Jingjiang Town and engage in such industry, two government grants, at an respective amount of approximately RMB9.6 million and RMB1.9 million, were obtained by Yongsheng Dyeing and Yongsheng Fiber in 2003 and 2005 respectively. The aforesaid governmental authority further confirmed that, save as the foregoing industry requirements, there was no other condition or criteria required for such government grants; and

(b) regarding our Group's purchase of machineries in Nantong in 2012 for its 12,000 tpa bicomponent differentiated composite fiber technical transformation project, such grant was awarded by the Nantong Economic and Information Technology Commission (the "**Commission**"), based on the Management Measures of Special Investment in the Promotion and Technical Transformation of Key Industries (重點產業振興和技術改造專業投資管理辦法) in which textile is listed as one of the key industries, to encourage PRC enterprises to invest in technological advancement. The award of such grants is subject to the Commission's approval on the application by the PRC enterprises, whereby the enterprises have to submit, among others, details of the construction project, amount of investment, and deadline for the project completion. The government grants awarded should solely be used for the purpose of the approved construction project. In addition, the finance of such construction project should be audited after its completion. Furthermore, environmental, safety, fire control inspection should be conducted by the relevant authorities. As at the Latest Practicable Date, such government grant has been approved by the Commission and the grant of approximately RMB4.5 million was solely used for the project approved. On 4 March 2013, environmental inspection had been conducted by the relevant governmental authority on such project. As confirmed by our Directors, the relevant authorities shall arrange for the safety and fire control inspection as and when the relevant authorities consider appropriate.

Our Directors confirm that the aforesaid government grants from the relevant government authorities were on one-off basis.

(6) Reimbursement by supplier on cancelled purchase

Reimbursement by supplier on cancelled purchase mainly represented compensation paid by suppliers who failed to supply goods at agreed upon price in sales contracts due to decrease in price after signing of sales contracts.

(7) Foreign exchange gains/(losses)

Foreign exchange gains/(losses) mainly represent gains/(losses) arising from changes in exchange rate of RMB, our reporting currency, against foreign currency from our trading balance with foreign suppliers and/or customers.

(8) Commission income

Commission income mainly represents commissions earned by Yongsheng Trading (HK) for acting as agent for overseas suppliers and assisting in locating customers, negotiating and concluding contracts as well as other follow up work for their sales to the PRC.

Selling expenses

Selling expenses consist primarily of transportation and storage cost, staff costs, and entertainment and travelling expenses. The following table sets forth the breakdown of selling expenses for the years indicated:

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Transportation and storage	25,478	27,235	16,390	11,905	6,456
Staff costs	2,265	2,573	3,030	1,693	2,000
Travelling and entertainment expenses	1,717	2,091	1,641	768	295
Commission	409	290	413	125	422
Postage and communications	321	315	370	196	174
Advertisement and exhibitions	257	20	160	67	73
Depreciation and amortisation	187	201	44	22	55
Others	515	540	645	297	231
	31,149	33,265	22,693	15,073	9,706

Transportation and storage cost mainly represented costs incurred in collecting our raw materials from suppliers, delivering our final products to customers, transporting of our trading goods, and storage of our trading goods before sales. Staff costs mainly represented salaries and social insurance expenses paid for employees engaged in sales and marketing of our products. Travelling and entertainment expenses were incurred in the process of sales and marketing of our products.

Administrative expenses

Administrative expenses consist primarily of salaries for administrative staff, depreciation and amortisation for our property, plant and equipment for office use, stamp duty, property tax and other surcharges, professional service expenses, listing expenses, bank charges, and travelling and entertainment expenses.

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Staff costs	9,469	11,819	10,232	4,741	7,575
Depreciation and amortisation	3,057	3,502	2,932	1,454	1,546
Stamp duty, property tax and other surcharges	1,321	2,030	2,030	1,169	1,179
Professional service expenses	183	730	447	150	280
Listing expenses	–	–	2,647	1,423	4,306
Bank charges	1,364	1,737	1,393	759	962
Travelling and entertainment expenses	642	1,739	843	530	565
Auditors' remuneration	112	89	122	52	54
Provision for impairment of receivables	1,244	1,435	313	33	13
Operating lease rental for buildings	265	432	724	322	796
Others	3,559	2,854	2,863	1,242	1,322
Total	21,216	26,367	24,546	11,875	18,598

Staff costs mainly represented salaries and social insurance expenses paid for Directors and employees other than those directly engaged in manufacturing and sales and marketing activities during the Track Record Period. Depreciation and amortisation consisted mainly of depreciation of our office premises, motor vehicles and other equipments for administrative purposes. Professional fees and listing expenses for the Listing mainly included fees paid to various professionals for audit, legal and other professional services. We expect to incur further listing related expenses amounting to approximately RMB13.7 million for the period after 30 June 2013, among which approximately RMB5.8 million will be charged to our consolidated statements of comprehensive income for the year ending 31 December 2013, and approximately RMB7.9 million (including underwriting commission) will be charged to equity upon Listing. Travelling and entertainment expenses were incurred by our employees for business related visits, and in providing accommodation and caterings for our clients. Bank charges mainly consist of letter of credit charges and bank administrative charges.

Finance costs, net

Our net finance costs mainly represented interest expenses on bank borrowings and borrowings from related parties, net exchange gain/loss on financing activities, and offset by interest income from cash and cash equivalents and loans to related parties.

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Interest expenses on bank borrowings	22,281	32,319	38,098	17,928	15,057
Interest expenses on borrowings from related parties	3,348	3,938	3,241	2,027	–
Net exchange (gains)/losses on financing activities	(4,056)	(10,397)	1,227	2,648	(119)
Total finance cost	21,573	25,860	42,566	22,603	14,938
Interest income from cash and cash equivalents, restricted cash deposits and other financial asset	(2,470)	(7,595)	(14,505)	(6,207)	(5,205)
Interest income on loan to related parties	(6,623)	(5,293)	(8,321)	(5,343)	–
Total finance income	(9,093)	(12,888)	(22,826)	(11,550)	(5,205)
Net finance cost	12,480	12,972	19,740	11,053	9,733

Interest expenses/income on loans from/to related parties

During the Track Record Period, our subsidiaries might had surplus and/or shortage of funding from time to time. Therefore, with a view to better utilisation of funding from a holding company perspective, Yongsheng Group was responsible for allocation of funding of our subsidiaries from time to time so that excess funding from each of our subsidiaries would be transferred to Yongsheng Group which would in turn transferred to our other subsidiaries and/or other affiliates of Yongsheng Group which were in needs of funding for their business operations. Funding transfers from each of our subsidiaries to Yongsheng Group were recorded as advances to Yongsheng Group and interests were charged based on the prevailing interest rates of bank borrowings. On the other hand, funding transfers from Yongsheng Group to each of our subsidiaries were recorded as advances from Yongsheng Group and interests were also charged based on the prevailing interest rates of bank borrowings. Therefore, during the Track Record Period, we recorded interests income from Yongsheng Group and interests expenses to Yongsheng Group as shown above. Since 2013, we ceased such funding transfers with Yongsheng Group in preparation for the Listing.

Interest income

Interest income was generated from (i) cash and cash equivalents of approximately RMB0.2 million, RMB0.2 million, RMB0.2 million, and RMB0.1 million for each of the three years ended 31 December 2012 and for the six months ended 30 June 2013 respectively; (ii) restricted cash deposited at banks, amounting to approximately RMB2.2 million, RMB7.4 million, RMB9.1 million and RMB2.8 million for each of the three years ended 31 December 2012 and for the six months ended 30 June 2013 respectively; and (iii) wealth management products, amounting to approximately nil, nil, RMB5.2 million and RMB2.3 million for each of the three years ended 31 December 2012 and for the six months ended 30 June 2013 respectively.

(i) Restricted cash deposited at banks – restricted cash deposits refer to fixed deposits pledged for letter of credits, bank borrowings and bills payables as collaterals in order to support the Group's business operation.

(ii) Wealth management products – for the year ended 31 December 2012, we invested in wealth management products in lieu of fixed deposits for higher interest rates. Such products are issued by Bank A and Bank B, both of which are commercial banks in the PRC, to us with fixed maturity within approximately 12 months, guaranteed principal and guaranteed fixed interest rate ranging from 3.57% to 4.80% per annum. Accordingly, such products are basically risk-free unless the commercial banks are in financial problems and are considered equivalent to fixed deposits but with higher interest rates. The commercial banks offered us such products with higher interest rates than those of fixed deposits in order to encourage borrowings of loans denominated in foreign currency (mainly USD) by us from them to settle our trade payables for our trading business so as to boost up their business activities, and such products, like fixed deposits pledged for our other bank borrowings, were also required to be pledged for the borrowings. We agreed to purchase such products and to make borrowings from the commercial banks to settle our trade payables, instead of settling our trade payables directly by our bank balances, after taking into account that, our Directors consider that, (i) we would like to maintain good business relationship with the commercial banks; and (ii) the interest income from such products, together with the possible exchange gain arising from the foreign currency denominated borrowings as a result of the appreciation of RMB, was expected to be able to cover the finance costs from such borrowings.

For the year ended 31 December 2012, our Group has entered into (i) general agreement and product manual of wealth management products ("**Bank A Agreement**") with Bank A and (ii) product agreements and manual of wealth management products ("**Bank B Agreements**") with Bank B. The following table set out the major terms of the Bank A Agreement and the Bank B Agreements:

	Bank A Agreement	**Bank B Agreements**
Product classification	Guaranteed-earning product	Principal and earning guaranteed product
Rate of guaranteed annualised return	Ranging from 3.57% to 4.20%	4.8%
Term	Approximately one year	Approximately nine months
Termination clause	• Bank A is entitled to terminate the Bank A Agreement unilaterally prior to the expiration of its term; but the investor is not entitled to redeem its investment or terminate the Bank A Agreement prior to the expiration of the relevant term	• Bank B is entitled to terminate the Bank B Agreements unilaterally prior to the expiration of its term, subject to certain conditions; but the investor is not entitled to redeem its investment or terminate the term of the Bank B Agreements prior to the expiration of the relevant term
	• In the event Bank A terminated the Bank A Agreement unilaterally prior to its expiration, the principal amount shall be paid back to the investor and the investor shall also be paid earnings calculated from the first date of the term of the product up to the day before the termination date based on fixed rate of annualised return stipulated	• In the event Bank B terminated the Bank B Agreements unilaterally prior to its expiration, the principal amount shall be paid back to the investor and the investor shall also be paid earnings calculated from the first date of the term of the product up to the day before the termination date based on fixed rate of annualised return stipulated

The early termination feature of such wealth management products above are different from that of fixed deposits placed by our Group. For wealth management products, the early termination could only be exercised unilaterally by the bank, but not by our Group. On the other hand, for fixed deposits, both our Group and the bank could early terminate the term of the fixed deposits. Nonetheless, while the early termination feature of wealth management products is different from that of fixed deposit, such feature is of little relevance as our Group's management will not normally consider early termination for our fixed deposits and wealth management products.

Treasury Policies

Our Group's treasury policy is to regularly monitor current and expected liquidity requirements and its compliance with debt covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from banks and other financial institutions to meet its liquidity requirements in the short and longer term.

Our Group's policy also requires regular monitoring of foreign currency exposures arising from our business. However, we have not hedged our foreign exchange risk during the Track Record Period and up to the Latest Practicable Date in view of the fact that possible adverse impact on our financial performance was not material as demonstrated by the amount of exchange gain or loss during the Track Record Period. Going forward, if we consider that foreign currency risk will have adverse material impact on our business, we may consider to implement hedge activities provided that these are carried out on a prudent basis and we have sufficient expertise in doing so.

Internal Control Measures

Our Group's internal control measures to review and monitor its treasury activities are summarised below:

1. the weekly treasury plans are submitted by the PRC subsidiaries of our Group and reviewed by the treasury manager of our Group, Ms. Wang Linghua ("**Ms. Wang LH**"), who has been treasury manager of our Group for seven years. Ms. Wang LH has been conferred by the Ministry of Finance of the PRC as an accountant since 1998;

2. if one of our PRC subsidiaries would like to subscribe for any wealth management product, which is not an investing activity from the management and business perspective, the general manager of the relevant subsidiary would make an application for review, and Ms. Wang LH and our executive Director, Mr. Li CH, who has been in charge of treasury management of our Group for eight years, would make a risk assessment and the application has to be approved by the chairman of the Board, Mr. Li. The treasury team led by Ms. Wang LH and Mr. Li CH would monitor the performance and status of the wealth management products after subscription every day and be vigilant to take action if they should spot anything which may adversely affect the status or expected return of such products; and

3. if Ms. Wang LH and Mr Li CH note that our Group may have a cash deficit after considering our Group's cash requirement and the then outstanding wealth management products that our Group has taken out, they would analyse the cash position of our Group as a whole and they would consider if there is any need for our Group to raise bank loan (including foreign currency denominated loan). Application for bank loan would then be reviewed and approved by directors of our PRC subsidiaries.

From 2013 onwards, the above role of Ms. Wang LH has been taken up by Ms. Zhang Yingli, a director of Nantong Yongsheng. Ms. Zhang Yingli joined Yongsheng Group in October 2003, was responsible for financial reporting and treasury management at subsidiaries of our Group and is currently also the head of the finance department of our Group and had experience and relevant qualifications in finance and accounting. For further information about the background and qualifications of Ms. Zhang Yingli, please refer to the section headed "Directors, senior management and employees" of this prospectus.

Our Directors confirm that they would consider our Group's funding requirements from time to time as well as the terms of the various wealth management products offered by the issuing banks, and our Group would continue to consider investing in wealth management products if it is in the interests of our Group as a whole to do so.

The carrying amount of wealth management products, the amount of loans borrowed by our Group backed by wealth management products as at 31 December 2010, 2011 and 2012 and relevant finance cost and foreign exchange gain or loss incurred, and the interest income derived from pledged deposits during each of the three years ended 31 December 2012 and the six months ended 30 June 2013 are as follows:

	As at 31 December			**As at 30 June**
In RMB'000	**2010**	**2011**	**2012**	**2013**
Carrying amount of wealth management products as at relevant year end	–	–	191,068	15,800
Loans backed by wealth management products as at relevant year end	–	–	177,215	13,783
Related finance cost	–	–	4,501	1,998
Related foreign exchange gain	–	–	596	2,072
Interest income derived from wealth management products	–	–	5,224	2,262

As confirmed by our Directors, the carrying amount of wealth management products, which served as pledged assets, is larger than the corresponding loan amounts as the corresponding banks need to ensure adequate security for loans provided to our Group after taking into account of (a) the fact that the related loans were denominated in foreign currency (mainly USD) and (b) the possible exchange rate fluctuations. To the best knowledge of our Directors, it is not uncommon for banks to require larger amount of pledged assets than the corresponding loan volume.

Net exchange (gains)/losses in financing activities

Net exchange gain/loss primarily represented exchange gain/loss arising from bank loans denominated in USD as a result of depreciation/appreciation of USD against RMB during the Track Record Period.

Income tax

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Income tax expense	23,968	20,248	6,061	2,402	5,696

Income tax expense consisted of provisions for current and deferred income tax. Overall, our effective tax rates for each of the three years ended 31 December 2012 and for the six months ended 30 June 2013 were 22.4%, 25.2%, 15.5% and 22.8%, respectively.

Cayman Islands profit tax

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law and the Cayman Islands currently levy no taxes on corporations based upon profits.

BVI profit tax

The subsidiary of our Company incorporated in the BVI under the BVI Business Companies Act 2004 of the British Virgin Islands is exempted from payment of BVI income tax.

Hong Kong profit tax

Hong Kong profit tax has not been provided for the subsidiaries of our Group in Hong Kong as there is no estimated assessable profit arising in or derived from Hong Kong during the Track Record Period. Yongsheng Trading (HK) was acquired by us as a wholly owned subsidiary on 28 December 2012 and hence contributed insignificant net profit during the Track Record Period.

PRC tax

Corporate income tax ("**CIT**") in the PRC is calculated based on the statutory profit of our subsidiaries incorporated in the PRC in accordance with the PRC tax laws and regulations, after adjusting certain income and expense items, which are not assessable or deductible for income tax purposes. According to the PRC corporate income tax laws and regulations (the "**PRC CIT Laws**"), the applicable tax rates for our PRC operating subsidiaries are as follows:

	2010	**2011**	**2012**	**Six months ended 30 June 2013**
Yongsheng Trading	25%	25%	25%	25%
Yongsheng Group – Trading	25%	25%	25%	N/A
Yongsheng Holdings – Trading	25%	25%	25%	N/A
Nantong Yongsheng	25%	25%	25%	25%
Yongsheng Dyeing	#12.5%	#12.5%	*15%	*15%
Yongsheng Chemical Fiber	#12.5%	#12.5%	#12.5%	25%

\# Yongsheng Dyeing and Yongsheng Chemical Fiber, as Foreign Investment Enterprises, enjoyed 50% of tax holiday in the relevant years. Such tax holiday ceased from 2012 and 2013 respectively, and CIT rate of 25% will be applied.

* Yongsheng Dyeing has been awarded "High and New Technology Enterprise" and enjoyed a preferential tax rate of 15% for 2012 and 2013, which is subject to annual examination of sufficient research and development expenditure spent in order to maintain such preferential tax rate.

The significant decrease of effective tax rate from 25.2% in 2011 to 15.5% in 2012 was due to the fact that substantial amount of profits of our Group in 2012 was from the operations of Yongsheng Dyeing and Yongsheng Chemical Fiber in relation to the dyeing and processing business and the sales of polyester filament yarn, whereby Yongsheng Dyeing and Yongsheng Chemical Fiber enjoyed preferential CIT rate of 15% and 12.5% respectively. Effective tax rate increased from 15.5% for 2012 to 22.8% for the six months ended 30 June 2013 mainly as a result of increase in CIT rate for Yongsheng Chemical Fiber from 12.5% to 25% for the respective periods.

Pursuant to PRC CIT Law, 10% withholding income tax will be levied on dividends distribution from our Group's PRC subsidiary to our Hong Kong incorporated intermediate parent companies. If these Hong Kong incorporated intermediate parent companies fall within qualified investors as defined by the PRC CIT Laws, a treaty rate of 5% will apply. Yongsheng Advanced Materials (HK) Limited will be subject to a 5% withholding tax rate imposed by the local tax bureau in accordance with the PRC CIT Laws. As at 30 June 2013, the aggregate retained earnings of our PRC Subsidiaries amounted to approximately RMB50.4 million, will be subject to this withholding tax. Our Group did not recognise the related deferred tax liabilities of approximately RMB2.5 million as at 30 June 2013, as our Directors had confirmed that retained earnings of PRC Subsidiaries up to 30 June 2013 are permanently invested and thus will not be distributed in the future.

Pricing policy for intra group transactions

Our Group's policy requires pricing of intra-group transactions should be determined after considering (a) comparability of pricing basis of similar services provided by and for Independent Third Parties, and (b) specific function and risk assumed by individual subsidiaries within our Group's value chain.

Internal control measures for related party transactions

Internal control measures adopted by our Group to manage transactions with related parties are summarised below:

- our Group would record all related party transactions for review by the financial controller from time to time;
- a periodic review and assessment would be performed by the financial controller to ensure intra-group transaction prices are fair and reasonable, then our Group applies the intra-group transaction prices in relevant connected transactions; and
- our Group would consult the professional advisers or local tax bureau when necessary to ensure compliance with the tax rules and regulations.

RESULTS OF OUR OPERATIONS

The results of the operations of our Group during the Track Record Period are summarised as follows, which are derived from the Accountant's Report attached as Appendix I to this prospectus:

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	1,565,630	2,037,346	2,210,853	1,240,999	1,110,842
Cost of sales	(1,428,006)	(1,922,937)	(2,101,708)	(1,189,489)	(1,049,615)
Gross profit	137,624	114,409	109,145	51,510	61,227
Other gains/losses, net	34,119	38,454	(3,118)	1,283	1,807
Selling expenses	(31,149)	(33,265)	(22,693)	(15,073)	(9,706)
Administrative expenses	(21,216)	(26,367)	(24,546)	(11,875)	(18,598)
Operating profit	119,378	93,231	58,788	25,845	34,730
Finance income	9,093	12,888	22,826	11,550	5,205
Finance costs	(21,573)	(25,860)	(42,566)	(22,603)	(14,938)
Finance costs, net	(12,480)	(12,972)	(19,740)	(11,053)	(9,733)
Profit before income tax	106,898	80,259	39,048	14,792	24,997
Income tax expense	(23,968)	(20,248)	(6,061)	(2,402)	(5,696)
Profit and total comprehensive income for the year/period	82,930	60,011	32,987	12,390	19,301
Other comprehensive income	–	–	–	–	(321)
Total comprehensive income for the year/period	82,930	60,011	32,987	12,390	18,980
Profit attributable to:					
Equity holders of the Company	78,217	54,206	23,173	6,253	15,461
Non-controlling interests	4,713	5,805	9,814	6,137	3,840
	82,930	60,011	32,987	12,390	19,301

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Total comprehensive income attributable to:					
Equity holders of the Company	78,217	54,206	23,173	6,253	15,140
Non-controlling interests	4,713	5,805	9,814	6,137	3,840
	82,930	60,011	32,987	12,390	18,980
Dividends	–	–	90,251	–	–
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Earnings per share for profit attributable to equity holders of the Company – basic and diluted	29.26	20.28	8.67	2.34	5.78

Six months ended 30 June 2013 compared to six months ended 30 June 2012

Revenue

Our revenue decreased by approximately RMB130.2 million, or approximately 10.5% from approximately RMB1,241.0 million for the six months ended 30 June 2012 to approximately RMB1,110.8 million for the six months ended 30 June 2013, primarily as a result of decrease in revenue of trading business by approximately RMB129.9 million and decrease in sales from polyester filament yarn production business by approximately RMB7.8 million, offset by increase in revenue of dyeing and processing business by approximately RMB7.5 million.

The decrease in revenue from our trading business of approximately RMB129.9 million was mainly driven by decrease in trading revenue of cotton by approximately RMB267.1 million as a result of fewer trading opportunities of cotton in the market during the six months ended 30 June 2013 due to the decline in cotton price, and (2) decrease in trading revenue of wood pulp by approximately RMB105.0 million as we reduced trading volume of wood pulp to control trading risk in view of the fluctuating gross profit margin of wood pulp during the Track Record Period, offset by (a) increase in trading revenue of PET chips/nylon chips by approximately RMB105.0 million as more trading opportunities of PET chips/nylon chips emerge as a result of increase in average unit sales price during the six months ended 30 June 2013 as compared to 2012, and (b) increase in trading revenue of MEG by approximately RMB118.8 million as all trading of MEG was conducted during the first quarter of 2013 when we were of the view that the price of MEG had upward potential. In view of the volatile fluctuation of prices of MEG during the Track Record Period, we ceased the trading of MEG from the second quarter of 2013.

The increase in revenue from our dyeing and processing business by approximately RMB7.5 million mainly as a result of increase in revenue contributed by Direct Sales by approximately RMB9.0 million as we developed more new customers during the first half of 2013, offset by decrease in revenue of Processing Activity by approximately RMB1.5 million although sales volume increased from approximately 12.6 million metres for the six months ended 30 June 2012 to approximately 16.9 million metres for the six months ended 30 June 2013 as the average unit price of processing decreased from RMB3.2 per metre to RMB2.3 per metre as the fabric we processed during the first half 2013 were on average thinner than those processed during the first half of 2012.

The decrease in polyester filament yarn sales by approximately RMB7.8 million was mainly attributed to the decrease in sales of regular products of approximately RMB53.1 million, which was offset by increase in sales of differentiated products by approximately RMB45.3 million. This was consistent with our strategy in focusing more of our production capacities in producing differentiated products which enjoyed higher gross profit margin. Increase in sales of differentiated products also signified the acceptance of our differentiated products by customers and the market.

Cost of sales

Our cost of sales decreased by approximately RMB139.9 million, or 11.7% from approximately RMB1,189.5 million for the six months ended 30 June 2012 to approximately RMB1,049.6 million for the six months ended 30 June 2013, primarily due to decrease in cost of sales of trading business by approximately RMB126.1 million and from polyester filament yarn production business by approximately RMB18.6 million, offset by increase in cost of sales of dyeing and processing business by approximately RMB4.8 million. The fluctuations in cost of sales were consistent with the changes in revenue as explained above.

Gross profit

Gross profit increased by approximately 18.9%, from approximately RMB51.5 million to approximately RMB61.2 million from six months ended 30 June 2012 to six months ended 30 June 2013. This was mainly attributable to the increase in gross profit from polyester filament yarn production business and dyeing and processing business by approximately RMB10.9 million and RMB2.6 million respectively, offset by the decrease in gross profit from trading business by approximately RMB3.8 million.

For detailed explanation of changes in gross profit and gross profit margin, please refer to the paragraphs headed "Description of components of results of operations – gross profit and gross profit margin" in this section.

Other gains/losses, net

Other net gains/losses increased by approximately RMB0.5 million from approximately RMB1.3 million for the six months ended 30 June 2012 to approximately RMB1.8 million for the six months ended 30 June 2013, primarily due to (1) we made foreign exchange gain on our accounts receivables and payables not denominated in RMB (mainly in USD) mainly in our trading activities of approximately RMB0.4 million for the six months ended 30 June 2013 as compared to foreign exchange loss for the six months ended 30 June 2012 of approximately RMB1.5 million mainly due to (a) we recorded average trade payables balance denominated in USD during the six months ended 30 June 2013 of approximately RMB66.0 million and average trade receivables balance denominated in USD during the six months ended 30 June 2013 of approximately RMB39.3 million, and therefore had net trade payables denominated in USD on average for the first half of 2013, and (b) USD depreciated against RMB, our functional currency during the first half of 2013, leading to foreign exchange gain resulted from net trade payables in USD; (2) increase in commission income by approximately RMB0.6 million which represented commission income earned by Yongsheng Trading (HK) for acting as agent for overseas suppliers and assisting in locating customers, negotiating and concluding contracts as well as other follow up work for their sales to the PRC, and the result of Yongsheng Trading (HK) was consolidated into our Group for the first half of 2013, offset by (a) deterioration in gain on disposal of financial assets at fair value through profit or loss to loss by approximately RMB1.0 million as we closed all open positions in future contracts during the first half of 2013 as a result of cessation in future investment, therefore, recorded loss from such closure activities, (b) decrease in interest income from deposits placed at brokers' account of approximately RMB0.5 million as we ceased to engage any investment company to invest in future contracts for us, and (c) decrease in reimbursement for transportation expenses of approximately RMB1.2 million as we did not trade any cotton from Xinjiang during the first half of 2013.

Selling expenses

Selling expenses decreased by approximately RMB5.4 million, or 35.6% from approximately RMB15.1 million for the six months ended 30 June 2012 to approximately RMB9.7 million for the six months ended 30 June 2013, primarily due to decrease in transportation and storage cost by approximately RMB5.4 million, which is mainly due to (i) we did not trade any cotton from Xinjiang during the first half of 2013 but instead sourced cotton from overseas for domestic sales, and transportation costs for cotton in Xinjiang were on average higher than transportation costs for overseas purchase, and (ii) we conducted more intermediary trade during the first half of 2013 in which we purchased goods from overseas and then sold to our customers outside PRC, and on average we incurred less transportation and storage costs by conducting intermediary trading than importing or trading within PRC.

Administrative expenses

Administrative expenses increased by approximately RMB6.7 million, or 56.6% from approximately RMB11.9 million for the six months ended 30 June 2012 to approximately RMB18.6 million for the six months ended 30 June 2013 primarily due to (i) the increase in staff costs of approximately RMB2.8 million to reward employees as a result of increase in profitability of our Group for the six months ended 30 June 2013 as compared to the six months ended 30 June 2012, (ii) the increase in listing expenses of approximately RMB2.9 million, and (iii) increase in bank charges of approximately RMB0.2 million and increase in operating lease rental for buildings of approximately RMB0.5 million, mainly due to the consolidation of the results of Yongsheng Trading (HK) for the first half of 2013.

Finance costs, net

Net finance costs decreased by approximately RMB1.3 million, or 11.9% from approximately RMB11.1 million for the six months ended 30 June 2012 to approximately RMB9.7 million for the six months ended 30 June 2013, primarily due to (1) decrease in interest expenses on bank borrowings by approximately RMB2.9 million mainly due to the reduction of bank borrowings from approximately RMB380.1 million as at 31 December 2012 to approximately RMB210.6 million as at 30 June 2013, (2) net exchange loss during first half of 2012 improved to net exchange gain during first half of 2013 as we recorded exchange loss of approximately RMB2.6 million during the first half of 2012 due to appreciation of USD against RMB during the relevant period and our foreign currency loans were mostly denominated in USD, while we recorded exchange gain of approximately RMB0.1 million during the first half of 2012 due to depreciation of USD against RMB during the relevant period and our foreign currency loans were mostly denominated in USD offset by (a) decrease in net interest income on loan to related parties (offset with interest on borrowings from related parties) of approximately RMB3.3 million as we ceased borrowing from or lending to related parties during the six months ended 30 June 2013, and (b) decrease in interest income from cash and cash equivalents, restricted cash deposits and other financial assets mainly as a result of decrease in the aggregate balance by approximately RMB268.9 million from 31 December 2012 to 30 June 2013.

Profit before income tax and income tax expenses

Profit before income tax increased from approximately RMB14.8 million for the six months ended 30 June 2012 to approximately RMB25.0 million for the six months ended 30 June 2013 by approximately RMB10.2 million or 69.0%, which was mainly due to (1) increase in gross profit by approximately RMB9.7 million; and (2) decrease in finance costs.

Income tax expense increased by 137.1% from the six months ended the same period in 2012 to the same period in 2013, which was larger than the increase of profit before income tax of 69.0% as the corporate income tax rate of Yongsheng Chemical Fiber doubled from 12.5% for the six months ended 30 June 2012 to 25% for the six months ended 30 June 2013 as it ceased to enjoy 50% tax holiday from year of 2013.

Total comprehensive income

As a result of the foregoing, our total comprehensive income increased by approximately RMB6.6 million, or 53.2% from approximately RMB12.4 million for the six months ended 30 June 2012 to approximately RMB19.0 million for the six months ended 30 June 2013. Our net profit margin before interest and tax and net profit margin increased from 2.0% and 1.0% respectively for the six months ended 30 June 2012 to 3.1% and 1.7% respectively for the six months ended 30 June 2013, mainly as a result of our increased gross profit margin from 4.2% to 5.5% mainly due to the improvement of gross profit margin of production activities and decrease in net finance costs.

Year ended 31 December 2012 compared to year ended 31 December 2011

Revenue

Our revenue increased by approximately RMB173.6 million, or approximately 8.5% from approximately RMB2,037.3 million for the year ended 31 December 2011 to approximately RMB2,210.9 million for the year ended 31 December 2012, primarily as a result of increase in revenue of trading business by approximately RMB196.1 million, offset by decrease in sales from polyester filament yarn production business by approximately RMB27.7 million.

The increase in revenue from our textile-related products trading business of approximately RMB196.1 million was mainly driven by the increase in trading revenue of PTA by approximately RMB431.7 million, offset by decrease in trading revenue of cotton and MEG by approximately RMB132.8 million and RMB43.3 million respectively.

Our trading volume of PTA increased significantly during 2012 as we were confident to earn excess return from bulk purchases. We subsequently recorded gross loss in 2012 mainly because the price of PTA dropped unexpectedly as (1) the negative impact of European debt crisis and (2) decrease in the price of crude oil in 2012. We lowered the volume of MEG traded in 2012 in view of the continuous gross loss recorded.

The decrease in polyester filament yarn sales by approximately RMB27.7 million was mainly attributed to the decrease in sales of regular products of approximately RMB93.9 million, which was offset by increase in sales of differentiated products by approximately RMB66.2 million. This was consistent with our strategy in focusing more of our production capacities in producing differentiated products which enjoyed higher gross profit margin. Increase in sales of differentiated products also signified the acceptance of our differentiated products by customers and the market.

Cost of sales

Our cost of sales increased by approximately RMB178.8 million, or 9.3% from approximately RMB1,922.9 million for the year ended 31 December 2011 to approximately RMB2,101.7 million for the year ended 31 December 2012, primarily due to increase in cost of sales of trading business by approximately RMB234.6 million, offset by decrease in cost of sales from polyester filament yarn production business by approximately RMB50.2 million. The fluctuations in cost of sales were consistent with the changes in revenue as explained above.

Gross profit

Gross profit decreased by approximately 4.6%, from approximately RMB114.4 million to approximately RMB109.1 million from 2011 to 2012. This was mainly attributable to the decrease in gross profit from trading of approximately RMB38.5 million offset by the increase in gross profit from polyester filament yarn sales and dyeing and processing business by approximately RMB22.5 million and RMB10.7 million respectively. For detailed explanation of changes in gross profit and gross profit margin, please refer to the paragraphs headed "Description of components of results of operations – gross profit and gross profit margin" in this section.

Other gains/losses, net

Other net gains/losses decreased by approximately RMB41.6 million, or approximately 108.1% from approximately RMB38.5 million for the year ended 31 December 2011 to loss of approximately RMB3.1 million for the year ended 31 December 2012, primarily due to (1) gain on disposal of financial assets at fair value through profit or loss for 2011 was deteriorated to a loss for 2012 as we made investment loss of approximately RMB3.7 million for the year ended 31 December 2012 through investment in commodities future contracts as compared to the gain of approximately RMB26.9 million in 2011, as price fluctuation for various commodity products was very volatile as a result of the European debt crisis in 2012, (2) an increase in foreign exchange losses of approximately RMB6.5 million due to the fluctuations of the exchange rates of USD against RMB, and hence we recorded net exchange loss on our accounts receivables and payables not denominated in RMB mainly in our trading activities, offset by (3) the increase in interest income for the deposit placed in the brokers' account of approximately RMB1.7 million.

During 2012, we entered into agreements with the Investment Company which we engage to carry out futures contract transactions on our behalf. According to the agreements, we charged the Investment Company interest income for the security deposit placed in the brokers' account at an annual interest of 12%.

Selling expenses

Selling expenses decreased by approximately RMB10.6 million, or 31.8% from approximately RMB33.3 million for the year ended 31 December 2011 to approximately RMB22.7 million for the year ended 31 December 2012, primarily due to decrease in transportation and storage cost by approximately RMB10.8 million, which is mainly due to (i) change in our Company's strategy to reduce purchase of domestic cotton as compared to 2011 because of the cotton reserve policy promulgated by the relevant PRC governmental authority to purchase cotton from producers at a certain price and resell at a standard fixed price in order to stabilise the price, and hence we mainly sourced cotton from overseas in order to earn satisfactory profits during 2012. Transportation costs for domestically purchased cotton were on average higher than transportation costs for overseas purchase, and (ii) on average more of our goods were collected by our customers instead of transporting by ourselves.

Administrative expenses

Administrative expenses decreased slightly by approximately RMB1.8 million, or 6.9% from approximately RMB26.4 million for the year ended 31 December 2011 to approximately RMB24.5 million for the year ended 31 December 2012 primarily due to (i) the decrease in staff costs of approximately RMB1.6 million as well as other operating costs due to our tightened cost control measures; (ii) decrease in provision for impairment of receivables by approximately RMB1.1 million due to better credit control; and (iii) the offsetting effect of the listing expenses of approximately RMB2.6 million.

Finance costs, net

Net finance costs increased by approximately RMB6.7 million, or 51.5% from approximately RMB13.0 million for the year ended 31 December 2011 to approximately RMB19.7 million for the year ended 31 December 2012, primarily due to (1) an increase in interest expense on our bank borrowings of approximately RMB5.8 million as the weighted average interest rate for both RMB and USD bank borrowings, which consist of majority of our bank borrowings, increased from 5.72% and 4.09% respectively in 2011 to 6.35% and 4.68% respectively in 2012, (2) a decrease in net exchange gain/loss on financing activities by approximately RMB11.6 million. We recorded exchange gain on financing activities during 2010 and 2011 as USD kept on depreciating against RMB from 2010 to 2011. During 2012, in addition to USD denominated foreign currency loan, we also borrowed Euro loan from banks. As USD-RMB and EUR-RMB exchange rate fluctuated during 2012, we made net exchange loss from borrowing as a whole. Such indicated that on average, we borrowed foreign currencies when their values were lower than RMB and repaid when foreign currencies appreciated. The effect of the aforesaid two factors was offset by (3) the increase in interest income of approximately RMB9.9 million, which mainly consisted of (i) increase in interest income from restricted cash of approximately RMB1.7 million, (ii) increase in interest income from loans granted to related parties of approximately RMB3.0 million, and (iii) increase in interest income from wealth management products of approximately RMB5.2 million.

For the rationale of investment in wealth management products during 2012, please refer to the paragraph headed "Interest income-finance costs, net-description of components of results of operations" under this section.

Profit before income tax and income tax expenses

Profit before income tax decreased from approximately RMB80.3 million for the year ended 31 December 2011 to approximately RMB39.0 million for the year ended 31 December 2012 by approximately RMB41.3 million or 51.4%, which was mainly due to (1) other gains for 2011 were deteriorated to other losses for 2012; and (2) decrease in gross profit by approximately RMB5.3 million.

Income tax expense decreased by 70.1% from 2011 to 2012, which was larger than the decrease of profit before income tax of 51.4% as Yongsheng Chemical Fiber and Yongsheng Dyeing together generated larger portion of profit before tax in 2012 than in 2011, which both enjoyed preferential tax rate during 2011 and 2012.

Total comprehensive income

As a result of the foregoing, our total comprehensive income decreased by approximately RMB27.0 million, or 45.0% from approximately RMB60.0 million for the year ended 31 December 2011 to approximately RMB33.0 million for the year ended 31 December 2012. Our net profit margin before interest and tax and net profit margin decreased from 4.6% and 2.9% respectively for the year ended 31 December 2011 to 2.6% and 1.5% respectively for the year ended 31 December 2012, mainly as a result of our decreased gross profit margin from 5.6% to 4.9% due to the deterioration of gross profit margin of trading activities and decrease of other gain/loss of approximately RMB41.6 million.

Year ended 31 December 2011 compared to year ended 31 December 2010

Revenue

Revenue increased from approximately RMB1,565.6 million for the year ended 31 December 2010 to approximately RMB2,037.3 million for the year ended 31 December 2011 by approximately RMB471.7 million, or approximately 30.1%, primarily as a result of (1) an increase in trading revenue by approximately RMB327.0 million, (2) an increase in revenue derived from dyeing and processing business by approximately RMB14.0 million, and (3) an increase in sales of our polyester filament yarn by approximately RMB130.7 million.

The increase in revenue of our trading business by approximately RMB327.0 million from 2010 to 2011 was mainly driven by the increase in trading revenue from cotton by approximately RMB313.5 million, as we continued to seize the upward price trend of cotton in 2011 and recorded a reasonable gross profit margin of 13.5% for trading of cotton in 2011.

The increase in our fabric dyeing and processing business sales by approximately 14.2% was mainly driven by increase in processing fees received from Processing Activity by 34.4%, offset by decrease in revenue from Direct Sales by approximately 15.9%. Aggregate sales volume from both Processing Activity and Directs Sales increased from approximately 27.3 million metres to approximately 38.5 million metres as a new processing line commenced operation in January 2011 which increased the dyeing and processing capacities.

We reduced Direct Sales in 2011 as it is our strategy to direct our dyeing and processing capacities to Processing Activity first as it generally has higher gross profit margin. As confirmed by our Directors, we shall determine whether we will engage in Direct Sales of our own processed differentiated polyester fabric by mainly checking the utilisation rate of our production lines from time to time, and if there is spare capacity, we shall source differentiated polyester fabric for our own processing.

The increase in sales of polyester filament yarn by approximately 55.5% was mainly due to (1) an increase in sales volume of regular products and differentiated products by approximately 4.1% and approximately 127.1% respectively in 2011 as a result of full year production of the Nantong Facilities, and (2) an increase in general average unit sales price of both regular and differentiated products by approximately 34.2% and approximately 5.4% respectively in 2011. We followed the strategy of allocating more of our production capacities in differentiated products, which enjoy much higher gross profit margin than regular products. We, however, still increased the production and sales of regular products slightly in 2011 in order to maintain the operation of production facilities and share the fixed costs during the manufacturing process.

Cost of sales

Our cost of sales increased by approximately RMB494.9 million, or 34.7% from approximately RMB1,428.0 million for the year ended 31 December 2010 to approximately RMB1,922.9 million for the year ended 31 December 2011, primarily due to (1) an increase in costs of sales for trading business by approximately RMB356.4 million, (2) an increase in costs of sales of dyeing and processing business by approximately RMB11.1 million, and (3) an increase in costs of sales for polyester filament yarn production by approximately RMB127.5 million. The fluctuations in cost of sales were consistent with the changes in revenue as explained above.

Gross profit

Gross profit decreased by approximately RMB23.2 million, or 16.9% from RMB137.6 million for the year ended 31 December 2010 to approximately RMB114.4 million for the year ended 31 December 2011 as a result of a significant decrease of gross profit generated from trading by approximately RMB29.4 million, offset by an increase in gross profit from polyester filament yarn production by approximately RMB3.2 million, and an increase in gross profit from dyeing and processing by approximately RMB2.9 million. For detailed explanation of changes in gross profit and gross profit margin, please refer to the paragraphs headed "Description of components of results of operations – gross profit and gross profit margin" in this section.

Other gains/losses, net

Other net gains increased by approximately RMB4.4 million, or 12.9% from approximately RMB34.1 million for the year ended 31 December 2010 to approximately RMB38.5 million for the year ended 31 December 2011, primarily due to (1) increase in reimbursement by supplier on cancelled purchase of approximately RMB6.4 million, and (2) the increase in reimbursement for transportation expenses by approximately RMB0.8 million as we received more reimbursement transportation expenses from government in 2011 to reimburse our purchase of cotton from Xinjiang.

Selling expenses

Selling expenses increased by approximately RMB2.2 million, or 7.1% from approximately RMB31.1 million for the year ended 31 December 2010 to approximately RMB33.3 million for the year ended 31 December 2011, primarily due to an increase in transportation and storage cost by approximately RMB1.8 million, which was consistent with the increase of our trading volume.

Administrative expenses

Administrative expenses increased by approximately RMB5.2 million, or 24.5% from approximately RMB21.2 million for the year ended 31 December 2010 to RMB26.4 million for the year ended 31 December 2011 primarily due to the increase in staff costs by approximately RMB2.4 million due to increase in staff remuneration and the increase in entertainment and travelling expenses by approximately RMB1.1 million to support the expansion of our business.

Finance costs, net

Net finance costs increased by approximately RMB0.5 million, or 4.0% from RMB12.5 million for the year ended 31 December 2010 to RMB13.0 million for the year ended 31 December 2011, primarily due to an increase in interest expense on our bank borrowings by approximately RMB10.0 million mainly as (1) balance of total borrowings from banks increased from approximately RMB380.8 million to approximately RMB530.5 million, (2) the weighted average interest rate for both RMB and USD bank borrowings increase from 4.77% and 2.87% respectively in 2010 to 5.72% and 4.09% respectively in 2011. The effect of the aforesaid two factors was offset by (a) increase in exchange gain on financing activities by approximately RMB6.3 million as (i) the bank borrowing balance in USD increased from approximately RMB143.6 million as at 31 December 2010 to approximately RMB258.1 million as at 31 December 2011, and (ii) USD depreciated significantly and continuously against RMB during 2011 and (b) increase in interest income by approximately RMB3.8 million due to increase in interest from restricted cash of approximately RMB5.2 million as (i) the balance of restricted cash increased by approximately RMB123.7 million from 31 December 2010 to 31 December 2011, and (ii) the weighted average interest rate on restricted cash increased from 2.02% for 2010 to 3.08% for 2011.

Profit before income tax and income tax expense

Profit before income tax decreased from approximately RMB106.9 million for the year ended 31 December 2010 to approximately RMB80.3 million for the year ended 31 December 2011 by approximately RMB26.6 million or 24.9%, which was mainly due to (1) decrease in gross profit by approximately RMB23.2 million, (2) increase in administrative expenses by approximately RMB5.2 million and (3) increase in net finance cost by approximately RMB0.5 million, offset by increase in other gains by approximately RMB4.3 million.

Income tax expense decreased by approximately 15.5% from 2010 to 2011, as a result of decrease in profit before income tax by approximately 24.9%.

Total comprehensive income for the year

As a result of the foregoing, our profit and total comprehensive income decreased by approximately RMB22.9 million, or 27.6% from RMB82.9 million for the year ended 31 December 2010 to RMB60.0 million for the year ended 31 December 2011. Our net profit margin before interest and tax and net profit margin decreased from 7.6% and 5.3% respectively for the year ended 31 December 2010 to 4.6% and 2.9% respectively for the year ended 31 December 2011, primarily as a result of our decreased gross profit margin from 8.8% in 2010 to 5.6% in 2011 due to the deterioration of gross profit margin of each of our three business segments.

Analysis of various consolidated statement of financial position items

Land use rights

	Year ended 31 December			Six months ended 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Beginning balance of the year	24,041	34,175	33,377	32,579
Additions	10,753	–	–	–
Amortisation charges	(619)	(798)	(798)	(400)
Ending balance of the year	34,175	33,377	32,579	32,179

Our Group's interest in land use rights represents prepaid operating lease payment for land located in Hangzhou and Nantong and the remaining lease periods were between 10 to 50 years as at 31 December 2010, 2011 and 2012 and 30 June 2013 respectively. Our land use rights were amortised on a straight-line basis over the remaining periods of the lease.

The additions in land use right during 2010 was mainly attributable to the acquisition of land use rights of Nantong Yongsheng in 2010 as a result of the establishment and commencement of operations of Nantong Yongsheng.

Property, plant and equipment

	Buildings	Plant and machinery	Vehicles	Office equipment and others	Leasehold improvements	Construction-in-progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2010							
Cost	77,751	100,685	5,960	6,109	507	–	191,012
Accumulated depreciation	(11,363)	(28,930)	(2,924)	(4,303)	(282)	–	(47,802)
Net book amount	66,388	71,755	3,036	1,806	225	–	143,210
At 31 December 2011							
Cost	77,961	104,533	6,905	6,563	507	3,576	200,045
Accumulated depreciation	(13,536)	(35,889)	(3,760)	(5,041)	(488)	–	(58,714)
Net book amount	64,425	68,644	3,145	1,522	19	3,576	141,331
At 31 December 2012							
Cost	78,153	111,646	6,905	6,807	955	4,617	209,083
Accumulated depreciation	(15,892)	(43,639)	(4,545)	(5,511)	(645)	–	(70,232)
Net book amount	62,261	68,007	2,360	1,296	310	4,617	138,851
At 30 June 2013							
Cost	78,385	108,795	6,905	6,871	955	6,436	208,347
Accumulated depreciation	(17,073)	(46,261)	(4,933)	(5,697)	(691)	–	(74,655)
	61,312	62,534	1,972	1,174	264	6,436	133,692

Our property, plant and equipment mainly consists of buildings, plant and machinery, vehicles, office equipment, leasehold improvements and construction in progress. As of 31 December 2010, 2011 and 2012 and 30 June 2013, our property, plant and equipment amounted to approximately RMB143.2 million, RMB141.3 million, RMB138.9 million and RMB133.7 million respectively.

Intangible assets

	Computer software *RMB'000*	Technical know-how *RMB'000*	Sewage pipes use right *RMB'000*	Total *RMB'000*
Year ended 31 December 2010				
Opening net book amount	159	–	2,230	2,389
Additions	–	3,264	–	3,264
Amortisation charge	(22)	(129)	(120)	(271)
Closing net book amount	137	3,135	2,110	5,382
At 31 December 2010				
Cost	225	3,264	2,400	5,889
Accumulated amortisation	(88)	(129)	(290)	(507)
Net book amount	137	3,135	2,110	5,382
Year ended 31 December 2011				
Opening net book amount	137	3,135	2,110	5,382
Additions	–	4,010	–	4,010
Amortisation charge	(22)	(413)	(120)	(555)
Closing net book amount	115	6,732	1,990	8,837
At 31 December 2011				
Cost	225	7,274	2,400	9,899
Accumulated amortisation	(110)	(542)	(410)	(1,062)
Net book amount	115	6,732	1,990	8,837
Year ended 31 December 2012				
Opening net book amount	115	6,732	1,990	8,837
Amortisation charge	(22)	(806)	(120)	(948)
Closing net book amount	93	5,926	1,870	7,889

	Computer software *RMB'000*	Technical know-how *RMB'000*	Sewage pipes use right *RMB'000*	Total *RMB'000*
At 31 December 2012				
Cost	225	7,274	2,400	9,899
Accumulated amortisation	(132)	(1,348)	(530)	(2,010)
Net book amount	93	5,926	1,870	7,889
Six months ended 30 June 2013				
Opening net book amount	93	5,926	1,870	7,889
Amortisation charge	(11)	(368)	(60)	(439)
Closing net book amount	82	5,558	1,810	7,450
At 30 June 2013				
Cost	225	7,274	2,400	9,899
Accumulated amortisation	(143)	(1,716)	(590)	(2,449)
Net book amount	82	5,558	1,810	7,450

Our intangible assets consisted of (1) advanced technical know-how related to manufacturing of differentiated polyester filament yarn and fabric dyeing and finishing process, (2) sewage pipes use right, and (3) computer software. For details of the technical know-how, please refer to the paragraph headed "Research and development" under section headed "Business" of the prospectus.

Available-for-sale financial assets

	As at 31 December			As at 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Beginning balance of the year	–	4,000	4,000	–
Addition	4,000	–	–	–
Disposal	–	–	(4,000)	–
Ending balance of the year	4,000	4,000	–	–

Our available-for-sale financial assets mainly represent 11.11% of equity interests investment in an unlisted company incorporated in the PRC which mainly engaged in investment holding activities. In the opinion of our Directors, the fair value of the unlisted securities as at 31 December 2010 and 2011 approximated the net book value. Such financial assets have been disposed of to Yongsheng Holdings at consideration of RMB4,000,000 during the year ended 31 December 2012 as we intend to focus on our core business.

Inventories

	As at 31 December			As at 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trading inventories	218,728	216,023	118,239	70,202
Finished goods	40,681	20,809	23,993	26,509
Raw materials	13,635	14,802	12,507	13,926
Work in progress	2,720	3,902	2,040	2,999
Less: provision	(9,114)	(6,984)	(5,862)	(4,922)
Net inventory	266,650	248,552	150,917	108,714

Our inventories mainly consisted of unsold trading inventories, finished goods, raw materials and, work in progress. Finished goods mainly included completed polyester filament yarn and dyed fabric of which the fabric was purchased by us. Raw materials mainly consisted of POY, FDY and PET chips from our production business and fabric purchased for further process by our dyeing and processing business. Work in progress mainly arise from production of polyester filament yarn and processing of fabric purchased by us. We conduct stock counts at the end of each financial year and we record a specific provision if the estimate of the net realizable value of any inventory is below the corresponding cost of such inventory, as a result of, among other things, being obsolete. As of 30 September 2013, 62.0% of our inventories in stock as of 30 June 2013 were subsequently consumed or sold.

Our inventories decreased from approximately RMB266.7 million as at 31 December 2010 to approximately RMB248.6 million as at 31 December 2011 by approximately RMB18.1 million, primarily due to the decrease in finished goods by approximately RMB19.9 million mainly due to our efforts in reducing inventories of polyester filament yarn and self-dyed and processed fabric in preventing obsolescence of our inventories. Our inventories further decreased to approximately RMB150.9 million by approximately RMB97.6 million as of 31 December 2012, primarily due to decrease in inventory of trading goods of approximately RMB97.8 million as a result of clearance of inventories pursuant to tightened internal control to reduce risk. Inventory balance decreased to approximately RMB108.7 million as at 30 June 2013 by approximately RMB42.2 million as compared to

31 December 2012, mainly as a result of decrease in trading inventories by approximately RMB48.0 million as a result of decrease in trading revenue by approximately RMB129.9 million for the first half of 2013 as compared to the first half of 2012.

Our inventories are recorded at the lower of cost and net realizable value. We recorded inventory provision of approximately RMB9.1 million, RMB 7.0 million, RMB 5.9 million and RMB4.9 million for our inventories purchased during the respective years/period but not sold as at the years ended 31 December 2010, 2011 and 2012 and as at 30 June 2013 respectively as a result of decrease in the sales price of the inventories after the respective year/period ends.

The following table sets forth our inventory turnover days for the Track Record Period:

	Year ended 31 December			Six months ended 30 June
	2010	**2011**	**2012**	**2013**
Inventory turnover days	52 days	46 days	33 days	21 days

Note:

(1) Inventory turnover days equals to the average of beginning and ending inventory balances of the year/period divided by revenue of the year/period and multiplied by the total number of days for the respective year/period. The above calculations exclude the balance of Yongsheng Trading (HK) as at 31 December 2012.

Our inventory turnover days decreased from 2010 to 2011 mainly due to decrease of inventory balance as a result of decrease in finished goods in order to prevent obsolescence of our inventory. Our inventory turnover days further decreased significantly from 2011 to 2012 mainly due to the significant decline of inventory balance from approximately RMB248.6 million as at 31 December 2011 to approximately RMB150.9 million as at 31 December 2012 as a result of clearance of inventories during 2012 for trading activities due to our tightened internal control on inventories. Decrease of inventory turnover days from 2012 to the six months ended 30 June 2013 was mainly due to decrease in inventory balance from approximately RMB150.9 million as at 31 December 2012 to approximately RMB108.7 million as at 30 June 2013 as a result of decrease in trading revenue.

Trade and bills receivables

Our trade and bills receivables mainly represent the credit sales of our products to our customers and bank acceptance notes received from customers. As of 30 September 2013, 77.4% of our trade receivables as of 30 June 2013 were settled or received by us. The following table sets forth a breakdown of our trade and bills receivables as of the dates indicated:

	As at 31 December			As at 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivable	79,030	105,491	207,746	123,562
Bills receivables – bank acceptance notes	14,956	23,729	42,522	22,109
	93,986	129,220	250,268	145,671
Less: provision for impairment	(4,964)	(5,813)	(5,116)	(4,897)
Trade and bills receivables–net	89,022	123,407	245,152	140,774

Trade and bills receivables increased from approximately RMB89.0 million as of 31 December 2010 to approximately RMB123.4 million as of 31 December 2011 by approximately RMB34.4 million as a result of expansion of our business in 2011 and increase in total revenue by approximately RMB471.7 million for 2011 as compared to 2010. Trade and bills receivable increased from approximately RMB123.4 million as of 31 December 2011 to approximately RMB245.2 million as of 31 December 2012 by approximately RMB121.8 million as a result of (1) further expansion of our business in 2012 and increase in total revenue by approximately RMB173.5 million from 2011 to 2012, (2) increase in sales from trading segment for the fourth quarter of 2012 as compared to the fourth quarter of 2011 in order to meet our internal control requirement by reducing the trading inventory level, pushing up the trade receivables balance as at 31 December 2012, and (3) inclusion of bills receivables of approximately RMB22.2 million from Yongsheng Trading (HK), which was acquired by our Group in December 2012, as at 31 December 2012. Trade and bills receivables declined from approximately RMB245.2 million as at 31 December 2012 to approximately RMB140.8 million as at 30 June 2013 by approximately RMB104.4 million, which is mainly due to (1) decline in total revenue by approximately RMB130.2 million for the six months ended 30 June 2013 as compared to six months ended 30 June 2012, and (2) decline in revenue for the second quarter of 2013 as compared to the first quarter of 2013 mainly as a result of decrease in trading revenue.

Our sales are mainly made on credit terms of normally 0-90 days. Ageing analysis of trade receivables based on invoice date as at 31 December 2010, 2011 and 2012 and 30 June 2013 was as follows:

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Accounts receivable				
– within 3 months	61,628	87,197	191,028	95,774
– 3 months to 6 months	1,961	3,244	4,034	20,446
– 6 months to 1 year	3,443	4,778	7,640	2,009
– 1 year to 2 years	6,901	2,633	1,196	741
– 2 years to 3 years	3,889	3,635	1,085	1,227
– 3 years above	1,208	4,004	2,763	3,365
	79,030	105,491	207,746	123,562
Bills receivable				
– within 6 months	14,956	23,729	42,522	22,109
	93,986	129,220	250,268	145,671

The ageing analysis of past due but not impaired trade receivables as at 31 December 2010, 2011 and 2012 and 30 June 2013 was as follows:

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivable				
– 3 months to 6 months	1,893	3,244	4,034	20,446
– 6 months to 1 year	2,939	3,381	7,438	1,843
– 1 year to 2 years	6,379	760	131	602
– 2 years to 3 years	977	3,635	–	–
– More than 3 years	1,071	815	–	–
	13,259	11,835	11,603	22,891

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default. Receivables that were past due but not impaired relate to the trade balance with related party and a number of independent customers that have a good track record with us. Based on the past experience and review of the operating situation with the customers, our Directors are of the view that past due trade receivables, amounting to approximately RMB13.3 million, RMB11.8 million, RMB11.6 million and RMB22.9 million respectively were assessed as not impaired as at 31 December 2010, 2011 and 2012 and 30 June 2013, respectively, as there has not been a significant change in their credit quality and the balances are considered fully recoverable. The significant increase in balance as at 30 June 2013 as compared to 31 December 2012 was mainly due to the overdue balance from one of our trading customer of approximately RMB14.0 million, who had a history of good credit quality and has subsequently settled approximately RMB14.0 million as at 30 September 2013. As of 30 September 2013, RMB20.1 million of post due balances as at 30 June 2013 were settled or received by us.

The following table sets forth our debtors' turnover days for the Track Record Period:

	Year ended 31 December			Six months ended 30 June
	2010	**2011**	**2012**	**2013**
Debtors' turnover days[(1)]	22 days	21 days	30 days	28 days

Note:

(1) Debtors' turnover days equals to the average of the beginning and ending trade receivable balances of the year/period divided by revenue and multiplied by the total number of days for the respective year/period. The above calculations exclude the balance of Yongsheng Trading (HK) as at 31 December 2012 and include trade related receivables due from related parties as at 31 December 2010, 2011 and 2012.

Debtors' turnover days remained stable at 22 days for year ended 31 December 2010 and 21 days for year ended 31 December 2011.

Our average debtors' turnover days increased from 21 days for the year ended 31 December 2011 to 30 days for the year ended 31 December 2012 primarily due to the increase in sales to our trading customers in relation to inventory clearance during the fourth quarter of 2012. Since credit terms of up to 90 days are granted to our trading customers, much of those sales remained as trade receivables at the end of 2012.

Debtors' turnover days declined to 28 days for the six months ended 30 June 2013 mainly due to the significant decrease in trade receivable by approximately 40.5%, offset by decline in revenue for the first half of 2013 by approximately 10.5%.

Prepayments, deposits and other receivables

	As at 31 December			As at 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayment to suppliers	94,787	52,197	19,877	35,974
Deposits and other receivables	5,434	4,381	34,081	2,054
Value added tax recoverable	9,997	9,136	–	–
Interest receivables	1,160	4,618	7,098	1,931
Prepaid expense	–	335	2,488	7,162
Less: provision for impairment of other receivables	(1,574)	(898)	(195)	(195)
Prepayments, deposits and other receivables -net	109,804	69,769	63,349	46,926

Prepayment to suppliers mainly represents deposits placed to suppliers for purchase of goods, which mainly arise from trading activities. The decreasing trend of balance of prepayment to suppliers during 2010 to 2012 was mainly due to the increase in percentage of purchases from overseas suppliers for trading activities from 2010 to 2012 for which we mainly gave letter of credit to suppliers to guarantee our purchase instead of placing deposits to them which were used more commonly for purchasing of goods from domestic suppliers. Prepayment to suppliers increased from RMB19.9 million as at 31 December 2012 to RMB36.0 million as at 30 June 2013 by approximately RMB16.1 million, or 81.0% mainly due to increase in prepayment to suppliers by Hangzhou Yongsheng Trading by approximately RMB18.6 million which mainly consists of prepayment for purchase of PTA as we increased the amount of PTA purchased in the PRC where suppliers usually demand prepayments, as compared to overseas purchase where we issued letter of credit to suppliers.

Deposits and other receivables mainly represent loan to third parties and export tax refundable. The significant increase in balance from approximately RMB4.4 million in 2011 to approximately RMB34.1 million in 2012 by approximately RMB29.7 million, mainly as a result of inclusion of certain receivable balances of Yongsheng Trading (HK) which was acquired by us in December 2012 and increase in export tax refundable by approximately RMB1.2 million. The balances of Yongsheng Trading (HK) comprise (i) a receivable of approximately RMB8.4 million representing the consideration for disposal of an equity investment in an PRC company by Yongsheng Trading (HK) and (ii) advance of approximately RMB20.8 million, approximately RMB1.3 million, and approximately RMB1.3 million by Yongsheng Trading (HK) to a Hong Kong company ("**Borrower**") which is an Independent Third Party, the sole shareholder of the Borrower, and an employee of Yongsheng Trading (HK) respectively as at 31 December 2012, which were unsecured and interest free. The advance to the Borrower was made in December 2012 and repayable after three months. The advances to the two individuals were made in May 2011 and repayable before May 2013. The Borrower was also one of our top five customers during 2012 who mainly purchased PTA and MEG from us. The Borrower was also one of our cotton suppliers for the six months ended 30 June 2013. Our sales to the Borrower were approximately RMB32.3 million, RMB46.0 million, RMB110.8 million and RMB238.4 million respectively for each of the three years ended 31 December 2012 and six months ended 30 June 2013. Our purchases from the Borrower were approximately RMB11.4 million. Our Directors confirm that the reason for the advance was because the Borrower had good relationship with the shareholders and directors of Yongsheng Trading (HK). To the best knowledge of our Directors, the advance was used by the Borrower for temporary financing needs and the advances to the sole shareholder of the Borrower and the employee of Yongsheng Trading (HK) were for their personal use. The decrease of deposits and other receivables from approximately RMB34.1 million as at 31 December 2012 to approximately RMB2.1 million as at 30 June 2013 by approximately RMB32.0 million was mainly attributable to the full settlement of the aforesaid receivable balances of Yongsheng Trading (HK) totaling approximately RMB31.8 million. Our Directors have no intention to make any advance to any parties which are outside our business scope in the future.

Prepaid expenses mainly represented deferred listing fees of approximately RMB6.9 million as at 30 June 2013 to be deducted directly from shareholders' equity upon the Listing.

Other financial asset

	As at 31 December			As at 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Wealth management products	–	–	191,068	15,800

For the year ended 31 December 2012, we invested in wealth management products in lieu of fixed deposits for higher interest rates. Such products are issued by commercial banks in the PRC to us with fixed maturity within approximately 12 months, guaranteed principal and guaranteed fixed interest rate ranging from 3.57% to 4.80% per annum. Accordingly, such products are basically risk-free unless the commercial banks are in financial problems and are considered equivalent to fixed deposits but with higher interest rates.

To the best knowledge of our Directors, the commercial banks offered us such products with higher interest rates than those of fixed deposits in order to encourage borrowings of loans denominated in foreign currency (mainly USD) by us from them to settle our trade payables for our trading business so as to boost up their business activities, and such products, like fixed deposits pledged for our other bank borrowings, were also required to be pledged for the borrowings. We agreed to purchase such products and to make borrowings from the commercial banks to settle our trade payables, instead of settling our trade payables directly by our bank balances, after taking into account that, our Directors consider that, (i) we would like to maintain good business relationship with the commercial banks; and (ii) the interest income from such products, together with the possible exchange gain arising from the foreign currency denominated borrowings as a result of the appreciation of RMB, was expected to be able to cover the finance costs from such borrowings. As at 31 December 2012, the balance of our wealth management products amounted to approximately RMB191.1 million which were all pledged for bank borrowings of approximately RMB189.2 million. The balance of wealth management products decreased to approximately RMB15.8 million as at 30 June 2013 as part of the products matured during the first half of 2013 and we did not purchase any additional products for the six months ended 30 June 2013. The balance was pledged for bank borrowings of approximately RMB13.8 million.

Financial assets at fair value through profit or loss

	As at 31 December			As at 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Listed securities				
– Futures	1,341	–	–	–
– Stocks	5,386	–	–	–
– Funds	776	660	645	663
Market value	7,503	660	645	663

During the Track Record Period, we have entered into various transactions on (i) future contracts with no physical deliveries; (ii) equity investments; and (iii) mutual fund investments, for investments purposes. Since the end of 2012, we ceased entering into new transactions as our Directors consider that future contracts, equity investments and mutual funds investments are not our principal business activities. We have closed and settled all the remaining open positions of future contracts and stocks, and closed all of our trading accounts maintained at our brokers by March 2013. Moreover, our Directors confirmed that we have no intention to enter into such investments or speculation activities in the future. We have kept our investment in mutual fund as at the Latest Practicable Date as we would like to maintain good relationship with banks as such investment was made through a commercial bank of PRC, which represented approximately 0.6% of our total assets and approximately 0.3% of our net assets as of 30 June 2013 and hence is insignificant to us.

Trade and bills payables

Our trade payables primarily relate to the credit sales of raw materials to us by our raw material suppliers. Bills payable represented bank acceptance notes issued by us with maturity within six months. As of 30 September 2013, 91.7% of our trade and bills payables as of 30 June 2013 were settled. For our raw material suppliers, we make payment to them through various means, including letter of credit, bank acceptance notes or cash upon acceptance.

The following table sets forth the components of our trade and bills payables as of the dates indicated:

	As at 31 December			As at 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payable	371,216	254,724	235,065	94,755
Bills payable	40,000	33,590	1,165	–
	411,216	288,314	236,230	94,755

The decreases of our trade and bills payables as of 31 December 2011 as compared with 31 December 2010 were primarily due to the fact that we purchased large amount of trading products such as cotton in the fourth quarter of 2010 in expectation of increase in their prices. The decrease in the trade and bills payables as of 31 December 2012 was primarily because of the settlement of bills payable approximately RMB32.4 million during 2012. The balance further decreased to approximately RMB94.8 million mainly due to the decrease in trade payable by approximately RMB140.3 million, as consistent with decline in cost of sales by approximately RMB139.9 million from six months ended 30 June 2012 to six months ended 30 June 2013.

The following table sets forth the aging analysis of our trade payables as of the dates indicated:

	As at 31 December			As at 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Less than 6 months	404,184	283,332	230,504	91,385
6 months to 1 year	3,594	1,808	2,717	475
1 year to 2 years	322	1,033	1,561	1,475
2 years to 3 years	1,932	306	541	18
3 years above	1,184	1,835	907	1,402
	411,216	288,314	236,230	94,755

Our suppliers grant us a credit period up to 180 days. The following table sets forth our creditors' turnover days for the Track Record Period:

	Year ended 31 December			Six months ended 30 June
	2010	**2011**	**2012**	**2013**
Creditors' turnover days[(1)]	84 days	61 days	46 days	32 days

Note:

(1) Creditors' turnover days equal to the average of the beginning and ending trade payable balances of the year/period divided by cost of sales and multiplied by the actual number of days in respective year/period. The above calculations exclude the balance of Yongsheng Trading (HK) as at 31 December 2012 and include trade related payables due to related parties as at 31 December 2010, 2011 and 2012 and 30 June 2013.

Letters of credit are usually required by our suppliers and the length of letters of credit will affect the time we take to settle our payables to suppliers. The decrease in the average creditors' turnover days from 2010 to 2011 was due to the fact that we were required to settle the accounts payable from trading activities for a shorter period during 2011 as compared to 2010 as the PRC commercial banks were restricted to issue letters of credit with terms of 180 days in 2011 as compared to 2010 for our overseas purchases and hence we were granted mostly 90 days letters of credit in 2011, shorter than the average letter of credit terms granted to us in 2010. The average creditors payable turnover days further decreased in 2012 as (i) the significantly larger trade payable balance as at the beginning of 2011 as explained above distorted upward the creditors' turnover days for 2011, and (ii) the proportion of purchases we made from PRC trading suppliers was higher in 2012 than 2011 who generally require shorter credit period as compared to foreign trading suppliers. Creditors' turnover days further declined to 32 days for the six months ended 30 June 2013 mainly due to the significant decrease in trade payable by approximately 59.7%, offset by decline in cost of sales for the first half of 2013 by approximately 11.8%.

Advances from customers

	As at 31 December			As at 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Advances from customers	117,679	135,025	150,517	16,407

Advances are usually collected from trading customers when there is strong demand for textile-related products. Advances from customers represent the deposits collected from customers to secure our orders. Increase in advances from customers from 31 December 2010 to 31 December 2011 was mainly due to strong demand for textile-related products, which was consistent with the rise in their average market prices. The further increase of advances from customers as at 31 December 2012 was mainly due to consolidation of advance from customers of Yongsheng Trading (HK) of approximately RMB69.5 million as a result of acquisition of Yongsheng Trading (HK) in December 2012. Excluding the effect of consolidating Yongsheng Trading (HK), advances from customers decreased by approximately RMB54.0 million from 2011 to 2012, primarily due to weakening demand for textile-related products, which again was consistent with the drop in their average market prices. Advances from customers declined significantly from approximately RMB150.5 million as at 31 December 2012 to approximately RMB16.4 million as at 30 June 2013 by approximately RMB134.1 million mainly as (1) decrease in advances from customers for sales of MEG as we ceased the trading activities of MEG from second quarter of 2013 onwards hence did not record any advance from customers of MEG as at 30 June 2013, and (2) decrease in advances from customers for sales of PTA as the overseas sales of PTA decreased for the first half of 2013 where we received letter of credit from customers and converted part of them into cash before the completion of sales, which in part contributed to advances from customers.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are to satisfy our working capital and capital expenditure needs. We have historically financed our working capital and capital expenditure needs primarily through bank borrowings from local banking institutions, capital injections from our shareholders, loans from related parties and cash flow from operating activities.

Cash Flow

The following table sets forth a summary of our consolidated cash flow statements for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Net cash generated from/(used in) operating activities	49,530	6,820	114,955	(84,391)	(94,096)
Net cash (used in)/generated from investing activities	(131,269)	(108,406)	219,144	(151,852)	236,715
Net cash generated from/(used in) financing activities	95,023	118,698	(304,070)	241,359	(206,046)
Net increase/(decrease) in cash and cash equivalents	13,284	17,112	30,029	5,116	(63,427)

Cash flow from operating activities

We derive our cash from operating activities principally from the receipt of payments for the sale of our products. Our cash used in operating activities is principally in the purchases of raw materials, salary payments, marketing expenses and distribution expenses, and income taxes.

For the six months ended 30 June 2013 and the same period in 2012, our net cash used in operating activities amounted to approximately RMB94.1 million and RMB84.4 million, respectively. As advised by our Directors, net operating cash outflow was recorded for the first half of 2012 and 2013 as most of our Group's payment for purchases were made in the first half of the relevant years while our customers usually settle their amount due to our Group faster in the last quarter of each year.

For the year ended 31 December 2012, our net cash generated from operating activities amounted to approximately RMB115.0 million, which was primarily attributable to (1) profit before taxation of approximately RMB39.0 million, (2) decrease in inventories of approximately RMB98.8 million, primarily due to the clearance of inventories in trading business due to tightened inventory control, offset by payment of income tax of approximately RMB12.4 million.

For the year ended 31 December 2011, our net cash generated from operating activities amounted to approximately RMB6.8 million. The cash inflow was mainly attributable to (1) profit before taxation of approximately RMB80.3 million, (2) decrease in prepayments, financial assets at fair value through profit or loss and other receivables by approximately RMB38.5 million mainly due to the decline of prepayment to suppliers, and (3) increase in advance receipts from customers by approximately RMB17.3 million for securing raw material offset by decrease in trade and bills payables of approximately RMB122.9 million, primarily due to the fact that we purchased large amount of trading products such as cotton in the fourth quarter of 2010 in expectation of increase in their prices, hence pushing up the trade payable balance as at 31 December 2010.

For the year ended 31 December 2010, our net cash generated from operating activities amounted to approximately RMB49.5 million. The cash inflow was mainly attributable to profit before taxation of approximately RMB106.9 million and increase in accruals and other payable of approximately RMB20.0 million, offset by increase in inventories of approximately RMB87.9 million mainly as a result of piling of inventories for major trading items such as cotton, PET chips and nylon chips during 2010 in expectation of rising prices.

Cash flow from investing activities

Our cash used in investing activities is principally for purchase of property, plant and equipment and land use rights, investment in restricted bank deposits and other financial assets and loans to related parties.

For the six months ended 30 June 2013, we generated cash from investing activities of approximately RMB236.7 million, which was primarily due to (1) loan repayment from one of the customer of our Group of approximately RMB20.8 million to Yongsheng Trading (HK), (2) decrease in restricted bank deposits of approximately RMB30.0 million, mainly due to decrease of restricted cash deposits for letter of credit as consistent with decrease in trade payables incurred from letter of credit from 31 December 2012 to 30 June 2013, and (3) proceeds from maturity of wealth management products of approximately RMB174.9 million.

For the six months ended 30 June 2012, net cash used in investing activities amounted to approximately RMB151.9 million, which primarily consisted of (i) payments for purchase of wealth management products of approximately RMB185.0 million, offset by (ii) net loan repayments from related parties of approximately RMB31.8 million as we began clearing loans with related parties from 2012 in preparation for Listing.

For the year ended 31 December 2012, we had net cash generated from investing activities of approximately RMB219.1 million, which was primarily due to (1) net loan repayments received from related parties of approximately RMB184.9 million as we ceased most inter-company borrowings with related parties in 2012, and (2) decrease of restricted bank deposits of approximately RMB221.8 million, offset by purchase of other financial asset of approximately RMB201.2 million which represented wealth management products offered by PRC commercial banks.

For the year ended 31 December 2011, net cash used in investing activities amounted to approximately RMB108.4 million, which primarily consisted of (i) an increase in restricted bank deposits of approximately RMB123.7 million which was consistent with the increase in bank borrowings from 31 December 2010 to 31 December 2011 by approximately RMB149.7 million as majority of the restricted bank deposits were used to pledge bank borrowings, and (ii) purchases of property, plant and equipment of approximately RMB11.6 million as a result of business expansion, offset by net loans payments received from related parties of approximately RMB30.0 million.

For the year ended 31 December 2010, net cash used in investing activities amounted to approximately RMB131.3 million, which primarily consisted of (i) purchases of property, plant and equipment and land use rights o f approximately RMB56.0 million mainly as a result of establishment of Nantong Yongsheng and the acquisition of relevant land use rights and production facilities, (ii) net loans granted to related parties of approximately RMB32.6 million, and (iii) an increase in pledged deposits of approximately RMB36.4 million.

Cash flow from financing activities

We derive our cash generated from financing activities principally from proceeds from capital injection, proceeds from bank loans and loans from related parties. Our cash used in financing activities is principally for repayment of bank loans and loans from related parties, and dividend and interests payments.

For the six months ended 30 June 2013, net cash used in financing activities amounted to approximately RMB206.0 million, which mainly consisted of (i) net repayment of bank borrowings of approximately RMB191.0 million as we used excess cash from operations to pay off bank borrowings in order to reduce finance costs, and (ii) interest paid of approximately RMB15.2 million.

For the six months ended 30 June 2012, net cash generated from financing activities amounted to approximately RMB241.4 million, which mainly consisted of net borrowing from bank loans of approximately RMB269.9 million offset by (i) net repayment of related party borrowings of approximately RMB11.6 million as we began clearing loans with related parties from 2012, and (ii) interest paid of approximately RMB17.0 million.

For the year ended 31 December 2012, net cash used in financing activities amounted to approximately RMB304.1 million, which mainly consisted of (i) net repayment of bank borrowings of approximately RMB116.8 million, (ii) net repayment of related parties borrowings of approximately RMB61.4 million, (iii) distribution for reorganisation of approximately RMB134.7 million which represented cash paid to the then shareholders of the four operating subsidiaries now comprising our Group for acquisition of the equity interests by our Group upon Reorganisation; (iv) dividend paid to equity holders of approximately RMB81.9 million; (v) acquisition of non-controlling interests of approximately RMB21.1 million, and (vi) interest paid of RMB45.4 million, offset by proceeds from capital injections from shareholders of our Group of approximately RMB157.3 million for the year ended 31 December 2012.

For the year ended 31 December 2011, net cash generated from financing activities amounted to approximately RMB118.7 million, which mainly consisted of net borrowing from bank loans of approximately RMB160.1 million offset by interest paid of approximately RMB34.3 million.

For the year ended 31 December 2010, we had net cash generated from financing activities of approximately RMB95.0 million, which was mainly contributed from (i) net proceeds from bank borrowings of approximately RMB80.0 million, and (ii) net proceeds from related parties borrowings of approximately RMB10.3 million;

Working Capital

Working capital is critical to our financial performance and we must maintain sufficient liquidity and financial flexibility to continue our daily operations. During the Track Record Period, we mainly used cash generated from operating activities and financing activities to finance our working capital requirements and capacity expansion.

The table below sets forth our current assets and liabilities as at 31 December 2010, 2011 and 2012 and 30 June 2013 and 30 September 2013:

	As at 31 December			As at 30 June	As at 30 September
	2010	**2011**	**2012**	**2013**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)
Current assets					
Inventories	266,650	248,552	150,917	108,714	115,369
Trade and bills receivables	89,022	123,407	245,152	140,774	117,130
Prepayments, deposits and other receivables	109,804	69,769	63,349	46,926	34,635
Amount due from related parties	236,556	229,899	31,906	155	78
Other financial asset	–	–	191,068	15,800	–
Financial assets at fair value through profit or loss	7,503	660	645	663	765
Restricted cash	229,729	353,453	132,429	102,490	103,533
Cash and cash equivalents	29,424	46,130	75,700	11,986	18,272
	968,688	1,071,870	891,166	427,508	389,782
Current liabilities					
Trade and bills payables	411,216	288,314	236,230	94,755	55,231
Advances from customers	117,679	135,025	150,517	16,407	14,847
Accruals, and other current liabilities	21,298	24,238	21,288	22,740	16,202
Current portion of other non-current liabilities	232	232	682	682	807
Amount due to related parties	81,017	71,765	35,913	14,006	9,128
Current income tax liabilities	13,487	10,872	5,282	5,256	9,427
Borrowings	371,615	530,544	380,065	210,608	204,234
	1,016,544	1,060,990	829,977	364,454	309,876
Net current (liabilities)/assets	(47,856)	10,880	61,189	63,054	79,906

Our current assets primarily consist of cash and cash equivalents, restricted cash, prepayments, deposits and other receivables, amount due from related parties, inventories, trade and bills receivables, other financial asset and amount due from related parties. Our current liabilities primarily consist of bank borrowings, trade and bills payables, advances from customers, accruals and other current liabilities, amount due to related parties and current income tax liabilities. Our Directors confirm that we manage our working capital by closely monitoring the level of our trade and other receivables, trade and other payables, bank loans and receipt in advance as well as inventory level.

We recorded net current liabilities of approximately RMB47.9 million as at 31 December 2010 mainly as additional investment in property, plant and equipment of approximately RMB44.9 million mainly as we established the subsidiary of Nantong Yongsheng and made substantial investment in fixed assets.

As at 31 December 2011, we recorded net current assets of approximately RMB10.9 million, indicating our improved liquidity position especially taking into account that our restricted cash, cash and cash equivalents increased by approximately RMB140.4 million, or 54.2% during 2011.

Our working capital position further improved during 2012. Net current assets increased from approximately RMB10.9 million as at 31 December 2011 to approximately RMB61.2 million as at 31 December 2012 by approximately 462.4%. This improvement was primarily due to our efforts in reducing short-term borrowings by approximately 28.4%.

Working capital increased by approximately 3.1% from approximately RMB61.2 million from 31 December 2012 to approximately RMB63.1 million as at 30 June 2013 as a result of the reduction in weight of both current assets and current liabilities and repayment of current bank borrowings for the first half of 2013. Cash and cash equivalent balance decreased from approximately RMB75.7 million as at 31 December 2012 to approximately RMB12.0 million as at 30 June 2013 mainly due to our Group's strategy adopted during the first half of 2013 to use excess cash to repay bank borrowings and reduce finance costs. This is consistent with decrease in both bank borrowings and net finance costs during first half of 2013.

Based on the unaudited consolidated management accounts of our Group as at 30 September 2013, our working capital position as of 30 September 2013 was approximately RMB79.9 million, representing increase of approximately RMB16.9 million, or 26.7% as compared with our working capital position of approximately RMB63.1 million as at 30 June 2013. This is mainly due to that we continued to reduce short-term borrowings by approximately RMB6.4 million while increased our cash and cash equivalents balance by approximately RMB6.3 million due to effective treasury management. As at 30 September 2013, our Group has obtained unrestricted bank loan facilities totaling approximately RMB448.0 million, of which approximately RMB123.5 million was utilised, and approximately RMB324.5 million was unutilised. Salient terms of such banking facilities granted to our PRC subsidiaries include: (1) our PRC Subsidiaries should maintain normal operational and financial conditions and profitability, (2) there should be no default of principal or interests under any contracts with relevant banks, (3) there should be no material litigation or arbitration that affects the timely repayment of debts by us to the relevant banks, (4) the PRC subsidiaries should prepare financial statements and submit to relevant banks regularly, and (5) properly inform relevant banks of any significant event.

Our Directors are of the opinion that, taking into consideration our cash resources, credit lines, cash flow generated from operations and estimated net proceeds from the Listing with our working capital needs, capital expenditures and debt repayment requirements, our Company has sufficient working capital for its working capital requirements at least in the next 12 months commencing from the date of this prospectus.

INDEBTEDNESS

Bank Borrowings:

	As at 31 December			As at 30 June	As at 30 September
	2010	**2011**	**2012**	**2013**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Non-current bank borrowings	9,205	–	47,000	25,000	25,000
Current bank borrowings	371,615	530,544	380,065	210,608	204,234
Total borrowings	380,820	530,544	427,065	235,608	229,234
Unsecured	–	–	8,171	53,049	36,969
Secured –					
Pledged *(a)*	159,601	314,990	343,405	182,559	192,265
Guaranteed *(b)*	221,219	215,554	75,489	–	–
	380,820	530,544	427,065	235,608	229,234

(a) As at 31 December 2010, bank borrowings of approximately RMB102.6 million were pledged by restricted bank deposits of approximately RMB114.7 million, and bank borrowings of approximately RMB57.0 million were pledged by buildings with net book value of approximately RMB37.2 million and land use rights with net book value of approximately RMB18.5 million.

As at 31 December 2011, bank borrowings of approximately RMB250.0 million were pledged by restricted bank deposits of approximately RMB272.9 million and bank borrowings of approximately RMB65.0 million were pledged by buildings with net book value of approximately RMB39.1 million and land use rights with net book value of approximately RMB23.7 million.

As at 31 December 2012, bank borrowings of approximately RMB72.2 million were pledged by restricted bank deposits of approximately RMB75.9 million, bank borrowings of approximately RMB189.2 million were pledged by other financial asset with net book value of approximately RMB191.1 million and bank borrowings of approximately RMB82.0 million were pledged by buildings with net book value of approximately RMB48.6 million and land use rights with net book value of approximately RMB27.8 million.

As at 30 June 2013, bank borrowings of approximately RMB87.3 million were pledged by restricted bank deposits of approximately RMB90.9 million, bank borrowings of approximately RMB13.8 million were pledged by other financial asset with net book value of approximately RMB15.8 million, and bank borrowings of approximately RMB81.5 million were pledged by buildings with net book value of approximately RMB47.7 million and land use rights with net book value of approximately RMB27.5 million.

As at 30 September 2013, bank borrowings of approximately RMB98.0 million were pledged by restricted bank deposits of approximately RMB96.0 million, bank borrowings of approximately RMB5.8 million were pledged by bills receivables and restricted bank deposits with net book value of approximately RMB6.6 million and bank borrowings of approximately RMB88.5 million were pledged by buildings with net book value of approximately RMB47.0 million and land use rights with net book value of approximately RMB27.3 million.

(b) As at 31 December 2010, 2011 and 2012 and 30 June 2013 and 30 September 2013, the borrowings were guaranteed by the following parties:

	As at 31 December			As at 30 June	As at 30 September
	2010	**2011**	**2012**	**2013**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Guarantee given by related parties					
–Yongsheng Group	14,764	–	10,057	–	–
–Yongsheng Group and Mr. Li	127,445	112,409	–	–	–
–Yongsheng Group, Mr. Li, and the wife of Mr. Li	–	24,554	65,432	–	–
Guarantee given by Independent Third Parties					
– Company A	8,610	8,191	–	–	–
Joint guarantee given by Independent Third Parties and related parties					
– Company B, Yongsheng Group and Mr. Li	21,000	21,000	–	–	–
– Company C and Mr. Li	49,400	49,400	–	–	–
	221,219	215,554	75,489	–	–

Company A, which is an Independent Third Party, was our supplier during the three years ended 31 December 2012, which accounted for approximately 1.3%, 4.4%, 3.3% of our total purchases respectively.

Company B, which is an Independent Third Party, was our customer during Track Record Period which accounted for immaterial sales of our Group.

We did not have any purchase and sales transactions with Company C, which is an Independent Third Party, during the Track Record Period.

The borrowings with guarantee given by each of Company A, Company B and Company C were obtained for the purpose of financing our operation (for example, purchasing raw materials and goods for trading, payment of operating expenses, etc.) and enhancing working capital position. To the best knowledge of our Directors, each of Company B and Company C provided guarantees to us as their controlling shareholders (who are also Independent Third Parties, to the best knowledge of our Directors) have been acquainted with Mr. Li for more than 20 years and are in good relationship with Mr. Li; while there has been a good business relationship between our Group and Company A for more than five years. As Company A, Company B and Company C are all companies engaged in textile industry, they provided guarantee to our Group in order to maintain a good business or personal relationship with our Group and/or Mr. Li.

Our Group did not pay any consideration to the above parties for provision of such guarantees to us. As at 31 December 2012, all guarantees provided by Independent Third Parties or jointly provided by Independent Third Parties were released and as at 30 June 2013, all guarantees provided by related parties were released as well. We have no intention to accept guarantees from any third party after Listing.

Interest rates:

Analysis of the carrying amounts of our Group's borrowings by type and currency was as follows:

	As at 31 December			As at 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At fixed rates in RMB	222,198	189,430	105,432	40,000
At fixed rates in US$	112,261	65,052	110,079	41,832
At floating rates in RMB	15,000	82,999	42,000	66,500
At floating rates in US$	31,361	193,063	149,150	87,276
At floating rates in EUR	–	–	20,404	–
	380,820	530,544	427,065	235,608

The weighted average interest rates per annum at 31 December 2010, 2011 and 2012 and 30 June 2013 were as follows:

	As at 31 December			As at 30 June
	2010	**2011**	**2012**	**2013**
RMB	4.77%	5.72%	6.35%	6.37%
US$	2.87%	4.09%	4.68%	3.26%
EUR	–	–	2.86%	2.38%
HK$	–	–	1.30%	–

Fair values:

The fair values of current bank borrowings equal their carrying amounts as the discounting impact is not significant. The carrying amounts and fair values of the non-current bank borrowings are as follows:

	As at 31 December			As at 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amounts	9,205	–	47,000	25,000
Fair values	9,421	–	47,169	25,109

The fair values of bank borrowings are based on cash flows discounted using the annual interest rate published by the People's Bank of China for long-term bank loans prevailing at each balance sheet date.

Save as otherwise disclosed above, and apart from the intra-group liabilities, our Group did not have, at the close of business on 30 September 2013, any debt securities issued and outstanding, or authorised or otherwise created but unissued, or term loans or bank overdrafts, charges or debentures, mortgages, loans, or other similar indebtedness or any finance lease commitments, liabilities under acceptances (other than normal trade bills) or acceptance credits or any guarantees or other material contingent liabilities.

COMMITMENTS

Operating lease commitments

Our Group leases certain office premises under non-cancellable operating lease agreements. Our future aggregate minimum operating lease payments to be paid under non-cancellable operating leases were as follows:

	As at 31 December			As at 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Not later than 1 year	242	535	652	585
1 – 2 years	517	543	570	566
2 – 3 years	543	570	599	594
3 – 4 years	570	599	–	100
4 – 5 years	599	–	–	–
	2,471	2,247	1,821	1,845

Capital Commitments

As at the Latest Practicable Date, our Group had no contractual capital commitments.

Off-balance Sheet Commitments and Arrangements

As at 30 June 2013, being the date of our most recent financial statements, we did not entere into any off-balance sheet transaction.

FINANCIAL RATIOS

Summary of financial ratios:

	For the year ended 31 December			For the six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
Return on equity (1)	64.8%	30.0%	17.2%	10.2%	18.4%
Return on total assets (2)	7.1%	4.7%	3.1%	1.7%	6.3%
Current ratio (3)	0.95	1.01	1.07	1.05	1.17
Quick ratio (4)	0.69	0.78	0.89	0.87	0.87
Total debt to equity ratio (5)	3.29	2.82	2.24	3.32	1.12
Net debt to equity ratio (6)	3.06	2.59	1.84	3.11	1.06
Interest coverage (7)	5.53	3.61	1.34	1.12	2.32

1. Return on equity is calculated by dividing net profit by shareholders' equity at the respective year/period end. For the six months period, annualized figure is presented by multiplying the result by two.

2. Return on total assets is calculated by dividing net profit by total assets at the respective year/period end. For the six months period, annualized figure is presented by multiplying the result by two.

3. Current ratio is calculated by dividing current assets by current liabilities at the respective year/period end.

4. Quick ratio is calculated by dividing current assets less inventories by current liabilities at the respective year/period end.

5. Total debt to equity ratio is calculated by dividing the interest-bearing borrowings by total equity at the respective year/period end. Interest-bearing borrowings include bank borrowings and bills payable.

6. Net debt to equity ratio is calculated by dividing the total interest-bearing borrowings less cash and cash equivalents by total equity at the respective year/period end.

7. Interest coverage is calculated by dividing profit before interest and tax by interest expenses at the respective year/period end.

Return on equity

The decrease in return on equity from 2010 to 2012 was mainly due to the deterioration of our profitability during the same period as indicated by the decline of net profit margin from 5.3% for 2010 to 2.9% for 2011, and further to 1.5% for 2012. Significant improvement in return on equity from six months ended 30 June 2012 to six months ended 30 June 2013 was mainly due to increase in net profit margin from 1.0% for six months ended 30 June 2012 to 1.7% for six months ended 30 June 2013.

Return on total assets

The decreasing trend of return on total assets from 2010 to 2012 was consistent with the declining trend of return on equity and net profit margin from 2010 to 2012. Return on total assets decreased further from 2011 to 2012 from 4.7% in 2011 to 3.1% in 2012, mainly due to the decrease of total assets from approximately RMB1,270.4 million as at 31 December 2011 to approximately RMB1,081.3 million as at 31 December 2012 by approximately RMB189.1 million, primarily as a result of decrease in amounts due from related parties as we ceased most inter-company borrowings with related parties in 2012 in preparation of the Listing. Return on total assets increased significantly from 1.7% for the first half of 2012 as compared to 6.3% for the first half of 2013 as (1) increase in net profit margin by 0.7%, and (2) decrease in total assets of approximately RMB1,471.8 million as at 30 June 2012 to approximately RMB612.4 million by approximately 58.4% mainly due to the decrease in current assets as trading volume shrank during the 2nd quarter of 2013 and as we used excess cash to repay bank loans in order to reduce finance costs during the first half of 2013.

Current ratio

Our current ratio improved throughout the Track Record Period from 0.95 as at 31 December 2010 to 1.01 as at 31 December 2011 to 1.07 as at 31 December 2012, and further to 1.17 as at 30 June 2013 as a result of good management of working capital.

Quick ratio

Our quick ratio improved throughout the Track Record Period as consistent with the increasing trend of current ratio. The increase of quick ratio from 0.78 as at 31 December 2011 to 0.89 as at 31 December 2012 was mainly due to the reduced inventory level as at 31 December 2012 as compared to 31 December 2011 as a result of clearance of inventories in trading business in the 4th quarter of 2012. Quick ratio declined slightly to 0.87 as at 30 June 2013 as compared to 0.89 as at 31 December 2012 as the percentage of inventory out of total current assets increased significantly from 16.9% as at 31 December 2012 to 25.4% as at 30 June 2013.

Total debt to equity ratio

Our total debt to equity ratio was approximately 3.29, 2.82, 2.24, and 1.12 as of 31 December 2010, 2011 and 2012 and 30 June 2013, respectively. Total debt to equity ratio decreased from approximately 3.29 as of 31 December 2010 to approximately 2.82 as of 31 December 2011 due to the percentage increase in total equity in 2011 is larger than the percentage increase in borrowing in 2011. Total debt to equity ratio decreased from approximately 2.82 as of 31 December 2011 to approximately 2.24 as of 31 December 2012 as a result of decrease in bank borrowings by approximately RMB103.5 million from 31 December 2011 to 31 December 2012. Total debt to equity ratio further declined to 1.12 as at 30 June 2013 mainly due to the significant decrease in bank borrowings from approximately RMB427.1 million as at 31 December 2012 to approximately RMB235.6 million by approximately 44.8% as we used excess cash to repay bank loans in order to reduce finance costs during the first half of 2013.

Net debt to equity ratio

Our net debt to equity ratio was approximately 3.06, 2.59, 1.84, and 1.06 as of 31 December 2010, 2011 and 2012 and 30 June 2013, respectively. Net debt to equity ratio decreased from approximately 3.06 as of 31 December 2010 to approximately 2.59 as of 31 December 2011 due to the percentage increase in total equity in 2011 is larger than the percentage increase in net debt in 2011. Net debt to equity ratio decreased from approximately 2.59 as of 31 December 2011 to approximately 1.84 as of 31 December 2012 as a result of the combined effect of (1) decrease in bank borrowings by approximately RMB103.5 million from 31 December 2011 to 31 December 2012, and (2) the increase in cash and cash equivalents by approximately RMB29.6 million from 31 December 2011 to 31 December 2012. Net debt to equity ratio further declined to 1.06 as at 30 June 2013 mainly due to the significant decrease in bank borrowings from approximately RMB427.1 million as at 31 December 2012 to approximately RMB235.6 million by approximately 44.8%.

Interest coverage

Our interest coverage was approximately 5.53, 3.61, 1.34, and 2.32 for each of the three years ended 31 December 2012 and the six months ended 30 June 2013, respectively. The decreasing trend of interest coverage from 2010 to 2012 was mainly due to the combined effect of decrease in profit before interest and tax and increase in net finance costs from 2010 to 2012. Improvement in interest coverage ratio from 1.12 for the six months ended 30 June 2012 to 2.32 for the six months ended 30 June 2013 was mainly due to (1) increase in profit before interest and tax by approximately RMB9.4 million, or 37.3%, and (2) decrease in interest expenses by approximately RMB7.7 million, or 33.9%.

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISKS

Credit Risk

Our maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of each reporting period in relation to each class of recognized financial assets is the carrying amount of those assets stated in the consolidated statement of financial position. We have no significant concentration of credit risk on trade receivables as our exposure is spread over a number of counterparties. We also believe that there is no significant credit risk on our receivables from related companies due to their sound financial position. Credit risk with respect to pledged bank deposits and bank balances are minimal as such amounts are placed in banks with good reputation.

Liquidity Risk

Our policy is to regularly monitor current and expected liquidity requirements and its compliance with debt covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from banks and other financial institutions to meet our liquidity requirements in the short and longer term. Please referred to the Note 4 of the Accountant's Report in the Appendix I for further details.

Interest Rate Risk

We are exposed to fair value interest rate risk in relations to fixed-rate bank borrowings, amounts due to/from related companies. We currently do not have any instruments to hedge against the fair value interest rate risk.

We are exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities, mainly interest bearing pledged bank deposits, bank balances and floating-rate bank borrowings. We do not have an interest rate hedge policy. However, management will consider hedging significant interest rate risk should the need arise.

Commodity price risk

We are engaged in the trading of textile-related products which include textile-related commodities. The prices of textile-related commodities are influenced by international and domestic supply and demand conditions. A significant change in prices of textile-related commodities could adversely affect our financial performance. For details of risk in fluctuation of prices of textile-related products, please refer to the section headed "Our financial performance in our trading business may be negatively affected by fluctuations in prices of textile-related products" under "Risk factor" section of this prospectus.

Foreign exchange Risk

Our businesses are mainly located in the PRC and our primary operating transactions are conducted in RMB. Most of our assets and liabilities are denominated in RMB, except for our business activities associated with foreign trades which were conducted mainly in US dollars.

RELATED PARTIES TRANSACTIONS

During the Track Record Period, our Directors are of the view that the following companies are related parties of our Group:

Name	Principal activities as at Latest Practicable Date	Ownership as at Latest Practicable Date (if applicable)
Ever Thrive	Investment holding	Controlled by the Controlling Shareholder
Yongsheng Group *(Note 1)*	Trading of metals and investment holding	Controlled by the Controlling Shareholders
Yongsheng Holdings *(Notes 1 and 2)*	Trading of metals and investment holding	Controlled by the Controlling Shareholders

Name	Principal activities as at Latest Practicable Date	Ownership as at Latest Practicable Date (if applicable)
Yongsheng Weaving *(Note 1)*	Weaving of regular polyester fabric	Controlled by the Controlling Shareholders before deregistration in March 2013
Hangzhou Shining 3D Tech Co., Ltd.	Research and development of products related to three dimensional imaging technologies	Controlled by the Controlling Shareholders
Yongsheng Haiyi *(Note 1)*	Weaving of fabric	Controlled by the Controlling Shareholders before disposal to an Independent Third Party in March 2013
Yongzhuo Chemical Fiber *(Note 1)*	Sales of regular polyester filament yarn	Controlled by the Controlling Shareholders before deregistration in March 2013
Yongsheng Trading (HK)	Trading of textile-related products	30% owned by the Controlling Shareholders before controlled by the Controlling Shareholders in December 2012
HUVIS and its subsidiary	Production of raw materials of chemical fibers	Shareholder of one of our PRC Subsidiaries and its subsidiary
Hangzhou Xiaoshan HongChang Chemical Fiber Co., Ltd.	Production of chemical fiber and trading of textile-related products	Controlled by Mr. Li ZH, brother of Mr. Li and beneficially interested in our Company through Ever Thrive
City Prosper International Limited	Investment holding	Jointly controlled as to 50% by Mr. Li and as to 50% by an Independent Third Party
Hangzhou Qingwang Trading Co., Ltd	Trading of textile-related products	50% owned by Ms. Li Yuzhen, sister of Mr. Li

Notes:

1. Please refer to the section headed "History and development" of this prospectus for further details.

2. During the Track Record Period, we carried out certain trading of textile-related products, mainly including cotton, cotton yarn and staple fiber, through Yongsheng Holdings. The related trading revenue of Yongsheng Holdings amounted to approximately RMB21.7 million, RMB204.5 million and RMB13.0 million respectively during the Track Record Period. Accordingly, the assets, liabilities and results of operations from the trading of textile-related products business of Yongsheng Holdings were also included into the consolidated financial statements of our Group during the Track Record Period. For further details, please refer to the paragraph headed "Business development of our Group" under the section headed "History and development" in this prospectus.

During the Track Record Period, our Group had the following significant related party transactions:

Continuing transactions after Listing:

(i) *Purchase of goods*

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
HUVIS and its subsidiary	14,981	13,629	29,297	13,104	29,039
Yongsheng Haiyi	1,270	536	171	97	–
	16,251	14,165	29,468	13,201	29,039

(ii) *Sale of goods*

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Yongsheng Haiyi	8,073	7,837	6,314	3,133	–

(iii) *Rental income*

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Yongsheng Haiyi	–	–	120	–	–
Yongsheng Group	–	–	–	–	440
	–	–	120	–	440

(iv) Storage fees

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Yongsheng Group	–	–	–	–	211

During the Track Record Period, we mainly purchased POY from HUVIS and its subsidiary as raw materials in production of differentiated polyester filament yarn and for trading. HUVIS is a chemical fiber manufacturing company based in South Korea, and held 30% interest in Yongsheng Chemical Fiber, one of the PRC Subsidiaries of our Group.

We purchased fabric from Yongsheng Haiyi during the Track Record Period for self-production purpose by Yongsheng Dyeing. Yongsheng Dyeing also provided dyeing and processing services to Yongsheng Haiyi to fulfill request by the customers of Yongsheng Haiyi. We also sold polyester filament yarn to Yongsheng Haiyi for manufacturing of fabric, which is Yongsheng Haiyi's major business. We also rented certain property to Yongsheng Haiyi for production purpose during 2012 and first half of 2013. Rental income of approximately RMB0.4 million earned from Yongsheng Group for the six months ended 30 June 2013 was mainly for bonded warehouse rent to Yongsheng Group. Our Controlling Shareholders disposed of entire interests in Yongsheng Haiyi in March 2013, and hence it ceased to be our related party thereafter, and the transactions with Yongsheng Haiyi would not constitute related party transactions thereafter.

Storage fees of approximately RMB0.2 million for the six months ended 30 June 2013 mainly represented fees paid for storage services provided by Yongsheng Group to us for using the bonded warehouse.

During the Track Record Period, rental income received from Yongsheng Group for renting bonded warehouse amounted to approximately RMB104,000, RMB311,000, RMB622,000 and RMB440,000 respectively and storage fees paid to Yongsheng Group for storage services amounted to nil, approximately RMB62,000, RMB625,000 and RMB211,000 respectively. Only the amounts for six months ended 30 June 2013 were shown in Accountant's Report as the results of trading business of Yongsheng Group were included into our Group from 2010 to its cessation of operation of trading business in 2012 and hence the rentals and storage fees were eliminated within our Group.

For details of the above mentioned related party transactions which continue after Listing, please refer to the section headed "Continuing connected transactions" in this prospectus.

Non-continuing transactions after Listing:

(i) Purchase of goods

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Yongsheng Trading (HK)	6,934	6,906	46,343	16,138	*note*
Yongzhuo Chemical Fiber	476	–	–	–	–
Yongsheng Weaving	–	–	1,020	–	–
Hangzhou Xiaoshan Hongchang Chemical Fiber Co., Ltd	–	–	–	–	4,174
	7,410	6,906	47,363	16,138	4,174

(ii) Sale of goods

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Yongsheng Trading (HK)	182,333	212,558	114,734	107,616	*note*
Hangzhou Xiaoshan HongChang Chemical Fiber Co., Ltd.	7,649	10,291	22,234	9,629	–
Yongzhuo Chemical Fiber	5,405	377	–	–	–
Yongsheng Weaving	4,355	425	647	644	–
Hangzhou Qingwang Trading Co., Ltd	–	–	26,574	25,234	–
	199,742	223,651	164,189	143,123	–

Notes:

1. For details of our transactions with Yongsheng Trading (HK), please refer to note (a) on page 125 and the sub-paragraph headed "Yongsheng Trading (HK)" under the paragraph headed "Business development of our Group" in the section headed "History and development".

2. The results of Yongsheng Trading (HK) were consolidated into the results of our Group for the six months ended 30 June 2013.

(iii) Interest charged from related parties

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Yongsheng Group	3,348	3,938	3,241	2,027	–

(iv) Interest income from related parties

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Yongsheng Group	6,623	5,293	8,321	5,343	–

(v) Management fee paid to related parties

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Yongsheng Group	265	360	300	180	–

(vi) Rental income

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Hangzhou Shining 3D Tech Co., Ltd.	60	–	–	–	–
Yongzhuo Chemical Fiber	19	1	5	–	–
Hangzhou Xiaoshan HongChang Chemical Fiber Co., Ltd.	18	61	35	17	–
	97	62	40	17	–

(vii) Purchase of technical know-how from related parties

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
HUVIS	3,264	4,010	–	–	–

(viii) Sale of available-for-sale financial assets

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Yongsheng Holdings	–	–	4,000	–	–

Transaction with Yongsheng Trading (HK)

During the Track Record Period, we purchased cotton yarn from Yongsheng Trading (HK) for onward sales in the PRC and sold textile-related products mainly including PTA, MEG and nylon chips to Yongsheng Trading (HK), which in turn mainly sold such materials to our customers who preferred to settle the payment in foreign currency other than RMB.

Our purchases from Yongsheng Trading (HK) remained stable in 2010 and 2011 and increased significantly to approximately RMB46.3 million in 2012, as (i) Yongsheng Trading (HK) was in the process of developing supply channels of cotton yarn in 2010 and 2011 which contributed to increase in steady supply in 2012, and (ii) the sales prices of cotton yarn in the PRC in 2012 were generally higher than the purchase prices in the overseas market, therefore, Yongsheng Trading (HK) was able to source cotton yarn at lower prices overseas and sold to us for resale to customers in the PRC.

Sales to Yongsheng Trading (HK) increased from approximately RMB182.3 million in 2010 to approximately RMB212.6 million in 2011 by approximately RMB30.3 million as consistent with the increase in overall trading sales by 26.6%. Sales to Yongsheng Trading (HK) decreased from approximately RMB212.6 million in 2011 to approximately RMB114.7 million in 2012 by approximately RMB97.9 million as we shifted our sales to a customer in Hong Kong who charged us less.

Upon the acquisition of Yongsheng Trading (HK) by us in December 2012, Yongsheng Trading (HK) became our wholly-owned subsidiary and transactions between us and Yongsheng Trading (HK) will be eliminated upon consolidation.

Transaction with Yongzhuo Chemical Fiber

For the year ended 31 December 2010, we purchased certain type of polyester filament yarn not available by us from Yongzhuo Chemical Fiber for onward sales to a customer. For the two years ended 31 December 2011, our sales to Yongzhuo Chemical Fiber mainly represented sales of inventories to Yongzhuo Chemical Fiber for the carve out of a certain part of the regular polyester filament yarn business of Yongsheng Chemical Fiber to Yongzhuo Chemical Fiber.

Transaction with Yongsheng Weaving

We purchased fabric from Yongsheng Weaving during the Track Record Period for self-production purpose by Yongsheng Dyeing. We also sold polyester filament yarn to Yongsheng Weaving for manufacturing of fabric, which is Yongsheng Weaving's major business.

Transaction with HongChang Chemical Fiber

We sold certain textile-related products to Hangzhou Xiaoshan HongChang Chemical Fiber Co., Ltd ("**HongChang**") during 2010 to 2011 as part of our normal trading activities and sold polyester filament yarn manufactured by us to HongChang during 2012. We purchased PET chips from HongChang in the first half of 2013 as raw materials of production of polyester filament yarn.

Transaction with Hangzhou Qingwang Trading Co., Ltd.

We sold cotton to Hangzhou Qingwang Trading Co., Ltd. ("**Qingwang**") during the Track Record Period as part of our normal trading activities.

Transaction with Yongsheng Group

During the Track Record Period, our subsidiaries might have surplus and/or shortage of funding from time to time. Therefore, with a view to better utilisation of funding from a holding company perspective, Yongsheng Group was responsible for allocation of funding of our subsidiaries from time to time so that excess funding from each of our subsidiaries would be transferred to Yongsheng Group which would in turn transferred to our other subsidiaries and/or other affiliates of Yongsheng Group which were in needs of funding for their business operations. Funding transfers from each of our subsidiaries to Yongsheng Group were recorded as advances to Yongsheng Group and interests were charged based on the prevailing interest rates of bank borrowings. On the other hand, funding transfers from Yongsheng Group to each of our subsidiaries were recorded as advances from Yongsheng Group and interests were also charged based on the prevailing interest rates of bank borrowings. Therefore, during the Track Record Period, we recorded interests income from Yongsheng Group and interests expenses to Yongsheng Group. Since 2013, we ceased such funding transfers with Yongsheng Group in preparation for the Listing.

During the Track Record Period, Yongsheng Group, in view of the funding allocation services, charged us management fees from us. We have terminated the aforesaid arrangement and ceased to pay any management fees after termination of such funding transfers.

Transaction with Yongsheng Holdings

In 2012, we disposed available-for-sale financial asset of RMB4.0 million to Yongsheng Holdings as these assets are not related to our principal business and our Directors intend to consolidate our resources in preparation of Listing. No gain or loss was recorded for such disposal. The financial asset is the 11.11% equity interests in an unlisted company incorporated in the PRC.

One-off transaction with HUVIS

During the Track Record Period, we had several one-off technology transfer agreements with HUVIS on specific product know-how. For details of the technology transfer agreements, please refer to the paragraph headed "Research and development" in "Business" section of this prospectus.

Other rental transaction

We rented certain property to Hangzhou Shining 3D Tech Co., Ltd, Yongzhuo Chemical Fiber and HongChang during the Track Record Period for storage purpose. We have terminated such transactions after Reorganisation.

With respect to the related parties transactions set out in the Accountant's Report in Appendix I to this prospectus, our Directors confirm that these transactions were generally conducted on normal commercial terms and/or our terms are not less favourable than terms available from Independent Third Parties, which are considered fair, reasonable and in the interest of the shareholders of our Company as a whole. Save for the transactions between our Group and HUVIS, none of the related party transactions set out in the Accountant's Report in Appendix I to this prospectus will continue after the Listing.

Trading activities with related parties at negative gross margin

During the Track Record Period, we recorded negative gross margin for certain sales to related parties and certain sales of products purchased from related parties. The trading revenue contributed by such business transactions with related parties at negative profit margin was approximately nil, RMB218.3 million, RMB144.2 million and nil for each of the three years ended 31 December 2012 and six months ended 30 June 2013 respectively, representing nil, approximately 14.0%, 8.2% and nil of trading revenue during the Track Record Period respectively.

Net profit generated from sales and purchases with related parties

Net profit/(loss) generated from the sales of goods and products to and purchases of trading goods from related parties amounted to approximately RMB11.4 million, RMB(6.7) million, RMB(0.6) million, and RMB0.5 million respectively for each of the three years ended 31 December 2012 and six months ended 30 June 2013. Net profit/(loss) is arrived at after deducting direct sales taxes and surcharges from gross profit and enterprise income tax applied on remaining profit after deducting direct sales taxes and surcharges. Effect of indirect costs such as selling expenses, administrative expenses, and finance costs were not considered. (*Note*: for purchases of raw materials from related parties used in manufacturing processes, relevant profit contribution is impracticable to estimate as it is not possible to accurately trace those raw materials to the corresponding final products after various manufacturing procedures where physical or chemical changes take place.)

Year-end balances arising from related party transactions:

Our Group had the following significant balances with its related parties as at 31 December 2010, 2011 and 2012 and 30 June 2013:

	As at 31 December			As at 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Due from related parties				
Trade:				
Yongsheng Trading (HK)	9,880	36,433	–	N/A
HongChang Chemical Fiber	8,050	–	4,829	–
Yongsheng Haiyi	1,696	3,350	1,616	–
Yongzhuo Chemical Fiber	667	–	–	–
Yongsheng Weaving	–	211	–	–
Yongsheng Group	–	–	14,877	155
Hangzhou Qingwang Trading Co., Ltd.	–	–	956	–
	20,293	39,994	22,278	155
Non-trade:				
Yongsheng Group	216,263	189,905	–	–
Mr. Li	–	–	6,482	–
Ever Thrive	–	–	3,146	–
	236,556	229,899	31,906	155
Due to related parties				
Trade:				
Yongsheng Trading (HK)	7,021	390	–	N/A
HUVIS	2,260	5,745	8,005	13,988
Yongsheng Weaving	15	13	–	–
Yongzhuo Chemical Fiber	–	519	–	–
Yongsheng Haiyi	–	40	1	–
Yongsheng Group	–	–	21,767	18
	9,296	6,707	29,773	14,006
Non-trade:				
Yongsheng Group	44,900	39,540	–	–
Yongsheng Trading (HK)	26,821	25,518	–	N/A
Yongsheng Holdings	–	–	3,146	–
City Prosper International Limited	–	–	2,994	–
	81,017	71,765	35,913	14,006

Trade related balances

Trade related balances with related parties mainly arose from, save for the balance with Yongsheng Group which is explained below, the related parties transactions as explained above. All trade balances with related parties are unsecured and bear no interest.

Prior to the Reorganisation, the operating results of the trading division of Yongsheng Group was included in the consolidated financial information of our Group, as such operations form part of and could not be carved out from the trading results of our Group. As a result, the inter company balance between Yongsheng Trading and the trading arm of Yongsheng Group were eliminated upon combination in the preparation of the consolidated financial information of our Group.

Despite the fact that the trading arm of Yongsheng Group ceased operations in the fourth quarter of 2012, certain inter company balances still existed between the two aforementioned entities as at 31 December 2012. As a legal structure has been put in place upon Reorganisation in December 2012, the consolidated financial information of our Group subsequent to the date of Reorganisation were prepared to reflect the operating results and assets and liabilities of the listing group and no longer included the results and assets and liabilities of the trading arm of the Yongsheng Group. The intercompany balances between the two aforementioned entities were therefore reflected as a balance due from and due to Yongsheng Group which amounted to approximately RMB14.9 million and approximately RMB21.8 million respectively as at 31 December 2012. Trading balance due from Yongsheng Group of approximately RMB0.2 million as at 30 June 2013 mainly represented rentals payable for leasing of bonded warehouse, and balance due to Yongsheng Group of approximately RMB18,000 mainly represented storage fees payable for using the bonded warehouse.

Non-trade related balances

All non-trade balances with related parties are unsecured and repayable on demand. Except for the amount due from and to Yongsheng Group which bear interest of 5.07%, 6.56% and from 6.56% to 8.85% for each of the three years ended 31 December 2012 respectively, other balances are interest free.

Non-trade balances with Yongsheng Group as at 31 December 2010, 2011 and 2012 were resulted from funding transfers to and from Yongsheng Group with reasons as explained above.

The non-trade balance with Mr. Li as at 31 December 2012 of approximately RMB6.5 million mainly represented borrowing from Yongsheng Trading (HK) by Mr. Li for personal use, which was unsecured, interest free, and repayable on demand. Such balances was repaid subsequently in 2013.

The amount due from Ever Thrive as at 31 December 2012, one of our Controlling Shareholders, was resulted from its delay in advancing a loan of approximately RMB3.1 million to Yongsheng BVI, and thereby causing the delay in assigning such loan from Ever

Thrive to us. The said loan was agreed to be advanced by Ever Thrive to Yongsheng BVI on 21 December 2012 for purpose of acquiring Yongsheng Trading (HK) but was only advanced on 22 February 2013.

Non-trade balance with Yongsheng Trading (HK) as at 31 December 2010, 2011 and 2012 was derived from the loan arrangement between Yongsheng Group, Yongsheng Trading (HK) and a commercial bank with branches in both Hangzhou and Hong Kong whereby Yongsheng Trading (HK) borrowed from the Hong Kong branch of the commercial bank while Yongsheng Group pledged its deposits for the loan with the Hangzhou branch of the bank. Amount borrowed by Yongsheng Trading (HK) was then transferred to Yongsheng Group through Yongsheng Dyeing as Yongsheng Dyeing could complete exchange of USD into RMB more efficiently as a Sino-foreign joint venture company. Therefore, we recorded amount due to Yongsheng Trading (HK) and simultaneously an amount due from Yongsheng Group with the same amount. The mild fluctuation of the balances as at 31 December 2010 and 2011 represents fluctuation of the exchange rate of USD against RMB as the loan was denominated in USD. Such loan was repaid to the bank by Yongsheng Trading (HK) after Yongsheng Group repaid the same amount to Yongsheng Trading (HK) through Yongsheng Dyeing during 2012.

Non-trade balance with Yongsheng Holdings as at 31 December 2012 represented unpaid acquisition consideration of approximately RMB3.1 million for acquisition of 100% equity interest of Yongsheng Trading (HK) due from us to Yongsheng Holdings. Such amount was settled subsequently in 2013.

Non-trade balance with City Prosper International Limited ("**City Prosper**") mainly represented amount borrowed by Yongsheng Trading (HK) from City Prosper for its business operations, which was unsecured, interest free, and repayable on demand. Such balance was fully settled subsequently in 2013.

SENSITIVITY ANALYSIS FOR NET PROFIT

Our net profit is subject to changes in market conditions. The following tables illustrate the sensitivity of net profit of our Group for each of the three years ended 31 December 2012 and for the six months ended 30 June 2013 with reference to movements of the prices of key components in each of our three business segments, given other factors unchanged.

Trading business

(1) Effect of fluctuation in gross profit margin of trading in cotton

	For the year ended 31 December			For the six months ended 30 June
	2010	**2011**	**2012**	**2013**
Increase in gross profit margin of cotton by 10%				
Increase in net profit *(RMB'000)*	31,540	62,887	49,603	13,253
% increase in net profit	38.0%	104.8%	150.4%	68.7%
Increase in gross profit margin of cotton by 5%				
Increase in net profit *(RMB'000)*	15,770	31,443	24,802	6,626
% increase in net profit	19.0%	52.4%	75.2%	34.3%
Decrease in gross profit margin of cotton by 5%				
Decrease in net profit *(RMB'000)*	(15,770)	(31,443)	(24,802)	(6,626)
% decrease in net profit	(19.0%)	(52.4%)	(75.2%)	(34.3%)
Decrease in gross profit margin of cotton by 10%				
Decrease in net profit *(RMB'000)*	(31,540)	(62,887)	(49,603)	(13,253)
% decrease in net profit	(38.0%)	(104.8%)	(150.4%)	(68.7%)

The following table sets out the historical fluctuation in gross profit margin of trading in cotton during the Track Record Period:

	2010	**2011**	**2012**	**Six months ended 30 June 2013**
Changes in gross profit margin of cotton	N/A	(2.8%)	(8.4%)	3.4%*

* As compared to six months ended 30 June 2012

The assumed changes of 10% in gross profit margin of cotton from the sensitivity analysis above are based on the range of fluctuation in gross profit margin of trading in cotton observed during the Track Record Period.

(2) Effect of fluctuation in gross profit margin of trading in PET/nylon chips

	For the year ended 31 December			For the six months ended 30 June
	2010	**2011**	**2012**	**2013**
Increase in gross profit margin of PET/nylon chips by 8%				
Increase in net profit *(RMB'000)*	16,050	17,690	16,119	11,871
% increase in net profit	19.4%	29.5%	48.9%	61.5%
Increase in gross profit margin of PET/nylon chips by 4%				
Increase in net profit *(RMB'000)*	8,025	8,845	8,059	5,936
% increase in net profit	9.7%	14.7%	24.4%	30.8%
Decrease in gross profit margin of PET/nylon chips by 4%				
Decrease in net profit *(RMB'000)*	(8,025)	(8,845)	(8,059)	(5,936)
% decrease in net profit	(9.7%)	(14.7%)	(24.4%)	(30.8%)
Decrease in gross profit margin of PET/nylon chips by 8%				
Decrease in net profit *(RMB'000)*	(16,050)	(17,690)	(16,119)	(11,871)
% decrease in net profit	(19.4%)	(29.5%)	(48.9%)	(61.5%)

The following table sets out the historical fluctuation in gross profit margin of trading in PET/nylon chips during the Track Record Period:

	2010	2011	2012	Six months ended 30 June 2013
Changes in gross profit margin of PET chips	N/A	3.7%	(7.4%)	1.3%*

* As compared to six months ended 30 June 2012

The assumed changes of 8% in gross profit margin of PET/nylon chips from the sensitivity analysis above are based on the range of fluctuation in gross profit margin of trading in PET/nylon chips observed during the Track Record Period.

(3) Effect of fluctuation in gross profit margin of trading in PTA

	For the year ended 31 December			For the six months ended 30 June
	2010	2011	2012	2013
Increase in gross profit margin of PTA by 5%				
Increase in net profit *(RMB'000)*	9,219	8,598	30,185	14,747
% increase in net profit	11.1%	14.3%	91.5%	76.4%
Increase in gross profit margin of PTA by 2.5%				
Increase in net profit *(RMB'000)*	4,610	4,299	15,092	7,374
% increase in net profit	5.6%	7.2%	45.8%	38.2%
Decrease in gross profit margin of PTA by 2.5%				
Decrease in net profit *(RMB'000)*	(4,610)	(4,299)	(15,092)	(7,374)
% decrease in net profit	(5.6%)	(7.2%)	(45.8%)	(38.2%)
Decrease in gross profit margin of PTA by 5%				
Decrease in net profit *(RMB'000)*	(9,219)	(8,598)	(30,185)	(14,747)
% decrease in net profit	(11.1%)	(14.3%)	(91.5%)	(76.4%)

The following table sets out the historical fluctuation in gross profit margin of trading in PTA during the Track Record Period:

	2010	**2011**	**2012**	**Six months ended 30 June 2013**
Changes in gross profit margin of PTA	N/A	(1.9%)	(4.6%)	2.3%*

* As compared to six months ended 30 June 2012

The assumed changes of 5% in gross profit margin of PTA from the sensitivity analysis above are based on the range of fluctuation in gross profit margin of trading in PTA observed during the Track Record Period.

Dyeing and processing of differentiated polyester fabric business

(1) Effect of fluctuation in average processing fee of our dyeing and processing of differentiated polyester fabric

	For the year ended 31 December			For the six months ended 30 June
	2010	2011	2012	2013
Increase in average processing fee by 28%				
Increase in net profit *(RMB'000)*	16,530	22,210	23,374	10,940
% increase in net profit	19.9%	37.0%	70.9%	56.7%
Increase in average processing fee by 14%				
Increase in net profit *(RMB'000)*	8,265	11,105	11,687	5,470
% increase in net profit	10.0%	18.5%	35.4%	28.3%
Decrease in average processing fee by 14%				
Decrease in net profit *(RMB'000)*	(8,265)	(11,105)	(11,687)	(5,470)
% decrease in net profit	(10.0%)	(18.5%)	(35.4%)	(28.3%)
Decrease in average processing fee by 28%				
Decrease in net profit *(RMB'000)*	(16,530)	(22,210)	(23,374)	(10,940)
% decrease in net profit	(19.9%)	(37.0%)	(70.9%)	(56.7%)

The following table sets out the historical fluctuation in our average processing fee during the Track Record Period:

	2010	2011	2012	Six months ended 30 June 2013
Changes in average processing fee	N/A	(9.9%)	5.8%	(28.1%)*

* As compared to six months ended 30 June 2012

The assumed changes of 28% in the average processing fee from the sensitivity analysis above are based on the range of fluctuation in the average processing fee observed during the Track Record Period.

(2) Effect of fluctuation in average selling price of own differentiated polyester fabric in Direct Sales

	For the year ended 31 December 2010	2011	2012	For the six months ended 30 June 2013
Increase in average selling price of own differentiated polyester fabric in Direct Sales by 5%				
Increase in net profit *(RMB'000)*	1,977	1,662	1,709	1,040
% increase in net profit	2.4%	2.8%	5.2%	5.4%
Increase in average selling price of own differentiated polyester fabric in Direct Sales by 2.5%				
Increase in net profit *(RMB'000)*	988	831	855	520
% increase in net profit	1.2%	1.4%	2.6%	2.7%
Decrease in average selling price of own differentiated polyester fabric in Direct Sales by 2.5%				
Decrease in net profit *(RMB'000)*	(988)	(831)	(855)	(520)
% decrease in net profit	(1.2%)	(1.4%)	(2.6%)	(2.7%)
Decrease in average selling price of own differentiated polyester fabric in Direct Sales by 5%				
Decrease in net profit *(RMB'000)*	(1,977)	(1,662)	(1,709)	(1,040)
% decrease in net profit	(2.4%)	(2.8%)	(5.2%)	(5.4%)

The following table sets out the historical fluctuation in our average selling price of own differentiated polyester fabric during the Track Record Period:

	2010	**2011**	**2012**	**Six months ended 30 June 2013**
Changes in average selling price of own differentiated polyester fabric	N/A	1.0%	(5.0%)	0.6%*

* As compared to six months ended 30 June 2012

The assumed changes of 5% in the average selling price of own differentiated polyester fabric from the sensitivity analysis above are based on the range of fluctuation in the average selling price of own differentiated polyester fabric in our Direct Sales observed during the Track Record Period.

(3) Effect of fluctuation in average cost of differentiated polyester fabric used as raw materials in Direct Sales

	For the year ended 31 December			For the six months ended 30 June
	2010	2011	2012	2013
Increase in average cost of differentiated polyester fabric by 26%				
Decrease in net profit *(RMB'000)*	(5,780)	(4,189)	(3,387)	(2,485)
% decrease in net profit	(7.0%)	(7.0%)	(10.3%)	(12.9%)
Increase in average cost of differentiated polyester fabric by 13%				
Decrease in net profit *(RMB'000)*	(2,890)	(2,094)	(1,694)	(1,242)
% decrease in net profit	(3.5%)	(3.5%)	(5.1%)	(6.4%)
Decrease in average cost of differentiated polyester fabric by 13%				
Increase in net profit *(RMB'000)*	2,890	2,094	1,694	1,242
% increase in net profit	3.5%	3.5%	5.1%	6.4%
Decrease in average cost of differentiated polyester fabric by 26%				
Increase in net profit *(RMB'000)*	5,780	4,189	3,387	2,485
% increase in net profit	7.0%	7.0%	10.3%	12.9%

The following table sets out the historical fluctuation in average cost of differentiated polyester fabric during the Track Record Period:

	2010	**2011**	**2012**	**Six months ended 30 June 2013**
Changes in average cost of processed fabric	N/A	(13.0%)	(25.3%)	0.4%*

* As compared to six months ended 30 June 2012

The assumed changes of 26% in the average cost of differentiated polyester fabric from the sensitivity analysis above are based on the range of fluctuation in the average cost of differentiated polyester fabric observed during the Track Record Period.

(4) Effect of fluctuation in power and utilities expenses

	For the year ended 31 December			For the six months ended 30 June
	2010	**2011**	**2012**	**2013**
Increase in power and utilities expenses by 24%				
Decrease in net profit *(RMB'000)*	(4,526)	(5,581)	(5,379)	(2,454)
% decrease in net profit	(5.5%)	(9.3%)	(16.3%)	(12.7%)
Increase in power and utilities expenses by 12%				
Decrease in net profit *(RMB'000)*	(2,263)	(2,791)	(2,690)	(1,227)
% decrease in net profit	(2.7%)	(4.7%)	(8.2%)	(6.4%)
Decrease in power and utilities expenses by 12%				
Increase in net profit *(RMB'000)*	2,263	2,791	2,690	1,227
% increase in net profit	2.7%	4.7%	8.2%	6.4%
Decrease in power and utilities expenses by 24%				
Increase in net profit *(RMB'000)*	4,526	5,581	5,379	2,454
% increase in net profit	5.5%	9.3%	16.3%	12.7%

The following table sets out the historical fluctuation in power and utilities expenses during the Track Record Period:

	2010	**2011**	**2012**	**Six months ended 30 June 2013**
Changes in power and utilities expenses	N/A	23.3%	(3.6%)	(5.9%)*

* As compared to six months ended 30 June 2012

The assumed changes of 24% in power and utilities expenses from the sensitivity analysis above are based on the range of fluctuation in power and utilities expenses observed during the Track Record Period.

Polyester filament yarn production segment

(1) Effect of fluctuation in average selling price of polyester filament yarn produced by us

	For the year ended 31 December 2010	2011	2012	For the six months ended 30 June 2013
Increase in average selling price of polyester filament yarn by 35%				
Increase in net profit *(RMB'000)*	82,438	128,186	118,486	54,492
% increase in net profit	99.4%	213.6%	359.2%	282.3%
Increase in average selling price of polyester filament yarn by 17.5%				
Increase in net profit *(RMB'000)*	41,219	64,093	59,243	27,246
% increase in net profit	49.7%	106.8%	179.6%	141.2%
Decrease in average selling price of polyester filament yarn by 17.5%				
Decrease in net profit *(RMB'000)*	(41,219)	(64,093)	(59,243)	(27,246)
% decrease in net profit	(49.7%)	(106.8%)	(179.6%)	(141.2%)
Decrease in average selling price of polyester filament yarn by 35%				
Decrease in net profit *(RMB'000)*	(82,438)	(128,186)	(118,486)	(54,492)
% decrease in net profit	(99.4%)	(213.6%)	(359.2%)	(282.3%)

The following table sets out the historical fluctuation in average selling price of polyester filament yarn produced by us during the Track Record Period:

	2010	**2011**	**2012**	**Six months ended 30 June 2013**
Change in average selling price of polyester filament yarn produced by us	N/A	35.1%	(3.7%)	6.3%*

* As compared to six months ended 30 June 2012

The assumed change of 35% in average selling price of polyester filament yarn produced by us from the sensitivity analysis above are based on the range of fluctuation in the average selling price of polyester filament yarn observed during the Track Record Period.

(2) Effect of fluctuation in average cost of raw materials used in production of polyester filament yarn

	For the year ended 31 December			For the six months ended 30 June
	2010	**2011**	**2012**	**2013**
Increase in average cost of raw materials by 34%				
Decrease in net profit *(RMB'000)*	(66,114)	(101,713)	(82,229)	(36,237)
% decrease in net profit	(79.7%)	(169.5%)	(249.3%)	(187.7%)
Increase in average cost of raw materials by 17%				
Decrease in net profit *(RMB'000)*	(33,057)	(50,856)	(41,115)	(18,119)
% decrease in net profit	(39.9%)	(84.7%)	(124.6%)	(93.9%)
Decrease in average cost of raw materials by 17%				
Increase in net profit *(RMB'000)*	33,057	50,856	41,115	18,119
% increase in net profit	39.9%	84.7%	124.6%	93.9%
Decrease in average cost of raw materials by 34%				
Increase in net profit *(RMB'000)*	66,114	101,713	82,229	36,237
% increase in net profit	79.7%	169.5%	249.3%	187.7%

The following table sets out the historical fluctuation in average cost of raw materials during the Track Record Period:

	2010	**2011**	**2012**	**Six months ended 30 June 2013**
Changes in average cost of raw materials	N/A	33.7%	(15.8%)	1.8%*

* As compared to six months ended 30 June 2012

The assumed changes of 34% of the average cost of raw materials from the sensitivity analysis above are based on the range of fluctuation in the average cost of sales of raw materials observed during the Track Record Period.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma statement of adjusted net tangible assets of our Company which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Share Offer if it had taken place on 30 June 2013. This pro forma financial information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of our Company had the Share Offer been completed as at 30 June 2013 or at any future date.

	Audited consolidated net tangible assets attributable to equity holders of our Company as at 30 June 2013(1)	Estimated net proceeds from the Share Offer (2)	Unaudited pro forma adjusted net tangible assets attributable to equity holders of our Company as at 30 June 2013	Unaudited pro forma adjusted net tangible assets per Share(3)	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
Based on an Offer Price of HK$0.8 per Share	182,894	43,251	226,145	0.57	0.71
Based on an Offer Price of HK$1.2 per Share	182,894	73,951	256,845	0.64	0.81

Notes:

(1) The audited consolidated net tangible assets of our Group attributable to equity holders of our Company as at 30 June 2013 has been extracted from the Accountant's Report of our Company as set out in Appendix I to this Prospectus which is based on the audited consolidated net assets of our Group attributable to equity holders of our Company as at 30 June 2013 of RMB190,344,000 with an adjustment for the intangible assets of RMB7,450,000.

(2) The estimated net proceeds from the Share Offer are based on the Offer Price range of HK$0.8 per Share and HK$1.2 per Share, respectively, after deduction of the underwriting fees and other related expenses payable by our Company. No account has been taken of the Shares that may be allotted and issued upon the exercise of the Over-allotment Option or any options granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandate and the repurchase mandate.

(3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 400,000,000 Shares were in issue assuming that Share Offer and the Capitalisation Issue had been completed on 30 June 2013 but takes no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general Mandate and the repurchase Mandate.

(4) By comparing the valuation of our Group's property interests of RMB154,470,000 as set out in Appendix III to this Prospectus and the unaudited net book value of these properties as of 30 September 2013, the net revaluation surplus is approximately RMB61,770,000, which has not been included in the above net tangible assets attributable to equity holders of our Company as of 30 June 2013. The revaluation of our Group's property interests will not be incorporated in our Group's financial information. If the revaluation surplus is to be included in our Group's financial information, an additional depreciation charge of approximately RMB1,550,000 per annum relating to the property interests would be recorded.

(5) No adjustment has been made to reflect any trading result or other transaction of our Group entered into subsequent to 30 June 2013.

(6) For the purpose of the estimated net proceeds from the Share Offer, the translation of RMB into HK dollars was made at the rate of HK$1.00 to RMB0.79151. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

DISTRIBUTABLE RESERVES

Our Company was incorporated in the Cayman Islands on 19 April 2012. Our Company had no reserves distribution to the Shareholders as of 30 June 2013.

DIVIDEND POLICY

We declared dividends of approximately RMB90.3 million to our shareholders for the year ended 31 December 2012, RMB81.9 million of which were paid in the same year with internal resources generated from our business operations while RMB8.4 million of which were waived by HUVIS, being the non-controlling shareholder of Yongsheng Dyeing with respect to dividend declared by Yongsheng Dyeing in September 2012. Save as disclosed above, no other dividends were declared or distributed by us or any of our subsidiaries during the Track Record Period. We currently do not have a fixed dividend policy. According to the Articles, we may declare and pay dividends out of our distributable reserves. The payment and the amount of any dividends will depend on the results of our operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends, future prospects and other factors that we may consider relevant. The declaration, payment, and amount of dividends will be subject to our discretion. Dividends may be paid only out of our distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such profits will not be available to be reinvested in our operations. We cannot assure that dividends will be paid in the future or as to the timing of any dividends that may be paid in the future. See the section headed "Risk Factors – Risks Relating to the Share Offer – We cannot assure you that we will declare dividends in the future" of this prospectus. Cash dividends on our Shares, if any, will be paid in Hong Kong dollars. Pursuant to the PRC corporate income tax laws and regulations ("**PRC CIT Laws**"), 10% withholding income tax will be levied on dividends distribution from our Group's PRC subsidiary to our Hong Kong incorporated intermediate parent companies. If these Hong Kong incorporated intermediate parent companies fall within qualified investors as defined by the PRC CIT Laws, a treaty rate of 5% will apply. Yongsheng Advanced Materials (HK) Limited will be subject to a 5% withholding tax rate imposed by the local tax bureau in accordance with the PRC CIT Laws. Our Directors had confirmed that retained earnings up to 30 June 2013 of PRC Subsidiaries are permanently invested and thus will not be distributed in the future.

PROPERTY INTERESTS AND PROPERTY VALUATION

DTZ Debenham Tie Leung Limited, an independent property valuer, has valued our property interests as of 30 September 2013 and is of the opinion that the market value of our property interests in aggregate amounted to approximately RMB154.5 million as of 30 September 2013. Details of valuation of our property interests as of 30 September 2013 are set out in Appendix III to this prospectus.

The table below sets forth the reconciliation of aggregate amount of land and buildings and property portion of construction in progress from our audited financial statements as of 30 June 2013 to the unaudited net book value of our property interests as of 30 September 2013.

	RMB'000
Net book value of our property interests as of 30 June 2013 *(Note)*	93,491
Movement for the three months ended 30 September 2013 (unaudited):	
Addition	–
Depreciation and amortisation	(791)
Disposal	–
Net book value as of 30 September 2013 (unaudited)	92,700
Valuation surplus as of 30 September 2013	61,770
Valuation as of 30 September 2013 per Appendix III – Property Valuation	154,470

Note: Net book value of our property interests represents the aggregate of net book value of "land use rights and the property elements of "buildings" as disclosed respectively in note 7 and note 8 of Appendix I respectively.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that, as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in our financial or trading position or prospects since 30 June 2013 and there is no event since 30 June 2013 which would materially affect the information shown in the Accountant's Report set out in Appendix I to this prospectus.

FUTURE PLANS AND PROSPECTS

Please see the paragraph headed "Business Strategies" under the section headed "Business" in this prospectus for a description of our future plans.

USE OF PROCEEDS

Assuming that the Over-allotment Option is not exercised and an Offer Price of HK$1.00 per Share (being the mid-point of the estimated price range), our Directors estimate that the net proceeds to be received by our Company from the Share Offer will be about HK$65.3 million, after deducting the underwriting commissions and other estimated expenses payable by our Company in relation to the Share Offer. The Directors presently intend to use the net proceeds from the Share Offer as follows:

(a) approximately HK$39.2 million or 60% of the proceeds shall be used for building four additional production lines at our production site in Nantong District and acquiring the production equipments and machines, the expansion shall increase the production capacity of our Nantong Facilities, which will be mainly used for the production of our differentiated polyester filament yarn;

(b) approximately HK$13.1 million or 20% shall be used for increasing the processing capacity and improving the waste water treatment system and energy savings system at our Dyeing Facilities;

(c) approximately HK$6.5 million or 10% shall be used to strengthen our research and analysis capabilities and business development capabilities in our trading segment. We plan to recruit more personnel to expand our trading department, such as employing more research analysts to research on the market price trend of textile-related products. We also have plan to send our staff members to seek out potential suppliers and customers for our trading business, such as participating in exhibitions as well as going on business trips in foreign countries; and

(d) approximately HK$6.5 million or 10% shall be used for general working capital and other general corporate purposes of our Group.

In the event that the Over-allotment Option is exercised, the additional net proceeds of the Share Offer of about HK$14.6 million (assuming that the Offer Price is determined at the mid-point of the estimated price range) will be applied by our Company to the above purpose in the same proportions as set out above.

If the Offer Price is fixed above or below HK$1.00 per Share (being the mid-point of the estimated price range), our Directors presently intend to adjust the allocation of the net proceeds of the Share Offer to the above purposes in the same proportions as set out above.

To the extent that the net proceeds of the Share Offer are not immediately required for the above purposes, our Directors presently intend that such proceeds will be placed on short-term deposits with licenced banks and/or financial institutions in Hong Kong.

UNDERWRITERS

Public Offer Underwriter

Sole Bookrunner and Sole Lead Manager

Haitong International Securities Company Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting arrangements

The Public Offer is fully underwritten by the Public Offer Underwriter and the Placing is expected to be fully underwritten by the Placing Underwriters on a several basis and subject to agreement on pricing of the Offer Shares between the Sole Bookrunner (on behalf of the Underwriters) and us. The Public Offer Underwriting Agreement was entered into on 14 November 2013 and in connection with the Placing, our Company expects to enter into the Placing Underwriting Agreement with, among others, the Placing Underwriters. The Public Offer Underwriting Agreement is conditional upon (among other things) the Placing Underwriting Agreement being entered into, and the respective Underwriting Agreements are expected to be inter-conditional.

Public Offer Underwriting Agreement

Under the Public Offer Underwriting Agreement, we have agreed to offer the Public Offer Shares to the public in Hong Kong for subscription on and subject to the terms and conditions of this prospectus and the Application Forms.

Pursuant to the Public Offer Underwriting Agreement, and conditional upon, *inter alia*, the Listing Committee granting or agreeing to grant the listing of, and permission to deal in, the Shares, in issue and to be issued as mentioned in this prospectus (subject only to allotment and/or despatch of share certificates for the Offer Shares and such other usual conditions for transaction of this nature) and certain other conditions including the Offer Price being determined by our Company and the Sole Bookrunner (on behalf of the Underwriters), the entering into of the Placing Underwriting Agreement and the Price Determination Agreement on or before the Price Determination Date, the Public Offer Underwriter has agreed to subscribe for, or procure subscribers to subscribe for, the Public Offer Shares which are not taken up under the Public Offer on the terms and conditions of the Public Offer Underwriting Agreement, this prospectus and the Application Forms.

Grounds for termination

The Sole Bookrunner (on behalf of the Public Offer Underwriter) is entitled to terminate the Public Offer Underwriting Agreement by giving written notice before 8:00 a.m. (Hong Kong time) on the Listing Date ("**Termination Time**") to our Company if any of the following events shall occur prior to the Termination Time:

(a) there comes to the notice of any of the Sole Sponsor, the Sole Bookrunner or the Public Offer Underwriter of any matter or event showing any of the representations, warranties or undertakings contained in the Public Offer Underwriting Agreement given by our Company or any of the executive Directors and the controlling Shareholders to be untrue, inaccurate or misleading in any respect when given or repeated or there has been a breach of any of the warranties or any other obligations imposed on any party to the Public Offer Underwriting Agreement (other than those undertaken by the Public Offer Underwriter, the Sole Sponsor and/or the Sole Bookrunner) which, in any such cases, is considered, in the sole and absolute opinion of the Sole Bookrunner (on behalf of the Public Offer Underwriter), to be material in the context of the Share Offer; or

(b) any statement contained in this prospectus or the Application Forms has become or been discovered to be untrue, incorrect or misleading in any respect; or

(c) any matter which, had it arisen or been discovered immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted, in the sole and absolute opinion of the Sole Bookrunner (for itself and on behalf of the Sole Sponsor and the Public Offer Underwriter), an omission in the context of the Share Offer; or

(d) any event, act or omission which gives or is likely to give rise to any material liability of our Company or any of the Controlling Shareholders and the executive Directors arising out of or in connection with any representations, warranties or undertakings contained in the Public Offer Underwriting Agreement; or

(e) there comes to the notice of any of the Sole Sponsor, the Sole Bookrunner or the Public Offer Underwriter any breach by any party to the Public Offer Underwriting Agreement (other than the Sole Sponsor, the Sole Bookrunner or the Public Offer Underwriter) of any provision thereof which, in the sole and absolute opinion of the Sole Bookrunner (for itself and on behalf of the Sole Sponsor and the Public Offer Underwriter), is material; or

(f) the Placing Underwriting Agreement is terminated pursuant to its terms; or

(g) there shall have developed, occurred, existed or come into effect any event or series of events, matters or circumstances whether occurring or continuing before, on and/or after the date of the Public Offer Underwriting Agreement and including an event or change in relation to or a development of an existing state of affairs concerning or relating to any of the following:

(i) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the Cayman Islands, the BVI, the PRC, any of the jurisdictions in which our Group operates or has or is deemed by any applicable law to have a presence (by whatever name called) or any other jurisdiction relevant to our Group (the "**Relevant Jurisdiction**"); or

(ii) any change in, or any event or series of events or development resulting or likely to result in any change in the local, national, regional or international financial, currency, political, military, industrial, economic conditions or prospects, stock market conditions or prospects in the Relevant Jurisdiction; or

(iii) any change in the conditions of Hong Kong, the US, the PRC or international equity securities or other financial markets; or

(iv) the imposition of any moratorium, suspension or material restriction on trading in securities generally on any of the markets operated by the Stock Exchange due to exceptional financial circumstances or otherwise; or

(v) any change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in the Relevant Jurisdiction; or

(vi) any change or prospective change in the business or in the financial or trading position or prospects of any member of our Group; or

(vii) the imposition of economic sanction or withdrawal of trading privileges, in whatever form, by the US, the European Union (or any member thereof), the United Nations, Australia on Hong Kong or the PRC; or

(viii) a general moratorium on commercial banking activities in the PRC or Hong Kong declared by the relevant authorities; or

(ix) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, economic sanctions, fire, flood, explosion, epidemic, outbreak of an infectious disease, calamity, crisis, terrorism, strike or lock-out (whether or not covered by insurance); or

(x) any other change whether or not ejusdem generis with any of the foregoing,

which, in the sole and absolute opinion of the Sole Bookrunner (on behalf of the Public Offer Underwriter):

(aa) is or will be materially adverse to the business, financial or trading condition or prospects of our Group taken as a whole or, in the case of sub-paragraph (iv) above, on any present or prospective shareholder in his/its capacity as such shareholder of our Company; or

(bb) has or will have a material adverse effect on the success of the Share Offer as a whole or the level of the Offer Shares being demanded, applied for or accepted, the distribution of the Offer Shares; or

(cc) for any reason makes it impracticable, inadvisable or inexpedient to proceed with the Share Offer as a whole.

For the above purpose, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the US or any change of the value of Hong Kong currency under such system shall be taken as an event resulting in a change in currency conditions.

Undertakings

Under Rule 10.08 of the Listing Rules, no further Shares or securities convertible into our equity securities (whether or not a class already listed) may be issued by us or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such an issue of Shares or our securities will be completed within six months from the Listing Date), except in certain circumstances as prescribed by Rule 10.08 of the Listing Rules.

Under the Public Offer Underwriting Agreement, our Company has undertaken to and covenanted with the Sole Sponsor, the Sole Bookrunner and the Public Offer Underwriter that, and each of the Controlling Shareholders and the executive Directors has jointly and severally undertaken to and covenanted with the Sole Sponsor, the Sole Bookrunner and the Public Offer Underwriter to procure (so far as he/it is able to do so) that without the prior written consent of the Sole Sponsor and the Sole Bookrunner (on behalf of the Public Offer Underwriter) (such consent not to be unreasonably withheld or delayed) and subject always to the requirements of the Stock Exchange, save for the Offer Shares, the Shares to be issued pursuant to the Capitalisation Issue, the grant of the Over-allotment Option, any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option, the grant of options under the Share Option Scheme, and Shares which may fall to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme or otherwise than by way of scrip dividend schemes or similar arrangements in accordance with the Memorandum and the Articles or any consolidation, sub-division or capital reduction of the Shares, our Company shall not

(a) allot and issue, accept subscriptions for, offer, sell or contract to sell, grant or agree to grant any option or other right in, directly or indirectly, conditionally or unconditionally, any shares, warrants or other convertible or exchangeable securities carrying the right to subscribe for or exchangeable into shares or other securities of our Company or offer or agree to do any of the foregoing or announce any intention to do so:

  (i) at any time during the period commencing from the date by reference to which disclosure of the shareholding of the Controlling Shareholders is made in this prospectus and ending on the date which is six months from the Listing Date ("**First Lock-up Period**"); or

  (ii) at any time during the six months commencing on the date which the First Lock-up Period expires (the "**Second Lock-up Period**") so as to result in the Controlling Shareholders, taken together with the other of them, ceasing to be a group of Controlling Shareholders (as defined in the Listing Rules) of our Company; or

(b) at any time during the First Lock-up Period, subject to the Listing Rules and the Hong Kong Codes on Takeovers and Mergers and Share Repurchases, our Company shall not make or agree to make any repurchase of Shares or other securities of our Company.

Under Rule 10.07(1) of the Listing Rules, the Controlling Shareholders shall not, and procure that the relevant registered holder(s) shall not:

(a) during the First Lock-up Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or our securities in respect of which they are shown by this prospectus to be the beneficial owners; or

(b) at any time during the Second Lock-up Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities referred to in (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, the Controlling Shareholders would cease to be our Controlling Shareholder (as defined in the Listing Rules).

In accordance with Note (3) of Rule 10.07(2) of the Listing Rules, each of the Controlling Shareholders has also undertaken to us and the Stock Exchange that, during the period commencing on the date by reference to which disclosure of his/its shareholding in our Company is made in this prospectus and ending on the date which is the 12 months from the Listing Date, he/it will:

(1) when he/it pledges or charges any securities of our Company beneficially owned by him/it in favour of an authorised institution pursuant to Note (2) to Rule 10.07 (2) of the Listing Rules, immediately inform us of such pledge or charge together with the number of securities so pledged or charged; and

(2) when he/it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities of our Company will be disposed of, immediately inform us of such indications.

Under Note (3) to Rule 10.07 (2) of the Listing Rules, we are required to inform the Stock Exchange as soon as practicable after we have been informed of the matters referred to in (1) or (2) above by any of the Controlling Shareholders and disclose such matters by way of an announcement in compliance with the Listing Rules.

Under the Public Offer Underwriting Agreement, each of the Controlling Shareholders has jointly and severally undertaken to us, the Sole Sponsor, the Sole Bookrunner and the Public Offer Underwriter that, save as (i) pursuant to the Share Offer or the Stock Borrowing Agreement; or (ii) permitted under the Listing Rules:

(a) he/it shall not, and shall procure that none of his/its associates or any company controlled by him/it or any of his/its associates, nominees or trustees holding in trust for him/it will, at any time during the First Lock-up Period, sell, transfer or otherwise dispose of (other than by way of a security for a bona fide commercial loan in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong (the "**Banking Ordinance**")), or enter into any agreement (other than by way of a security for a bona fide commercial loan in favour of an authorised institution (as defined in the Banking Ordinance)) to sell, transfer or dispose of, or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares (or any interest therein) directly or indirectly owned by him/it or in which he/it is, directly or indirectly, interested immediately after completion of the Share Offer and the Capitalisation Issue or any interest in any shares in any company controlled by him/it which is the beneficial owner of any of these Shares, or enter into any swap or other arrangements that transfer the economic consequences of ownership of such Shares or interest, whether any of the foregoing transactions or arrangement is to be settled by delivery of such Shares or other securities, in cash or otherwise, or offer or agree to do any of the foregoing or announce any intention to do so, provided that the foregoing restriction shall not apply to any Shares which any of them may acquire or become interested in following the Listing Date (save any Shares returned under the Stock Borrowing Agreement) provided further that any such acquisition would not result in any breach of Rule 8.08 of the Listing Rules;

(b) each of the Controlling Shareholders shall not, and shall procure that none of his/its associates or any company controlled by him/it or any of his/its associates, nominees or trustees holding in trust for him/it will, at any time during the Second Lock-up Period, sell, transfer or otherwise dispose of (other than by way of a security for a bona fide commercial loan in favour of an authorised institution (as defined in the Banking Ordinance), or enter into any agreement (other than by way of a security for a bona fide commercial loan in favour of an authorised institution (as defined in the Banking Ordinance)) to sell, transfer or dispose of, or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares (or any interest therein) directly or indirectly owned by him/it or in which he/it is, directly or indirectly, interested immediately after completion of the Share Offer and the Capitalisation Issue or any interest in any shares in any company controlled by him/it which is the beneficial owner of any of these Shares, or announce any intention to do so, if, immediately following such action, the Controlling Shareholders, when taken together, would cease to be a group of controlling shareholders (as defined in the Listing Rules) of our Company; and

(c) without prejudice to the undertakings as referred to in paragraphs (a) and (b) above, during the period commencing on the date by reference to which disclosure of his/its direct or indirect shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, he/it shall:

(i) when he/it pledges or charges or otherwise create any rights of encumbrances over any Shares or other securities of our Company or those of Ever Thrive beneficially owned by him/it in favour of an authorised institution (as defined in the Banking Ordinance) pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform us, the Sole Sponsor and the Sole Bookrunner (on behalf of the Public Offer Underwriter) of such pledge or charge or creation of the rights of encumbrances together with the number of the securities so pledged or charged and all other information as requested by us, the Sole Sponsor and/or the Sole Bookrunner (on behalf of the Public Offer Underwriter); and

(ii) subsequent to the pledge or charge or creation of rights or encumbrances over our Shares (or interest therein) or other shares or interests as mentioned in sub-paragraph (i) above, when he/it receives any indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged or encumbered securities as referred to in sub-paragraph (i) above will be disposed of, immediately inform us of such indications, and inform the Sole Sponsor and the Sole Bookrunner (on behalf of the Public Offer Underwriter) as soon as practicable thereafter (taking into account the requirements of applicable laws, rules and regulations) of such indications.

Placing Underwriting Agreement

In connection with the Placing, it is expected that our Company, executive Directors and the Controlling Shareholders will enter into the Placing Underwriting Agreement with, among others, the Sole Sponsor, the Sole Bookrunner and the Placing Underwriters on or before the Price Determination Date. It is expected that under the Placing Underwriting Agreement, the Placing Underwriters will, subject to certain conditions set out therein, severally agree to subscribe or procure subscribers to subscribe for the Placing Shares to be initially being offered under the Placing (subject to reallocation) on and subject to the terms of the Placing Underwriting Agreement. The Placing Underwriting Agreement is expected to contain force majeure provisions as that contained in the Public Offer Underwriting Agreement as mentioned above. In the event that the Placing Underwriting Agreement is not entered into on or before the Price Determination Date, or does not become unconditional or is terminated in accordance with its terms, the Share Offer will not proceed and will lapse.

It is expected that under the Placing Underwriting Agreement, our Company will grant the Over-allotment Option to the Sole Bookrunner (in its sole discretion) to require our Company at any time within a period commencing from the Listing Date and ending on the 30th day after the Listing Date, to allot and issue up to an aggregate of 15,000,000 additional new Shares, representing 15% of the Offer Shares initially being offered under the Share Offer, on the same terms as those applicable to the Share Offer, to cover over-allocations in the Placing.

Commission and expenses

Pursuant to the terms of the Public Offer Underwriting Agreement, our Company has agreed to pay to the Sole Bookrunner (acting on behalf of the Public Offer Underwriter) and, in the case of the Placing Underwriting Agreement, our Company will agree to pay to the Sole Bookrunner (acting on behalf of the Placing Underwriters), an underwriting commission of 3% of the aggregate final Offer Price payable for the Offer Shares (including the Over-allotment Shares), out of which they will (as the case may be) pay any sub-underwriting commissions. In addition, the Sole Sponsor will receive documentation fees for acting as the Sole Sponsor to the Share Offer. Assuming the Over-allotment Option is not exercised, based on an Offer Price of HK$1.00 (being the mid-point of the Offer Price range of HK$0.80 per Offer Share and HK$1.20 per Offer Share), such underwriting commission and fees, together with the Stock Exchange listing fee, legal and other professional fees, applicable printing and other expenses relating to the Share Offer are estimated to be about HK$34.7 million in total and are payable by our Company.

Underwriters' interests in our Company

Save for their respective obligations and interests under the Underwriting Agreements as disclosed above and the proposed appointment of the Sole Sponsor as compliance adviser of our Company, none of the Underwriters has any shareholding interest in our Company or any member of our Group or has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

Sole Sponsor's independence

The Sole Sponsor satisfies the independence criteria applicable to sponsor as set out in Rule 3A.07 of the Listing Rules.

DETERMINING THE OFFER PRICE

The Offer Price is expected to be fixed by the Price Determination Agreement to be entered into between the Sole Bookrunner (on behalf of the Underwriters) and our Company on or before the Price Determination Date, which is currently scheduled on Wednesday, 20 November 2013, or such later date as the Sole Bookrunner (on behalf of the Underwriters) and our Company may agree but in any event no later than 6:00 p.m. (Hong Kong time) on Monday, 25 November 2013. **If, for any reason, the Sole Bookrunner (on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price by 6:00 p.m. (Hong Kong time) on Monday, 25 November 2013, the Share Offer will not become unconditional and will lapse**.

Prospective investors should be aware that the Offer Price to be determined on or before the Price Determination Date may be, but is not expected to be, lower than the Offer Price range as stated in this prospectus. The Offer Price will not be more than HK$1.20 per Offer Share and is expected to be not less than HK$0.80 per Offer Share. The Offer Price will fall within the Offer Price range as stated in this prospectus unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Public Offer.

The Sole Bookrunner (on behalf of the Underwriters) may, where considered appropriate, based on the level of interests expressed by prospective professional, institutional and other investors during a book-building process, and with the consent of our Company, reduce the Offer Price range below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Public Offer, cause to be published in The Standard (in English) and the Hong Kong Economic Times (in Chinese) notice of such a change. Upon issue of such a notice, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon with our Company, will be fixed within such revised Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Share Offer statistics as currently set out in the section headed "Summary" of this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any notice being published in The Standard (in English) and the Hong Kong Economic Times (in Chinese) of a reduction in the Offer Price range as stated in this prospectus on or before the morning of the last day for lodging applications under the Public Offer, the Offer Price, if agreed upon with our Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

We expect to announce the final Offer Price, the level of indication of interests under the Placing and the basis of allotment of the Public Offer Shares under the Public Offer on or before Tuesday, 26 November 2013 in The Standard (in English) and the Hong Kong Economic Times (in Chinese) and on our Company's website at www.chinaysgroup.com and the website of the Stock Exchange at www.hkexnews.hk.

Results of allocations in the Public Offer, including the Hong Kong identity card/passport/Hong Kong business registration certificate numbers of successful applicants (where supplied) and the number of Offer Shares successfully applied for under **WHITE** or **YELLOW** Application Forms or by giving **electronic application instructions** to HKSCC via CCASS or by applying through **HK eIPO White From** service which will be made available as described under the paragraph headed "Publication of results" under the section headed "How to apply for the Public Offer Shares" of this prospectus.

PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK$1.20 per Offer Share and is expected to be not less than HK$0.80 per Offer Share. Applicants under the Public Offer should pay, on application, the maximum price of HK$1.20 per Offer Share plus 1% brokerage, 0.005% Stock Exchange trading fee and 0.003% SFC transaction levy, amounting to a total of HK$3,030.24 per board lot of 2,500 Offer Shares.

If the Offer Price, as finally determined in the manner described above, is lower than the maximum price of HK$1.20 per Offer Share, appropriate refund payments (including the related brokerage, the Stock Exchange trading fee and the SFC transaction levy attributable to the excess application monies) will be made to applicants, without interest. Further details are set out in the section headed "How to apply for the Public Offer Shares" in this prospectus.

CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for the Offer Shares is conditional upon the satisfaction of all of the following conditions:

1. Listing

The Listing Committee granting the approval of the listing of, and permission to deal in, the Shares in issue and the Shares to be issued pursuant to the Share Offer, the Capitalisation Issue and Shares which fall to be allotted and issued upon the exercise of the Over-allotment Option and any Shares, up to 10% of the issued share capital of the Company as at the Listing Date, which may fall to be issued upon the exercise of any options which may be granted under the Share Option Scheme (and such listing and permission not subsequently being revoked prior to the commencement of dealings in the Shares on the Stock Exchange).

2. Underwriting Agreements

The entering into of the Placing Underwriting Agreement between, among others, our Company and the Placing Underwriters, and the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, among other things, the Offer Price be agreed by no later than the Price Determination Date and the Price Determination Agreement has been duly entered into, and if relevant, as a result of the waiver of any conditions given by the Sole Bookrunner (on behalf of the Sole Sponsor and the Underwriters)), and not being terminated in accordance with its terms or otherwise. Details of the Public Offer Underwriting Agreement and grounds for termination are set out in the section headed "Underwriting" in this prospectus. If for any reason, the Placing Underwriting Agreement and the Price Determination Agreement are not entered into, the Share Offer will not proceed. If these conditions are not fulfilled on or before the time and date specified in the Underwriting Agreements or such later date as the Sole Bookrunner (for itself and on behalf of the Sole Sponsor and the Underwriters) may in its absolute discretion determine, the Share Offer will lapse and your application money will be refunded to you, without interest, and by post at your own risk. The terms on which your application money will be returned to you are set out under the paragraph headed "Refund of your money" in the relevant Application Forms.

In the meantime, your application money will be held in one or more separate bank accounts with the receiving banker other bank(s) licenced under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

THE SHARE OFFER

The Share Offer comprises the Placing and the Public Offer. A total of 100,000,000 Shares will initially be made available under the Share Offer, of which 90,000,000 Shares, representing 90% of the total number of Shares initially being offered under the Share Offer, will initially be offered for subscription under the Placing. The remaining 10,000,000 Shares, representing 10% of the total number of Shares initially being offered under the Share Offer, will initially be offered for subscription under the Public Offer. The number of Shares offered for subscription under the Placing and the Public Offer will be subject to re-allocation on the basis described below and the number of Shares offered for subscription under the Placing will also be subject to the exercise of the Over-allotment Option below. No pre-emption right or right to subscribe for the Offer Shares has been granted.

THE PLACING

Our Company is initially offering, at the Offer Price, 90,000,000 Shares (subject to re-allocation as mentioned in the paragraph headed "Re-allocation of Offer Shares between the Public Offer and the Placing" below), representing 90% of the total number of Shares being initially offered under the Share Offer (before any exercise of the Over-allotment Option), for subscription by way of Placing. The Placing will be managed by the Sole Bookrunner and the Sole Lead Manager and is expected to be fully underwritten by the Placing Underwriters. Pursuant to the Placing, it is expected that the Placing Underwriters or any selling agents which they nominate will, on behalf of our Company, conditionally place the Placing Shares at the Offer Price plus 1% brokerage, 0.003% SFC transaction levy and 0.005% Stock Exchange trading fee with selected professional, institutional and private investors. Professional and institutional investors generally include brokers, dealers, companies and fund managers, whose ordinary businesses involve dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. It is expected that the Placing Underwriting Agreement will be executed on or around the Price Determination Date.

Allocation of the Placing Shares to professional, institutional and private investors pursuant to the Placing will be based on a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the investor is likely to purchase further Shares, or hold or sell the Shares placed, after the Listing. Such allocation is intended to result in a distribution of the Placing Shares on the basis which would lead to the establishment of a solid broad shareholder base to the benefit of our Company and its Shareholders taken as a whole. Investors to whom Placing Shares are offered are required to undertake not to apply for the Public Offer Shares under the Public Offer. The level of indication of interest in the Placing is expected to be published in The Standard (in English) and the Hong Kong Economic Times (in Chinese) on Tuesday, 26 November 2013. The Placing is subject to the conditions stated in the paragraph headed "Conditions of the Share Offer" above.

OVER-ALLOTMENT OPTION

It is expected that under the Placing Underwriting Agreement, our Company will grant the Over-allotment Option to the Sole Bookrunner (in its sole and absolute discretion) to require our Company at any time within a period commencing from the Listing Date and ending on the 30th day after the Listing Date, to allot and issue up to an aggregate of 15,000,000 additional new Shares, representing 15% of the Offer Shares initially being offered under the Share Offer, on the same terms as those applicable to the Share Offer, to cover over-allocations in the Placing. The additional Shares to be allotted and issued pursuant to the exercise of the Over-allotment Option will be allocated to the Placing and/or to satisfy the Sole Bookrunner's obligation to return Shares borrowed under the Stock Borrowing Agreement. The Sole Bookrunner may also cover any over-allocations under the Placing through the purchase of Shares in the secondary market or otherwise as may be permitted under applicable laws. Any purchases of Shares in the market to cover the over-allocations will be made at prices not exceeding the Offer Price. The number of Shares that may be over-allocated may not be greater than the number of Shares that may be allotted and issued pursuant to the exercise of the Over-allotment Option. Assuming the Over-allotment Option is not exercised, the Offer Shares will represent 25% of our Company's enlarged issued share capital immediately after completion of the Share Offer and the Capitalisation Issue. If the Over-allotment Option is exercised in full, the Offer Shares (including the Shares allotted and issued pursuant to the exercise of the Over-allotment Option) will represent about 27.7% of the enlarged issued share capital of our Company immediately after completion of the Share Offer, the Capitalisation Issue and the exercise of the Over-allotment Option in full. In the event that the Over-allotment Option is exercised, an announcement will be made in English in The Standard and in Chinese in the Hong Kong Economic Times.

Based on an Offer Price of HK$1.00 per Offer Share (being the mid-point of the Offer Price range between HK$0.80 per Offer Share and HK$1.20 per Offer Share), the net proceeds of the Share Offer, assuming that the Over-allotment Option is not exercised and after deducting related expenses, are estimated to be about HK$65.3 million. If the Over-allotment Option is exercised in full, our Company will receive additional net proceeds of about HK$14.6 million, after deducting brokerages, commissions and expenses attributable to the exercise of the Over-allotment Option.

The Public Offer is open to the public as well as to institutional, professional and private investors in Hong Kong. The Placing involves selective marketing of the Placing Shares by the Placing Underwriter to professional, institutional and private investors. Investors may either apply for the Shares under the Public Offer or indicate an interest for the Shares under the Placing, and may only receive an allocation of Shares under the Public Offer or the Placing. The Offer Shares are not available for subscription by existing beneficial owners of the Shares, our Directors, chief executive of our Company or any of its subsidiaries or their respective associates, or any other connected persons (as defined in Chapter 1 of the Listing Rules) of our Company or persons who will become connected persons (as defined in Chapter 1 of the Listing Rules) of our Company immediately upon completion of the Share Offer.

THE PUBLIC OFFER

Our Company is initially offering, at the Offer Price, 10,000,000 Shares (subject to re-allocation as mentioned in the paragraph headed "Re-allocation of Offer Shares between the Public Offer and the Placing" below), representing 10% of the total number of Shares being initially offered under the Share Offer, for subscription under the Public Offer (before any exercise of the Over-allotment Option). The Public Offer is fully underwritten by the Public Offer Underwriter subject to the terms and conditions of the Public Offer Underwriting Agreement. Applicants for the Public Offer Shares are required on application to pay the Offer Price plus 1% brokerage, 0.003% SFC transaction levy and 0.005% Stock Exchange trading fee.

The Public Offer is open to all members of the public in Hong Kong. An applicant for Public Offer Shares will be required to give an undertaking and confirmation in the relevant Application Form submitted by him/her that he/she has not applied for nor taken up any Placing Shares nor participated in the Placing. Applicants should note that if such undertaking and/or confirmation given by the applicant is breached and/or is untrue (as the case may be), such applicant's application under the Public Offer is liable to be rejected.

The total number of the Offer Shares available under the Public Offer is to be divided into two pools of 5,000,000 Public Offer Shares for each of pool A and pool B, respectively, for allocation purposes:

- Pool A: The Public Offer Shares in Pool A will be allocated on an equitable basis to applicants who have applied for the Public Offer Shares with an aggregate subscription price of HK$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy payable) or less; and

- Pool B: The Public Offer Shares in Pool B will be allocated on an equitable basis to applicants who have applied for the Public Offer Shares with an aggregate subscription price of more than HK$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy payable) and up to the value of pool B.

Investors should be aware that the allocation ratios for applications in the two pools, as well as the allocation ratios for applications in the same pool, are likely to be different. Where one of the pools is undersubscribed, the surplus Public Offer Shares will be transferred to satisfy demand in the other pool and be allocated accordingly. Applicants can only receive an allocation of Public Offer Shares from any one pool but not from both pools and can only make applications to either pool A or pool B but not both. Multiple applications or suspected multiple applications within either pool or between pools and any application made for more than 100% of the Public Offer Shares initially available under either pool A or pool B will be rejected.

Allocation of the Public Offer Shares to investors under the Public Offer, both in relation to pool A or pool B, will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of the Public Offer Shares validly applied for by each applicant. When there is over subscription under the Public Offer, allocation of the Public Offer Shares may involve balloting, which would mean that some applicants may be allotted more Public Offer Shares than others who have applied for the same number of the Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares. The results of the Public Offer and basis of allotment of the Public Offer Shares (with successful applicants' identification document numbers, where appropriate) are expected to be published in The Standard (in English) and the Hong Kong Economic Times (in Chinese) on Tuesday, 26 November 2013.

Applications under the Public Offer from investors receiving the Placing Shares under the Placing will be identified and rejected and investors receiving the Public Offer Shares under the Public Offer will not be offered the Placing Shares under the Placing. Multiple applications or suspected multiple applications or applications for more than 100% of the Public Offer Shares initially available in either pool A or pool B for public subscription under the Public Offer (i.e. to apply for more than 5,000,000 Public Offer Shares) are liable to be rejected.

The Public Offer is subject to the conditions as stated in the paragraph headed "Conditions of the Share Offer" above.

RE-ALLOCATION OF OFFER SHARES BETWEEN THE PUBLIC OFFER AND THE PLACING

The allocation of Offer Shares between the Placing and the Public Offer is subject to re-allocation. If the number of Shares validly applied for in the Public Offer:

(a) represents 15 times or more but less than 50 times of the number of Shares initially available for subscription under the Public Offer, then 20,000,000 Shares will be re-allocated to the Public Offer from the Placing, so that an aggregate of 30,000,000 Shares will be available under the Public Offer, representing 30% of the Offer Shares initially available under the Share Offer;

(b) represents 50 times or more but less than 100 times of the number of Shares initially available for subscription under the Public Offer, then 30,000,000 Shares will be re-allocated to the Public Offer from the Placing, so that an aggregate of 40,000,000 Shares will be available under the Public Offer, representing 40% of the Offer Shares initially available under the Share Offer;

(c) represents 100 times or more of the number of Shares initially available for subscription under the Public Offer, then 40,000,000 Shares will be re-allocated to the Public Offer from the Placing, so that an aggregate of 50,000,000 Shares will be available under the Public Offer, representing 50% of the Offer Shares initially available under the Share Offer; and

(d) in each of the above cases, the number of Shares allocated to the Placing will be correspondingly reduced, subject to the exercise of the Over-allotment Option.

In all cases, the additional Shares re-allocated to the Public Offer will be allocated, if applicable, equally between pool A and pool B and the number of Offer Shares allocated to the Placing will be correspondingly reduced.

If the Public Offer is not fully subscribed, the Sole Bookrunner (on behalf of the Underwriters) has the absolute discretion to re-allocate all or any of the unsubscribed Public Offer Shares originally included in the Public Offer to the Placing in such number as it deems appropriate to satisfy the demand under the Placing. If the Placing is not fully subscribed, the Sole Bookrunner has the authority to re-allocate all or any unsubscribed Placing Shares originally included in the Placing to the Public Offer, in such number as it deems appropriate provided that there is sufficient demand under the Public Offer to take up such unsubscribed Placing Shares. Details of any re-allocation of Offer Shares between the Public Offer and the Placing will be disclosed in the results announcement, which is expected to be made on Tuesday, 26 November 2013.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, agree to purchase or actually purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, to prevent a decline in the initial public offer prices of the securities. In Hong Kong, the stabilisation price will not exceed the initial public offer price.

In connection with the Share Offer, the Sole Bookrunner, as stabilising manager, or any person acting for it, (on behalf of the Underwriters and not as agent for our Company) may over-allocate Shares or effect transactions with a view to supporting the market price of the Offer Shares at a level higher than that which might otherwise prevail for a limited period after the issue date. However, there is no obligation on the Sole Bookrunner to conduct any such stabilisation action which, if commenced, may be discontinued at any time at the absolute discretion of the Sole Bookrunner, its affiliates or any person acting for it, and must be brought to an end after a limited period. The number of Shares that may be over-allocated will not be greater than the maximum number of Shares which may be issued upon exercise of the Over-allotment Option, being 15,000,000 Shares, which is 15% of the Shares initially available under the Share Offer.

Stabilisation action cannot be taken to support the price of the Offer Shares for longer than the stabilising period which begins on the Listing Date and ends on the 30th day after the Listing Date (the "**Stabilisation Period**"). The Stabilisation Period is expected to expire on Friday, 27 December 2013 and that after this date, when no further stabilising action may be taken, demand for the Shares, and therefore its price, could fall.

During the Stabilisation Period, the Sole Bookrunner as stabilising manager or any person acting for it, may purchase or agree to purchase, or offer, the Shares for the sole purpose of preventing or minimising any reduction in the market price of the Shares, which will be effected in compliance with all applicable laws and regulatory requirements, including the Securities and Futures (Price Stabilizing) Rules made under the SFO. In connection with any such stabilisation actions as described above, the Sole Bookrunner as stabilising manager, or any person acting for it, may allocate a greater number of Shares than the number that is initially offered, or sell or agree to sell Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares. It may close out any such short position by exercising the Over-allotment Option, as described above. It may also agree to sell or sell any Shares acquired by it in the course of any stabilisation transactions in order to liquidate any position that has been established by such action.

The Sole Bookrunner may, in connection with the stabilising action, maintain a long position in the Shares. The size of the long position, and the time period for which the Sole Bookrunner will maintain such a position during the Stabilisation Period, are at the sole discretion of the Sole Bookrunner and is uncertain. In the event that the Sole Bookrunner liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the Shares.

Investors should be aware that the price of the Shares cannot be assured to stay at or above its Offer Price by the taking of any stabilising action. Stabilisation bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price the investor has paid for the Offer Shares.

In order to facilitate the settlement of over-allocations, the Sole Bookrunner, as the stablising manager, or its authorised agents may, among other means, purchase Shares in the secondary market, enter into stock borrowing arrangements with holders of Shares, exercise the Over-allotment Option, engage in a combination of these means or otherwise as may be permitted under applicable laws. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations.

In this connection, the Sole Bookrunner will enter into the Stock Borrowing Agreement with Ever Thrive whereby the Sole Bookrunner may borrow up to 15,000,000 Shares from Ever Thrive, equivalent to the maximum number of additional Shares to be offered upon full exercise of the Over-allotment Option, under the Stock Borrowing Agreement. The Stock Borrowing Agreement is not subject to the restrictions of rule 10.07(1) of the Listing Rules which restricts the disposal of Shares by controlling shareholders following a new listing, provided the following requirements under Rule 10.07(3) of the Listing Rules are complied with:

- the Stock Borrowing Agreement will only be effected by the Sole Bookrunner as stabilising manager for covering any short position arising from over-allocations under the Placing prior to the exercise of the Over-allotment Option;

- the maximum number of Shares to be borrowed from Ever Thrive will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option;

- the same number of Shares so borrowed must be returned to Ever Thrive or its nominees on or before the third business day, a day that is not a Saturday, Sunday or public holiday in Hong Kong, following the earlier of (i) the last day on the Over-allotment Option may be exercised, and (ii) the day on which the Over-allotment Option is exercised in full;

- borrowing of Shares pursuant to the Stock Borrowing Agreement will be effected in compliance with all applicable Listing Rules, laws and other regulatory requirements; and

- no payments will be made to Ever Thrive in relation to the Stock Borrowing Agreement.

1. HOW TO APPLY

If you apply for Public Offer Shares, then you may not apply for or indicate an interest for Placing Shares.

To apply for Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service at **www.hkeipo.hk**; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Bookrunner (for itself and on behalf of the Public Offer Underwriter) or, the HK eIPO White Form Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC (other than qualified domestic institutional investors).

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Bookrunner (or their respective agents or nominees) may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Public Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Public Offer Shares if you are:

- an existing beneficial owner of Shares and/or any its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Share Offer; or
- have been allocated or have applied for or indicated an interest in any Placing Shares under the Placing.

3. APPLYING FOR PUBLIC OFFER SHARES

Which Application Channel to Use

For Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **www.hkeipo.hk**.

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 15 November 2013 to 12:00 noon on Wednesday, 20 November 2013 from:

(i) the following address of the Sole Bookrunner or the Public Offer Underwriter:

Haitong International Securities Company Limited
22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

(ii) any of the following branches of Bank of China (Hong Kong) Limited, the receiving bank for the Public Offer:

	Branch Name	Address
Hong Kong Island	Bank of China Tower Branch	3/F, 1 Garden Road
	Central District (Wing On House) Branch	71 Des Voeux Road Central
	North Point (King's Centre) Branch	193-209 King's Road, North Point
Kowloon	Yau Ma Tei Branch	471 Nathan Road, Yau Ma Tei
	Whampoa Garden Branch	Shop G8B, Site 1, Whampoa Garden, Hung Hom
	East Point City Branch	Shop 101, East Point City, Tseung Kwan O
New Territories	Tuen Mun Town Plaza Branch	Shop 2, Tuen Mun Town Plaza Phase II
	Sheung Shui Branch Securities Services Centre	136 San Fung Avenue, Sheung Shui

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 15 November 2013 until 12:00 noon on Wednesday, 20 November 2013 from the depository counter of HKSCC at 2/F., Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Bank of China (Hong Kong) Nominees Limited – Yongsheng Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

Friday, 15 November 2013	**—**	**9:00 a.m. to 5:00 p.m.**
Saturday, 16 November 2013	**—**	**9:00 a.m. to 1:00 p.m.**
Monday, 18 November 2013	**—**	**9:00 a.m. to 5:00 p.m.**
Tuesday, 19 November 2013	**—**	**9:00 a.m. to 5:00 p.m.**
Wednesday, 20 November 2013	**—**	**9:00 a.m. to 12:00 noon**

The application lists will be open from 11:45 a.m. to 12:00 noon on Wednesday, 20 November 2013, the last application day or such later time as described in the paragraph headed "Effect of bad weather conditions on the opening of the applications lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person for whom you act:

(i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Sponsor and/or the Sole Bookrunner (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

(ii) agree to comply with the Companies Ordinance and the Articles of Association;

(iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;

(iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

(v) confirm that you are aware of the restrictions on the Share Offer in this prospectus;

(vi) agree that none of our Company, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);

(vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Placing Shares under the Placing nor participated in the Placing;

(viii) agree to disclose to our Company, the Hong Kong Branch Share Registrar, receiving bank, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

(x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xi) agree that your application will be governed by the laws of Hong Kong;

(xii) represent, warrant and undertake that (i) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(xiii) warrant that the information you have provided is true and accurate;

(xiv) agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;

(xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;

(xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(xvii) understand that our Company and the Sole Bookrunner will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;

(xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the HK eIPO White Form Service Provider by you or by any one as your agent or by any other person; and

(xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for Yellow Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in the paragraph headed "Who can apply" above, may apply through the **HK eIPO White Form** service for the Public Offer Shares to be allotted and registered in their own names through the designated website at **www.hkeipo.hk**.

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the HK eIPO White Form Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

Time for Submitting Applications under the Hong Kong eIPO White Form

You may submit your application through the HK eIPO White Form Service Provider at **www.hkeipo.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Friday, 15 November 2013 until 11:30 a.m. on Wednesday, 20 November 2013 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, 20 November 2013 or such later time under the paragraph headed "Effects of bad weather conditions on the opening of the applications lists" in this section.

No Multiple Applications

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies Ordinance (as applied by Section 342E of the Companies Ordinance).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (**https://ip.ccass.com**) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
2/F, Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company and our Hong Kong Branch Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

- agree to accept the Public Offer Shares applied for or any lesser number allocated;

- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Placing Shares under the Placing;

- declare that only one set of **electronic application instructions** has been given for your benefit;

- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;

- confirm that you understand that our Company, our Directors, the Sole Sponsor and the Sole Bookrunner will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;

- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

- agree that none of our Company, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

- agree to disclose your personal data to our Company, the Hong Kong Branch Share Registrar, receiving bank, the Sole Sponsor and the Sole Bookrunner, the Sole Lead Manager, the Underwriters and/or its respective advisers and agents;

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Public Offer results;

- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Public Offer Shares;

- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, the Articles; and

- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;

- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 2,500 Public Offer Shares. Instructions for more than 2,500 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Friday, 15 November 2013	**—**	**9:00 a.m. to 8:30 p.m.(1)**
Saturday, 16 November 2013	**—**	**8:00 a.m. to 1:00 p.m.(1)**
Monday, 18 November 2013	**—**	**8:00 a.m. to 8:30 p.m.(1)**
Tuesday, 19 November 2013	**—**	**8:00 a.m. to 8:30 p.m.(1)**
Wednesday, 20 November 2013	**—**	**8:00 a.m.(1) to 12:00 noon**

Note (1): These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, 15 November 2013 until 12:00 noon on Wednesday, 20 November 2013 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Wednesday, 20 November 2013, the last application day or such later time as described in the paragraph headed "Effect of bad weather conditions on the opening of the application lists" in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Hong Kong Companies Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies Ordinance (as applied by Section 342E of the Companies Ordinance).

Personal Data

The section of the Application Form headed "Personal Data" applies to any personal data held by us, the Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Public Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the HK eIPO White Form Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Wednesday, 20 November 2013.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 2,500 Public Offer Shares. Each application or **electronic application instruction** in respect of more than 2,500 Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.hkeipo.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Listing Rules), and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed "Structure and conditions of the Share Offer" in this prospectus.

10. EFFECT OF BAD WEATHER CONDITIONS ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warming signal number 8 or above; or
- a "black" rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 20 November 2013. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Wednesday, 20 November 2013 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed "Expected Timetable", an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Tuesday, 26 November 2013 in The Standard (in English) and Hong Kong Economic Times (in Chinese), on our Company's website at **www.chinaysgroup.com** and the website of the Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at **www.chinaysgroup.com** and the Stock Exchange's website at **www.hkexnews.hk** by no later than 9:00 a.m. on Tuesday, 26 November 2013;

- from the designated results of allocations website at **www.tricor.com.hk/ipo/result** with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Tuesday, 26 November 2013 to midnight on Monday, 2 December 2013;

- by telephone enquiry line by calling +852 3691 8488 between 9:00 and 6:00 p.m. from Tuesday, 26 November 2013 to Friday, 29 November 2013 on a business day;

- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, 26 November 2013 to Thursday, 28 November 2013 at all the receiving bank branches and sub-branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are contained in the section headed "Structure and conditions of the Share Offer" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Public Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or through HK eIPO White Form Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies Ordinance (as applied by Section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If the Company or its agents exercise their discretion to reject your application:

Our Company, the Sole Sponsor and the Sole Bookrunner, the Sole Lead Manager, the HK eIPO White Form Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Public Offer Shares is void:

The allotment of Public Offer Shares will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Public Offer Shares and Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;

- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Sole Sponsor or the Sole Bookrunner or the Sole Lead Manager believes that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 100% of the Public Offer Shares initially offered in pool A or pool B for public subscription under the Public Offer.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK$1.20 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offer are not fulfilled in accordance with the section headed "Structure and conditions of the Share Offer" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Tuesday, 26 November 2013.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price

and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first- named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Tuesday, 26 November 2013. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Wednesday, 27 November 2013 provided that the Share Offer has become unconditional and the right of termination described in the section headed "Underwriting" in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a ***WHITE*** *Application Form*

If you apply for 1,000,000 or more Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from our Company's Hong Kong Branch Share Registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 26 November 2013 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Tuesday, 26 November 2013, by ordinary post and at your own risk.

(ii) *If you apply using a* ***YELLOW*** *Application Form*

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Tuesday, 26 November 2013, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Tuesday, 26 November 2013, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)*

  For Public Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS Participant.

- *If you are applying as a CCASS Investor Participant*

  Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in "Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 26 November 2013 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) *If you apply through the* ***HK eIPO White Form*** *Service*

If you apply for 1,000,000 Public Offer Shares or more and your application is wholly or partially successful, you may collect your share certificate(s) from our Company's Hong Kong Branch Share Registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 26 November 2013, or such other date as notified by our Company in the newspapers as the date of despatch/collection of share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Tuesday, 26 November 2013 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

*(iv) If you apply via **Electronic Application Instructions** to HKSCC*

Allocation of Public Offer Shares

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, 26 November 2013, or, on any other date determined by HKSCC or HKSCC Nominees.

- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offer in the manner specified in "Publication of Results" above on Tuesday, 26 November 2013. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 26 November 2013 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, 26 November 2013. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, 26 November 2013.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sponsor pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

pwc 羅兵咸永道

15 November 2013

The Directors
Yongsheng Advanced Materials Company Limited

Haitong International Capital Limited

Dear Sirs,

We report on the financial information of Yongsheng Advanced Materials Company Limited (the "**Company**") and its subsidiaries (together, the "**Group**"), which comprises the consolidated balance sheets as at 31 December 2010, 2011 and 2012 and 30 June 2013, the balance sheet of the Company as at 31 December 2012 and 30 June 2013, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements for each of the years ended 31 December 2010, 2011 and 2012, and the six months ended 30 June 2013 (the "**Relevant Periods**"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company and is set out in Sections I to III below for inclusion in Appendix I to the prospectus of the Company dated 15 November 2013 (the "**Prospectus**") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the Cayman Islands on 19 April 2012 as an exempted company with limited liability under the Companies Law (2010 Revision) of the Cayman Islands. Pursuant to a group reorganisation as described in Note 1(b) of Section II headed "Reorganisation" below, which was completed on 28 December 2012, the Company became the holding company of the subsidiaries now comprising the Group (the "**Reorganisation**").

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As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 1(b) of Section II below. All of these companies are private companies.

No audited financial statements have been prepared by the Company as it is newly incorporated and has not involved in any significant business transactions since its date of incorporation other than the Reorganisation. The audited financial statements of the other companies now comprising the Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their place of incorporation. The details of the statutory auditors of these companies are set out in Note 1(b) of Section II.

The directors of the Company have prepared the consolidated financial statements of the Company for the Relevant Periods, in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board (the "**Underlying Financial Statements**"). The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with IFRSs. PricewaterhouseCoopers Zhong Tian LLP (普華永道中天會計師事務所(特殊普通合夥)) has audited the Underlying Financial Statements in accordance with International Standards on Auditing (the "**ISAs**") issued by the International Auditing and Assurance Standards Board ("**IAASB**") pursuant to separate terms of engagement with the Company.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

Directors' Responsibility for the Financial Information

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with IFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Reporting Accountant's Responsibility

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

Opinion

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company as at 31 December 2012 and 30 June 2013 and of the state of affairs of the Group as at 31 December 2010, 2011 and 2012, and 30 June 2013 and of the Group's results and cash flows for the Relevant Periods then ended.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information set out in Sections I to II below included in Appendix I to the Prospectus which comprises the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements for the six months ended 30 June 2012 and a summary of significant accounting policies and other explanatory information (the "**Stub Period Comparative Financial Information**").

The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the accounting policies set out in Note 3 of Section II below.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the IAASB. A review of the Stub Period Comparative Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with ISAs and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report, has not been prepared, in all material respects, in accordance with the accounting policies set out in Note 3 of Section II below.

I. FINANCIAL INFORMATION OF THE GROUP

The following is the financial information of the Group prepared by the directors of the Company as at 31 December 2010, 2011 and 2012, and 30 June 2013, and for each of the years ended 31 December 2010, 2011 and 2012, and each of the six months ended 30 June 2012 and 2013 and the Company as at 31 December 2012 and 30 June 2013 (the "**Financial Information**"):

Consolidated balance sheets

		As at 31 December			As at 30 June
	Note	**2010**	**2011**	**2012**	**2013**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS					
Non-current assets					
Land use rights	*7*	34,175	33,377	32,579	32,179
Property, plant and equipment	*8*	143,210	141,331	138,851	133,692
Intangible assets	*9*	5,382	8,837	7,889	7,450
Available-for-sale financial assets	*10*	4,000	4,000	–	–
Deferred income tax assets	*11*	8,132	11,030	10,794	11,571
		194,899	198,575	190,113	184,892
Current assets					
Inventories	*12*	266,650	248,552	150,917	108,714
Trade and bills receivables	*13*	89,022	123,407	245,152	140,774
Prepayments, deposits and other receivables	*14*	109,804	69,769	63,349	46,926
Amounts due from related parties	*37(b)*	236,556	229,899	31,906	155
Other financial asset	*15*	–	–	191,068	15,800
Financial assets at fair value through profit or loss	*16*	7,503	660	645	663
Restricted cash	*17*	229,729	353,453	132,429	102,490
Cash and cash equivalents	*18*	29,424	46,130	75,700	11,986
		968,688	1,071,870	891,166	427,508
Total assets		1,163,587	1,270,445	1,081,279	612,400
EQUITY					
Share capital	*19*	–	–	16	21
Share premium	*19*	–	–	160,397	160,397
Other reserves	*20*	38,669	50,507	(34,815)	(35,136)
Retained earnings		59,173	113,379	49,601	65,062
Equity attributable to equity holders of the Company		97,842	163,886	175,199	190,344
Non-controlling interests		30,199	36,004	16,133	19,973
Total equity		128,041	199,890	191,332	210,317

	Note	As at 31 December 2010 RMB'000	As at 31 December 2011 RMB'000	As at 31 December 2012 RMB'000	As at 30 June 2013 RMB'000
LIABILITIES					
Non-current liabilities					
Borrowings	23	9,205	–	47,000	25,000
Other non-current liabilities	24	9,797	9,565	12,970	12,629
		19,002	9,565	59,970	37,629
Current liabilities					
Trade and bills payables	21	411,216	288,314	236,230	94,755
Advances from customers		117,679	135,025	150,517	16,407
Accruals and other current liabilities	22	21,298	24,238	21,288	22,740
Current portion of other non-current liabilities	24	232	232	682	682
Amounts due to related parties	37(b)	81,017	71,765	35,913	14,006
Current income tax liabilities		13,487	10,872	5,282	5,256
Borrowings	23	371,615	530,544	380,065	210,608
		1,016,544	1,060,990	829,977	364,454
Total liabilities		1,035,546	1,070,555	889,947	402,083
Total equity and liabilities		1,163,587	1,270,445	1,081,279	612,400
Net current (liabilities)/assets		(47,856)	10,880	61,189	63,054
Total assets less current liabilities		147,043	209,455	251,302	247,946

Balance sheet

	Note	As at 31 December 2012 RMB'000	As at 30 June 2013 RMB'000
ASSETS			
Non-current assets			
Interest in subsidiaries		160,405	157,577
		160,405	157,577
Current assets			
Prepayments, deposits and other receivables	*14*	251	4,068
Cash and cash equivalents		8	13
		259	4,081
Total assets		160,664	161,658
EQUITY			
Share capital	*19*	16	21
Share premium	*19*	160,397	160,397
Other reserve	*20*	–	(2,806)
Accumulated deficits		(351)	(2,303)
Total equity		160,062	155,309
LIABILITIES			
Current liabilities			
Accruals and other current liabilities	*22*	–	3,780
Amounts due to subsidiaries		602	2,569
Total liabilities		602	6,349
Total equity and liabilities		160,664	161,658
Net current liabilities		(343)	(2,268)
Total assets less current liabilities		160,062	155,309

Consolidated statements of comprehensive income

	Note	Year ended 31 December 2010 RMB'000	Year ended 31 December 2011 RMB'000	Year ended 31 December 2012 RMB'000	Six months ended 30 June 2012 RMB'000 (Unaudited)	Six months ended 30 June 2013 RMB'000
Revenue	6	1,565,630	2,037,346	2,210,853	1,240,999	1,110,842
Cost of sales	26	(1,428,006)	(1,922,937)	(2,101,708)	(1,189,489)	(1,049,615)
Gross profit		137,624	114,409	109,145	51,510	61,227
Other gains/(losses), net	25	34,119	38,454	(3,118)	1,283	1,807
Selling expenses	26	(31,149)	(33,265)	(22,693)	(15,073)	(9,706)
Administrative expenses	26	(21,216)	(26,367)	(24,546)	(11,875)	(18,598)
Operating profit		119,378	93,231	58,788	25,845	34,730
Finance income		9,093	12,888	22,826	11,550	5,205
Finance costs		(21,573)	(25,860)	(42,566)	(22,603)	(14,938)
Finance costs, net	29	(12,480)	(12,972)	(19,740)	(11,053)	(9,733)
Profit before income tax		106,898	80,259	39,048	14,792	24,997
Income tax expense	30	(23,968)	(20,248)	(6,061)	(2,402)	(5,696)
Profit for the year/period		82,930	60,011	32,987	12,390	19,301
Other comprehensive income						
Items that may be reclassified to profit or loss						
– Current translation differences		–	–	–	–	(321)
Other comprehensive income for the year/period, net of tax		–	–	–	–	(321)
Total comprehensive income for the year/period		82,930	60,011	32,987	12,390	18,980
Profit attributable to:						
Equity holders of the Company		78,217	54,206	23,173	6,253	15,461
Non-controlling interests		4,713	5,805	9,814	6,137	3,840
		82,930	60,011	32,987	12,390	19,301

	Note	Year ended 31 December 2010 RMB'000	2011 RMB'000	2012 RMB'000	Six months ended 30 June 2012 RMB'000 (Unaudited)	2013 RMB'000
Total comprehensive income attributable to:						
Equity holders of the Company		78,217	54,206	23,173	6,253	15,140
Non-controlling interests		4,713	5,805	9,814	6,137	3,840
		82,930	60,011	32,987	12,390	18,980
		RMB	*RMB*	*RMB*	*RMB*	*RMB*
Earnings per share for profit attributable to equity holders of the Company – basic and diluted	32	29.26	20.28	8.67	2.34	5.78

	Year ended 31 December 2010 RMB'000	2011 RMB'000	2012 RMB'000	Six months ended 30 June 2012 RMB'000 (Unaudited)	2013 RMB'000
Dividends	–	–	90,251	–	–

Consolidated statements of changes in equity

	Note	Equity attributable to the Company's equity holders				Non-controlling interests	Total equity
		Share capital and Share premium	Other reserves	Retained earnings	Total		
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2010		–	51,891	(14,695)	37,196	25,486	62,682
Comprehensive income							
Profit for the year		–	–	78,217	78,217	4,713	82,930
Total comprehensive income		–	–	78,217	78,217	4,713	82,930
Transaction with equity holders							
Appropriation to statutory reserves	*20*	–	4,349	(4,349)	–	–	–
Capital injection by equity holders	*20*	–	30,000	–	30,000	–	30,000
Deemed distribution to equity holders	*20*	–	(47,571)	–	(47,571)	–	(47,571)
Total transaction with equity holders		–	(13,222)	(4,349)	(17,571)	–	(17,571)
Balance at 31 December 2010		–	38,669	59,173	97,842	30,199	128,041
Comprehensive income							
Profit for the year		–	–	54,206	54,206	5,805	60,011
Total comprehensive income		–	–	54,206	54,206	5,805	60,011
Transaction with equity holders							
Deemed contribution by equity holders	*20*	–	11,838	–	11,838	–	11,838
Total transaction with equity holders		–	11,838	–	11,838	–	11,838
Balance at 31 December 2011		–	50,507	113,379	163,886	36,004	199,890
Comprehensive income							
Profit for the year		–	–	23,173	23,173	9,814	32,987
Total comprehensive income		–	–	23,173	23,173	9,814	32,987
Transaction with equity holders							
Issuance of new shares	*19*	160,413	–	–	160,413	–	160,413
Distribution to equity holders	*20*	–	(134,695)	–	(134,695)	–	(134,695)
Acquisition of non-controlling interests	*20*	–	1,796	–	1,796	(22,901)	(21,105)
Disposal of equity interest in a subsidiary	*20*	–	(1,587)	–	(1,587)	1,587	–
Deemed contribution by equity holders	*20*	–	29,190	–	29,190	–	29,190
Appropriation to statutory reserves	*20*	–	5,071	(5,071)	–	–	–
Dividends	*34*	–	–	(81,880)	(81,880)	(8,371)	(90,251)
Waived dividend payable by non controlling interest	*20*	–	7,953	–	7,953	–	7,953
Gain from acquisition	*20*	–	6,950	–	6,950	–	6,950
Total transaction with equity holders		160,413	(85,322)	(86,951)	(11,860)	(29,685)	(41,545)
Balance at 31 December 2012		160,413	(34,815)	49,601	175,199	16,133	191,332

	Note	Equity attributable to the Company's equity holders				Non-controlling interests	Total equity
		Share capital and Share premium	Other reserves	Retained earnings	Total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 31 December 2012		160,413	(34,815)	49,601	175,199	16,133	191,332
Comprehensive income							
Profit for the year		–	–	15,461	15,461	3,840	19,301
Other comprehensive income							
– Currency translation differences	20	–	(321)	–	(321)	–	(321)
Total comprehensive income		–	(321)	15,461	15,140	3,840	18,980
Transaction with equity holders							
Issuance of new shares	19	5	–	–	5	–	5
Total transaction with equity holders		5	–	–	5	–	5
Balance at 30 June 2013		160,418	(35,136)	65,062	190,344	19,973	210,317
Unaudited:							
Balance at 1 January 2012		–	50,507	113,379	163,886	36,004	199,890
Comprehensive income							
Profit for the year		–	–	6,253	6,253	6,137	12,390
Total comprehensive income		–	–	6,253	6,253	6,137	12,390
Transaction with equity holders							
Issuance of new shares	19	8	–	–	8	–	8
Deemed contribution by equity holders		–	30,412	–	30,412	–	30,412
Total transaction with equity holders		8	30,412	–	30,420	–	30,420
Balance at 30 June 2012		8	80,919	119,632	200,559	42,141	242,700

Consolidated cash flow statements

	Note	Year ended 31 December			Six months ended 30 June	
		2010	2011	2012	2012	2013
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Cash flows from operating activities						
Cash generated from operations	*33(a)*	44,090	22,372	102,190	(78,022)	(97,839)
Interest received		7,125	5,616	25,165	5,038	10,241
Income tax paid		(1,685)	(21,168)	(12,400)	(11,407)	(6,498)
Net cash generated from/(used in) operating activities		49,530	6,820	114,955	(84,391)	(94,096)
Cash flows from investing activities						
Purchase of land use rights		(10,753)	–	–	–	–
Purchase of property, plant and equipment		(45,253)	(11,607)	(6,247)	(4,234)	(2,540)
Purchase of intangible assets	*9*	(3,264)	(4,010)	–	–	–
Proceeds from disposals of property, plant and equipment	*33(b)*	948	975	–	–	1,805
Loans granted to related parties		(928,557)	(760,420)	(446,122)	(218,160)	–
Loan repayments from related parties		895,984	790,381	630,995	249,944	6,482
Loan repayment received from a third party	*14*	–	–	–	–	20,819
Payment to acquire available-for-sale financial assets	*10*	(4,000)	–	–	–	–
Proceeds from disposal of available-for-sale financial assets	*10*	–	–	4,000	–	–
Proceeds from disposal of investment in an associate	*14*	–	–	–	–	8,440
(Increase in)/decrease of restricted bank deposits		(36,374)	(123,725)	221,779	5,627	29,939
Payments for purchase of other financial asset		–	–	(201,212)	(185,029)	–
Proceeds from disposal of other financial asset		–	–	10,192	–	174,916
Cash paid for acquisition of a subsidiary	*36*	–	–	–	–	(3,146)
Acquisition of subsidiaries, net of cash acquired	*36*	–	–	5,759	–	–
Net cash (used in)/generated from investing activities		(131,269)	(108,406)	219,144	(151,852)	236,715

	Note	Year ended 31 December 2010 RMB'000	2011 RMB'000	2012 RMB'000	Six months ended 30 June 2012 RMB'000 (Unaudited)	2013 RMB'000
Cash flows from financing activities						
Proceeds from issuance of ordinary share	*19*	–	–	157,267	–	3,151
Proceeds from related party borrowings		146,521	104,588	124,550	75,471	–
Proceeds from bank borrowings		785,468	985,962	1,159,642	814,588	224,593
Capital injection by equity holders	*20*	30,000	–	–	–	–
Dividends paid to equity holders	*34*	–	–	(81,880)	–	–
Distribution for Reorganisation	*20*	–	–	(134,695)	–	–
Acquisition of non-controlling interests	*20*	–	–	(21,105)	–	–
Repayments of related party borrowings		(136,203)	(111,720)	(185,990)	(87,078)	(2,994)
Repayments of bank borrowings		(705,419)	(825,841)	(1,276,415)	(544,651)	(415,579)
Interest paid		(25,344)	(34,291)	(45,444)	(16,971)	(15,217)
Net cash generated from/(used in) financing activities		95,023	118,698	(304,070)	241,359	(206,046)
Net increase/(decrease) in cash and cash equivalents		13,284	17,112	30,029	5,116	(63,427)
Cash and cash equivalents at beginning of the year	*18*	16,289	29,424	46,130	46,130	75,700
Exchange losses on cash and cash equivalents		(149)	(406)	(459)	427	(287)
Cash and cash equivalents at end of the year/period	*18*	29,424	46,130	75,700	51,673	11,986

II. NOTES TO THE FINANCIAL INFORMATION

1 General information of the Group and group reorganisation

(a) General information

Yongsheng Advanced Materials Company Limited (the "**Company**") was incorporated in the Cayman Islands on 19 April 2012 as an exempted company with limited liability under the Companies Law (2010 Revision) of the Cayman Islands. The address of the Company's registered office is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands.

The Company and its subsidiaries (the "**Group**") are principally engaged in the developing and manufacturing of polyester filament yarns, the provision of dyeing services of differentiated polyester filament fabric and trading of textile raw materials and products in the People's Republic of China (the "**PRC**") (the "**Listing Businesses**"). The directors consider the ultimate holding company of the Company is Ever Thrive Global Limited ("**Ever Thrive**"), a company incorporated in the BVI and controlled by Mr. Li Cheng (the "**Controlling Shareholder**").

(b) Reorganisation

Prior to the incorporation of the Company and the completion of the reorganisation as described below (the "**Reorganisation**"), the Listing Businesses were principally operated through the four subsidiaries of Hangzhou Yongsheng Group Limited ("**Yongsheng Group**"), namely Hangzhou Xiaoshan Yongsheng Foreign Trading Company Limited ("**Hangzhou Yongsheng Trading**"), Nantong Yongsheng Fiber Advanced Materials Company Limited ("**Nantong Yongsheng**"), Hangzhou Huvis Yongsheng Chemical Fiber Company Limited ("**Yongsheng Chemical Fiber**") and Yongsheng Dyeing and Finishing Company Limited ("**Yongsheng Dyeing**").

Yongsheng Group, the then holding company of the Listing Businesses, is a company established in the PRC and was owned as to 58.3% by Mr. Li Cheng and family and 41.7% by certain individual shareholders (Mr. Li Cheng and family and the individual shareholders are collectively referred to as the "**Owners**").

During the Relevant Periods, Yongsheng Group and its other subsidiary were engaged in (i) trading of textile raw materials and products and (ii) production and sale of those products not relating to the Listing Businesses and other equity investment business (the "**Dissimilar Businesses**"). Yongsheng Group and the other subsidiary do not and have never formed part of the Listing Group.

In preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Listing**"), the Group underwent the following transactions to transfer the Listing Businesses previously owned by Yongsheng Group to the Company:

(i) On 19 April 2012, the Company was incorporated in Cayman Islands and is ultimately owned by the Owners.

(ii) In May 2012, Yongsheng Advanced Materials (BVI) Limited ("**Yongsheng (BVI)**") and Yongsheng Advanced Materials (HK) Limited ("**Yongsheng (HK)**") were incorporated as wholly owned subsidiaries of the Company.

(iii) Pursuant to the sale and purchase agreements dated 19 October 2012, Yongsheng (HK) acquired the 65% and 35% equity interests in Yongsheng Dyeing from its then shareholders for an aggregate cash consideration of RMB60,300,000. Upon completion of the aforesaid share transfer, Yongsheng Dyeing became an indirectly wholly owned subsidiary of the Company.

(iv) Pursuant to various sale and purchase agreements entered into between Yongsheng Group and Yongsheng Dyeing in November 2012, Yongsheng Group agreed to transfer its respective equity interests in Yongsheng Chemical Fiber, Hangzhou Yongsheng Trading and Nantong Yongsheng to Yongsheng Dyeing for an aggregate consideration of RMB95,500,000. Since then, these three companies became indirectly owned subsidiaries of the Company.

(v) Prior to the Reorganisation, Yongsheng (HK) International Co., Limited ("**Yongsheng Trading (HK)**") was owned as to 30% by Yongsheng Holding Company Limited ("**Yongsheng Holdings**"), a company established in the PRC and majority owned and controlled by the Controlling Shareholder. In December 2012, Yongsheng Holdings acquired a 70% equity interest in Yongsheng Trading (HK) from the other shareholders at a consideration of US$350,000. Pursuant to a sale and purchase agreement dated 28 December 2012, Yongsheng (BVI) acquired the 100% equity interests in Yongsheng Trading (HK) from Yongsheng Holdings at a consideration of US$500,000 (equivalent to HK$3,880,000). Upon the completion of the aforesaid share transfers, Yongsheng Trading (HK) became an indirectly wholly owned subsidiary of the Company.

Upon completion of the Reorganisation, the Company became the holding company of the companies comprising the Group. As at the date of this report, the Company has direct and indirect interests in the following subsidiaries:

Company name	Place and date of incorporation	Principal activities	Type of legal entity	Issued/ paid-up capital	Equity interests attributable to the Group	*Note*
Yongsheng (BVI)	The British Virgin Island/21 May 2012	Investment holding	Limited liability company	US$1	100%	*(i)*
Yongsheng (HK)	Hong Kong/31 May 2012	Investment holding	Limited liability company	US$1	100%	*(i)*
Yongsheng Trading (HK)	Hong Kong/29 November 2005	Trading of textile raw materials and products	Limited liability company	US$500,000	100%	*(ii)*
Yongsheng Dyeing	The PRC/8 August 2003	Provision of dyeing services	Limited liability company	RMB138,000,000	100%	*(iii)*
Hangzhou Yongsheng Trading	The PRC/2 August 2000	Trading of textile raw materials and products	Limited liability company	RMB11,000,000	100%	*(iii)*
Yongsheng Chemical Fiber	The PRC/28 April 2004	Developing and manufacturing of polyester filament yarns	Limited liability company	RMB40,000,000	70%	*(iii)*
Nantong Yongsheng	The PRC/28 June 2010	Developing and manufacturing of polyester filament yarns	Limited liability company	RMB30,000,000	90%	*(iii)*

Notes:

(i) No audited financial statements were issued for these companies as they are newly incorporated.

(ii) The financial statements of Yongsheng Trading (HK) for the years ended 31 December 2010, 2011 and 2012 were audited by Leung & Chan, Certified Public Accountants in Hong Kong.

(iii) The financial statements of Yongsheng Dyeing, Hangzhou Yongsheng Trading and Yongsheng Chemical Fiber for the years ended 31 December 2010, 2011 and 2012 were audited by Hangzhou Xiaoran Certified Public Accountants Co., Ltd., certified public accountants in the PRC. The financial statements of Nantong Yongsheng for the years ended 31 December 2010, 2011 and 2012 were audited by Nantong Dahua United Certified Public Accountants Co., Ltd., certified public accountants in the PRC.

2 Basis of presentation

Immediately prior to and after the Reorganisation, the Listing Business is held by the Controlling Shareholder and family, as well as the individual shareholders at the same shareholding percentage and operates mainly through the four subsidiaries (namely Hangzhou Yongsheng Trading, Nantong Yongsheng, Yongsheng Chemical Fiber and Yongsheng Dyeing). Pursuant to the Reorganisation, these four subsidiaries are transferred to and held by the Company. The Company has not been involved in any other business prior to the Reorganisation and do not meet the definition of a business. The Reorganisation is merely a reorganisation of the Listing Businesses with no change in management of the business and the ultimate owners of the Listing Business remain the same. Accordingly, the accompanying financial information of the companies now comprising the Group is presented using the carrying values of the Listing Businesses for the Relevant Periods. This financial information also included the assets, liabilities and results of operations of the trading of textile raw materials and products business previously undertook by Yongsheng Group and Yongsheng Holdings from 1 January 2010 up to the date of Reorganisation.

The financial information of the Dissimilar Businesses is not included in the Financial Information, because (i) such businesses had historically been managed by separate management teams different from that of the Listing Businesses; (ii) such businesses were dissimilar from the Listing Businesses in terms of business risks and rewards, customer bases and content and had not formed part of the Group pursuant to the Reorganisation and (iii) such businesses had limited shared facilities and few inter or intra company transactions with the Listing Businesses.

Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on combination.

As Yongsheng Trading (HK) was not under the same management and owners of the Listing Business prior to the Reorganisation, it's results has not been included in the Financial Information. Instead, acquisition method of accounting for business combinations has been applied to such acquisition at the time when the Company obtained control in Yongsheng Trading (HK). Refer to Note 36 for details.

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Basis of preparation

The principal accounting policies applied in the preparation of the Financial Information which are in accordance with the International Financial Reporting Standards ("**IFRSs**") issued by the IASB are set out below. The Financial Information set out in this report has been prepared under the historical cost convention except for the financial assets at fair value through profit or loss which are carried at fair value.

The preparation of the Financial Information in accordance with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of the Company. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Information, are disclosed in Note 5 below.

The following new or revised standards, amendments and interpretations to existing standards have been published but are not yet effective for the Relevant Periods and which the Group has not early adopted:

		Effective date – 'periods beginning on or after'
IAS 36 (Amendment)	Recoverable amount disclosures for non-financial assets	1 January 2014
IAS 39 (Amendment)	Financial instruments: Recognition and measurement	1 January 2014
IFRIC 21	Levies	1 January 2014
IFRS 9	Financial instruments	1 January 2015

The Group is in the process of making an assessment of the impact of these standards, amendments and interpretations on the financial statements of the Group but is of the view on a preliminary basis that the adoption of the above will not have any material effect on the Group's operating results or financial position.

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied during the Relevant Periods.

3.2 *Consolidation and combination*

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations, except for those acquisitions that qualify as business combinations under common control, which are accounted for using merger accounting. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statements of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Business combinations under common control

These financial statements incorporates the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised with respect to goodwill or any excess of an acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over its cost at the time of common control combination, to the extent of the contribution of the controlling party's interest. All differences between the cost of acquisition (fair value of consideration paid) and the amounts at which the assets and liabilities are recorded have been recognised directly in equity as part of the capital reserve.

The consolidated comprehensive income statements include the results of each of the combining entities or businesses from the earliest date presented or since the date when combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in these financial statements are presented as if the entities or businesses had been consolidated at the earliest date presented or when they first came under common control, whichever is the later.

Intra-group transactions, balances and unrealised gains on transactions between the combining entities or businesses are eliminated. Unrealised losses are also eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of combining entities or businesses have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognised as expenses in the periods in which they are incurred.

(c) Transaction with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity holders of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

3.3 *Separate financial statements*

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

3.4 *Segment reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the senior management that makes strategic decisions.

3.5 *Foreign currency translation*

(a) Functional and presentation currency

Items included in these financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The Company's functional currency is HK$ and most of its subsidiaries' functional currencies are RMB. These consolidated financial statements are presented in Renminbi ("**RMB**"), which is the Group's presentation currency.

These financial statements are presented in thousands RMB unless otherwise stated.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated comprehensive income statements.

Foreign exchange gains and losses that relate to borrowings and other financial asset are presented in the consolidated comprehensive income statements within 'finance income or costs'. All other foreign exchange gains and losses are presented in the consolidated comprehensive income statements within 'other (losses)/gains – net'.

(c) Group companies

The results and financial position of all the companies comprising the Group (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at balance sheet date; and

- income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation or combination, exchange differences arising from the translation of the net investment in foreign operations, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated comprehensive income statements as part of the gain or loss on sale.

3.6 Land use rights

Land use rights represent upfront payments made for the land use rights for self-use buildings. It is stated at cost and charged to the consolidated comprehensive income statements over the remaining period of the lease on a straight-line basis, net of any impairment losses, if any.

3.7 Property, plant and equipment

Construction-in-progress (the "**CIP**") represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated below.

Property, plant and equipment from capital contribution are recognised initially at fair value, and are subsequently carried at depreciated cost less accumulated impairment.

Other property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated comprehensive income statements during the Relevant Periods in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost less impairment loss of each asset to its residual value over its estimated useful life, as follows:

Buildings	20 – 40 years	5% – 10%
Plant and machinery	10 – 14 years	5% – 10%
Vehicles	4 – 5 years	5% – 10%
Office equipment and others	2 – 5 years	5% – 10%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised within other (losses)/gains – net, in the consolidated comprehensive income statements.

3.8 Intangible assets

(a) Technical Know-How

Acquired technical know-how of manufacturing processes is shown at historical cost. Acquired technical know-how are capitalised on the basis of the costs incurred to acquire the know-how and are amortised over their estimated useful lives of 10 years.

(b) Computer Software

Acquired computer software is shown at historical cost and is capitalised on the basis of the costs incurred to acquire the specific software. These costs are amortised over their estimated useful lives of 10 years.

(c) Sewage Pipes Use Right

Acquired sewage pipes use right is shown at historical cost and is capitalised on the basis of the cost incurred to acquire the use right. The costs are amortised over the contractual lives of 20 years.

3.9 Impairment of non-financial assets

Assets that have an indefinite useful life (e.g. Goodwill) are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

3.10 Financial assets

3.10.1 Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held-to-maturity financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and bills receivables', 'prepayments, deposits and other receivables', 'amount due from related parties', 'other financial asset', 'restricted cash' and 'cash and cash equivalents' in the balance sheet (Notes 3.11 and 3.12).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of them within 12 months of the end of the reporting period.

(d) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available for sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

3.10.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the assets. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the consolidated comprehensive income statement in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated comprehensive income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

3.10.3 Impairment of financial assets

(a) Assets carried at amortised cost

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including: adverse changes in the payment status of borrowers in the portfolio; national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated comprehensive income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated comprehensive income statement.

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated comprehensive income statement on equity instruments are not reversed through the consolidated comprehensive income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated comprehensive income statement.

3.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods comprises raw materials, labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

3.12 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

3.13 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

3.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

3.15 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated comprehensive income statements over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowings are classified as current liabilities if the loan agreements include an overriding repayment on demand clause, which gives the lender the right to demand repayment at any time at their sole discretion, irrespective of whether a default event has occurred and notwithstanding any other terms and maturity stated in the agreement.

Borrowing costs that are directly attributable to the acquisition, construction or production of any qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sales are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the combined comprehensive income statements in the period in which they are incurred.

3.17 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated comprehensive income statements, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3.18 Employee benefits

(a) Pension obligations

PRC employees of the Group covered by PRC government-sponsored defined-contribution pension plans under which the employees become entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these employees when they retire. The Group contributes on a monthly basis to these pension plans for the employees which are determined at a certain percentage of their salaries. Under these plans, the Group has no obligation for post-retirement benefits beyond the contribution made. Contributions to these plans are expenses as incurred.

(b) Housing benefits

PRC employees of the Group are entitled to participate in government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the employees' salaries. The Group's liability in respect of these funds is limited to the contributions payable in each period.

3.19 Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the Group's financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

3.20 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated comprehensive income statements over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment and land use rights are included in liabilities as other non-current liabilities and are credited to the consolidated comprehensive income statements on a straight-line basis over the expected lives of the related assets.

3.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and services in the ordinary course of the Group's activities. Sales are shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, the type of transaction and the specifics of each arrangement.

(a) Sales of goods and materials

Sales of goods and materials are recognised on the transfer of the significant risks and rewards of ownership, which generally coincides with the time when the Group has delivered goods to the customers and collectability of the related receivables is reasonably assured.

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

3.22 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated comprehensive income statements on a straight-line basis over the period of the lease.

3.23 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and Company's financial statements in the year in which the dividends are approved by the Company's shareholders, where appropriate.

4 Financial risk management

4.1 Financial risk factors

The Group's major financial instruments include financial assets at fair value through profit or loss, trade and other receivables, restricted cash, cash and cash equivalents, trade and other payables and borrowings. Details of these financial instruments are disclosed in the respective notes. The risk associated with these financial instruments and the policies on how the Group mitigates these risks are set out below. The Group manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

(a) Market risk

(i) Foreign exchange risk

Most of the Company's subsidiaries' functional currencies are RMB as majority of the revenues of these companies are derived from operations in mainland China. The Group is exposed to foreign currency risks with respect to sales and purchases from oversea customers and suppliers as well as foreign currency denominated financial assets as at each balance sheet date. The Group has not hedged its foreign exchange risk. Details of the Group's trade and bills receivables, restricted cash, cash and cash equivalents, trade and bills payables and borrowings as at 31 December 2010, 2011 and 2012, and 30 June 2013, which are denominated in currencies other than RMB, are disclosed in Notes 13, 17, 18, 21 and 23 respectively.

At 31 December 2010, 2011 and 2012, and 30 June 2013, if US$ had weakened/strengthened by 10% against the RMB with all other variables held constant, profit for the year would have been higher/lower by RMB25,048,000, RMB29,023,000, RMB25,259,000 and RMB14,528,000 respectively, mainly as a result of foreign exchange losses/gains on translation of US$-denominated trade and bills receivables, restricted cash, cash and cash equivalents and foreign exchange gains/losses on translation of US$-denominated trade and bills payables and borrowings.

At 31 December 2010, 2011 and 2012, and 30 June 2013, if HK$ had weakened/strengthened by 10% against the RMB with all other variables held constant, profit for the year would have been lower/higher by nil, nil, RMB2,017,000 and RMB598,000 respectively, mainly as a result of foreign exchange losses/gains on translation of HK$-denominated cash and cash equivalents.

At 31 December 2010, 2011 and 2012, and 30 June 2013, if other currencies (AUD and EUR) had weakened/strengthened by 10% against the RMB with all other variables held constant, profit for the year would have been lower/higher by RMB209,000, RMB205,000, RMB1,107,000 and RMB13,000 respectively, mainly as a result of foreign exchange losses/gains on translation of AUD and EUR-denominated trade and bills receivables, restricted cash, cash and cash equivalents and foreign exchange gains/losses on translation of AUD and EUR-denominated borrowings.

(ii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets except for cash and cash equivalents, restricted cash and certain interest bearing loans temporarily lent to related parties, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk mainly arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk. During the Relevant Periods, the Group has not used any financial instrument to hedge its exposure to interest rate risk.

As at 31 December 2010, 2011 and 2012, and 30 June 2013, if the interest rates on bank borrowings had been 10% higher/lower with all other variables held constant, profit before income tax for the years would have been RMB333,000, RMB1,647,000, RMB1,613,000 and RMB931,000 lower/higher, respectively, mainly as a result of higher/lower interest expense on bank borrowings.

(iii) Price risk

The Group is exposed to price risk of futures, stocks and funds because of investments held by the Group and classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from investments, the Group diversifies its portfolio in futures, stocks and funds.

(b) Credit risk

Credit risk arises mainly from trade and other receivables, amounts due from customers for contract work, amounts due from related parties and cash at bank. The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at the reporting dates in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

As at 31 December 2010, 2011 and 2012, and 30 June 2013, all cash and cash equivalents, and restricted cash, were deposited in the major financial institutions in the PRC with good credit rating. The Group categorises its major counterparties into the following groups:

- Group 1 – Top 4 banks in the PRC (China Construction Bank, Bank of China, Agriculture Bank of China, and Industrial and Commercial Bank of China);

- Group 2 – Other major listed banks in the PRC; and

- Group 3 – Regional banks in the PRC.

The cash at bank balances as at 31 December 2010, 2011 and 2012, and 30 June 2013, which are placed with these institutions are shown as below.

	As at 31 December			As at 30 June
Category	**2010**	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Group 1	182,820	306,649	102,936	62,085
Group 2	38,456	72,782	84,161	52,168
Group 3	37,767	20,095	20,992	24
	259,043	399,526	208,089	114,277

In respect of trade and other receivables, individual credit evaluations are performed on all customers and counterparties. These evaluations focus on the counterparty's financial position, past history of making payments and take into account information specific to the counterparty as well as pertaining to the economic environment in which the counterparty operates. Monitoring procedures have been implemented to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade and other receivable balance at the end of each reporting period to ensure adequate impairment losses are made for irrecoverable amounts.

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with debt covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from banks and other financial institutions to meet their liquidity requirements in the short and longer term. Management believes there is no significant liquidity risk as the Group has sufficient committed facilities to fund their operations.

The following table details the remaining contractual maturities at the year end dates during the Relevant Periods of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the year end dates during the Relevant Periods) and the earliest date the Group may be required to pay:

As at 31 December 2010	**Within 1 year**	**Between 1 and 2 years**
	RMB'000	*RMB'000*
Borrowings	371,615	9,205
Trade and bills payables	411,216	–
Amounts due to related parties	81,017	–
Accruals, interest payable and other current liabilities (Not including payroll payable and tax payable)	11,311	–
	875,159	9,205

As at 31 December 2011	**Within 1 year**	**Between 1 and 2 years**
	RMB'000	*RMB'000*
Borrowings	530,544	–
Trade and bills payables	288,314	–
Amounts due to related parties	71,765	–
Accruals, interest payable and other current liabilities (Not including payroll payable and tax payable)	4,700	–
	895,323	–

As at 31 December 2012	**Within 1 year**	**Between 1 and 2 years**
	RMB'000	*RMB'000*
Borrowings	380,065	47,000
Trade and bills payables	236,230	–
Amounts due to related parties	35,913	–
Accruals, interest payable and other current liabilities (Not including payroll payable and tax payable)	9,484	–
	661,692	47,000

As at 30 June 2013	**Within 1 year**	**Between 1 and 2 years**
	RMB'000	*RMB'000*
Borrowings	210,608	25,000
Trade and bills payables	94,755	–
Amounts due to related parties	14,006	–
Accruals, interest payable and other current liabilities (Not including payroll payable and tax payable)	8,138	–
	327,507	25,000

4.2 Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, restricted bank balances, trade and other receivables; and financial liabilities including trade and other payables, and borrowings, approximate their fair values due to their short maturities. The carrying values less any estimated credit adjustments for financial assets with a maturity of less than one year are a reasonable approximation of their fair values.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's level 1 financial assets that are measured at fair value as at 31 December 2010, 2011 and 2012, and 30 June 2013.

				As at
	As at 31 December			**30 June**
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Financial assets at fair value through profit or loss *(Note 16)*	7,503	660	645	663

4.3 Capital risk management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders, to support the Group's stability and growth; to earn a margin commensurate with the level of business and market risks in the Group's operation and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated balance sheets) less cash and cash equivalents and restricted cash for bank borrowings. Total capital is calculated as "equity" as shown in the Financial Information plus net debt.

The gearing ratios as at 31 December 2010, 2011 and 2012, and 30 June 2013 are as follows:

	As at 31 December			As at 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total borrowings *(Note 23)*	380,820	530,544	427,065	235,608
Less: Cash and cash equivalents *(Note 18)*	(29,424)	(46,130)	(75,700)	(11,986)
Restricted cash for bank borrowings *(Note 17)*	(114,680)	(272,899)	(75,855)	(90,921)
Net debt	236,716	211,515	275,510	132,701
Total equity	128,041	199,890	191,332	210,317
Total capital	364,757	411,405	466,842	343,018
Gearing ratio	65%	51%	59%	39%

5 Critical accounting estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom be equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Useful lives of property, plant and equipment

The Group determines the estimated useful lives for its property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charges where useful lives are different from previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Impairment of property, plant and equipment, land use rights and intangible assets

Impairment losses for property, plant and equipment, land use rights and intangible assets are recognised for the amount by which the carrying amount exceeds its recoverable amount in accordance with the accounting policy stated in Note 3.8. The recoverable amounts, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business, are determined with reference to the best information available at each of the balance sheet date. Changing the assumptions selected by the Group's management in assessing impairment, including the discount rates or the operating and growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations.

(c) Impairment of financial assets

(i) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated comprehensive income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated comprehensive income statement.

(ii) Assets classified as available for sale

The assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the group uses the criteria referred to in (i) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated comprehensive income statement on equity instruments are not reversed through the consolidated comprehensive income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated comprehensive income statement.

(d) Net realisable value of inventories

Net realisable value of inventory is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of technical innovations, changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each balance sheet date.

(e) Income taxes and deferred income tax

The Group is subject to income taxes in a number of jurisdictions. Significant judgement is required in determining the provision for income taxes in various jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

6 Segment information

The chief operating decision-maker has been identified as the senior management. The decision-maker reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segment based on these reports.

Senior management considers the business from a business perspective, and assesses the performance of the business segment based on profit before income tax without allocation of finance income/(costs).

The amount provided to senior management with respect to total assets is measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of segment.

The amount provided to senior management with respect to total liabilities is measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of segment.

The Group's operations are mainly organised under the following business segments:

– Trading: Trading of textile raw materials and products;

– Production: Production of polyester filament yarns;

– Processing: The dyeing processing of differentiated polyester filament yarn.

Segment assets consist primarily of land use rights, property, plant and equipment, intangible assets, inventories, trade and bills receivables, prepayments, deposits and other receivables, other financial asset, amounts due from related parties, restricted cash, cash and cash equivalents. Unallocated assets mainly comprise corporate cash and amounts due from related parties.

Segment liabilities mainly comprise operating liabilities, amount due to related parties and borrowings. Unallocated liabilities mainly comprise amounts due to related parties.

(a) *Revenue*

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Trading	1,213,902	1,558,533	1,718,076	999,579	890,940
Production	253,160	366,246	375,114	189,013	160,034
Processing	98,568	112,567	117,663	52,407	59,868
	1,565,630	2,037,346	2,210,853	1,240,999	1,110,842

(b) *Segment information*

The segment information provided to senior management for the reportable segments for the year ended 31 December 2010 is as follows:

	For the year ended 31 December 2010			
Business segment	**Trading**	**Production**	**Processing**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue				
Sales of products	1,299,687	235,536	98,612	1,633,835
Sales of raw materials	–	17,624	–	17,624
Inter-segment sales	(85,785)	–	(44)	(85,829)
Revenue from external customers	1,213,902	253,160	98,568	1,565,630
Results				
Segment gross profit	101,632	12,401	23,591	137,624
Segment operating profit	102,651	4,632	12,842	120,125
Unallocated expense				(747)
Total operating profit				119,378
Finance income				9,093
Finance costs				(21,573)
Profit before income tax				106,898
Other information				
Depreciation of property, plant and equipment	314	4,442	4,592	9,348
Amortisation of land use rights	–	304	315	619
Amortisation of intangible assets	–	5	266	271
Capital expenditure	799	52,042	6,115	58,956

	As at 31 December 2010			
Business segment	**Trading**	**Production**	**Processing**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment assets	828,495	165,549	166,567	1,160,611
Available for sale	4,000	–	–	4,000
	832,495	165,549	166,567	1,164,611
Inter-segment elimination				(1,024)
Total assets				1,163,587
Segment liabilities	821,838	111,281	103,451	1,036,570
Inter-segment elimination				(1,024)
Total liabilities				1,035,546

The segment information provided to senior management for the reportable segments for the year ended 31 December 2011 is as follows:

	For the year ended 31 December 2011			
Business segment	**Trading**	**Production**	**Processing**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue				
Sales of products	1,569,627	366,699	112,567	2,048,893
Sales of raw materials	–	–	–	–
Inter-segment sales	(11,094)	(453)	–	(11,547)
Revenue from external customers	1,558,533	366,246	112,567	2,037,346
Results				
Segment gross profit	75,563	12,335	26,511	114,409
Segment operating profit	76,958	1,419	15,885	94,262
Unallocated expense				(1,031)
Total operating profit				93,231
Finance income				12,888
Finance costs				(25,860)
Profit before income tax				80,259
Other information				
Depreciation of property, plant and equipment	606	5,992	4,994	11,592
Amortisation of land use rights	–	483	315	798
Amortisation of intangible assets	–	42	513	555
Capital expenditure	563	8,946	4,551	14,060

	As at 31 December 2011			
Business segment	**Trading**	**Production**	**Processing**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment assets	912,988	177,727	184,067	1,274,782
Available for sale	4,000	–	–	4,000
	916,988	177,727	184,067	1,278,782
Inter-segment elimination				(8,337)
Total assets				1,270,445
Segment liabilities	843,783	127,687	107,422	1,078,892
Inter-segment elimination				(8,337)
Total liabilities				1,070,555

The segment information provided to senior management for the reportable segments for the year ended 31 December 2012 is as follows:

Business segment	For the year ended 31 December 2012 Trading RMB'000	Production RMB'000	Processing RMB'000	Total RMB'000
Revenue				
Sales of products	1,734,276	340,172	117,663	2,192,111
Sales of raw materials	–	36,582	–	36,582
Inter-segment sales	(16,200)	(1,640)	–	(17,840)
Revenue from external customers	1,718,076	375,114	117,663	2,210,853
Results				
Segment gross profit	37,514	34,434	37,197	109,145
Segment operating profit	12,810	23,152	26,576	62,538
Unallocated expense				(3,750)
Total operating profit				58,788
Finance income				22,826
Finance costs				(42,566)
Profit before income tax				39,048
Other information				
Depreciation of property, plant and equipment	636	5,823	4,962	11,421
Amortisation of land use rights	–	483	315	798
Amortisation of intangible assets	–	210	738	948
Capital expenditure	470	6,360	2,108	8,938

Business segment	As at 31 December 2012 Trading RMB'000	Production RMB'000	Processing RMB'000	Total RMB'000
Segment assets	824,520	169,743	198,318	1,192,581
Unallocated assets				23,877
Inter-segment elimination				(135,179)
Total assets				1,081,279
Segment liabilities	782,049	104,782	135,149	1,021,980
Unallocated liabilities				3,146
Inter-segment elimination				(135,179)
Total liabilities				889,947

The segment information provided to senior management for the reportable segments for the six months ended 30 June 2012 is as follows:

	For the six months ended 30 June 2012 (Unaudited)			
Business segment	**Trading**	**Production**	**Processing**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue				
Sales of products	1,002,457	164,536	52,407	1,219,400
Sales of raw materials	–	25,557	–	25,557
Inter-segment sales	(2,878)	(1,080)	–	(3,958)
Revenue from external customers	999,579	189,013	52,407	1,240,999
Results				
Segment gross profit	18,089	15,673	17,748	51,510
Segment operating profit	4,879	10,736	12,416	28,031
Unallocated expense				(2,186)
Total operating profit				25,845
Finance income				11,550
Finance costs				(22,603)
Profit before income tax				14,792
Other information				
Depreciation of property, plant and equipment	354	2,838	2,454	5,646
Amortisation of land use rights	–	239	158	397
Amortisation of intangible assets	–	105	391	496
Capital expenditure	370	3,727	1,067	5,164

	As at 30 June 2012 (Unaudited)			
Business segment	**Trading**	**Production**	**Processing**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment assets	1,051,461	229,673	199,539	1,480,673
Unallocated assets				8
Inter-segment elimination				(8,887)
Total assets				1,471,794
Segment liabilities	952,359	173,337	112,285	1,237,981
Inter-segment elimination				(8,887)
Total liabilities				1,229,094

The segment information provided to senior management for the reportable segments for the six months ended 30 June 2013 is as follows:

	For the six months ended 30 June 2013			
Business segment	**Trading**	**Production**	**Processing**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue				
Sales of products	1,078,194	156,675	59,868	1,294,737
Sales of raw materials	–	4,342	–	4,342
Inter-segment sales	(187,254)	(983)	–	(188,237)
Revenue from external customers	890,940	160,034	59,868	1,110,842
Results				
Segment gross profit	14,159	26,685	20,383	61,227
Segment operating profit	4,491	20,666	15,151	40,308
Unallocated expense				(5,578)
Total operating profit				34,730
Finance income				5,205
Finance costs				(14,938)
Profit before income tax				24,997
Other information				
Depreciation of property, plant and equipment	322	2,997	2,458	5,777
Amortisation of land use rights	–	242	158	400
Amortisation of intangible assets	–	106	333	439
Capital expenditure	11	2,172	133	2,316

	As at 30 June 2013			
Business segment	**Trading**	**Production**	**Processing**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment assets	352,819	185,303	152,991	691,113
Unallocated assets				10,211
Inter-segment elimination				(88,924)
Total assets				612,400
Segment liabilities	313,033	106,005	68,189	487,227
Unallocated liabilities				3,780
Inter-segment elimination				(88,924)
Total liabilities				402,083

7 Land use rights – Group

The Group's interest in land use rights represents prepaid operating lease payment for land and its net book values were analysed as follows:

	Year ended 31 December			Six months ended 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Opening net book value	24,041	34,175	33,377	32,579
Additions	10,753	–	–	–
Amortisation charges	(619)	(798)	(798)	(400)
Closing net book value	34,175	33,377	32,579	32,179

The Group's land use rights are located in Hangzhou and Nantong of the PRC and the remaining lease periods were between 10 to 50 years as at 31 December 2010, 2011 and 2012, and 30 June 2013, respectively.

As at 31 December 2010, 2011 and 2012, and 30 June 2013, land use rights with net book values of approximately RMB18,547,000, RMB23,663,000, RMB27,828,000 and RMB27,483,000, respectively, were pledged as collaterals for the Group's bank borrowings (Note 23).

Amortisation of land use rights has been charged to the consolidated comprehensive income statements as follows:

	Year ended 31 December			Six months ended 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Administrative expenses	377	510	510	255
Cost of sales	163	209	209	105
Others	79	79	79	40
	619	798	798	400

8 Property, plant and equipment – Group

	Buildings	Plant and machinery	Vehicles	Office equipment and others	Leasehold improvements	Construction-in-progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2010							
Cost	62,131	74,767	4,844	5,899	304	55	148,000
Accumulated depreciation	(8,368)	(24,866)	(2,222)	(3,502)	(121)	–	(39,079)
Net book amount	53,763	49,901	2,622	2,397	183	55	108,921
Year ended 31 December 2010							
Opening net book amount	53,763	49,901	2,622	2,397	183	55	108,921
Additions	15,454	25,294	1,412	338	149	2,292	44,939
Transfers	166	2,127	–	–	54	(2,347)	–
Depreciation	(2,995)	(4,510)	(753)	(929)	(161)	–	(9,348)
Disposals	–	(1,057)	(245)	–	–	–	(1,302)
Closing net book amount	66,388	71,755	3,036	1,806	225	–	143,210
At 31 December 2010							
Cost	77,751	100,685	5,960	6,109	507	–	191,012
Accumulated depreciation	(11,363)	(28,930)	(2,924)	(4,303)	(282)	–	(47,802)
Net book amount	66,388	71,755	3,036	1,806	225	–	143,210
Year ended 31 December 2011							
Opening net book amount	66,388	71,755	3,036	1,806	225	–	143,210
Additions	210	4,513	1,230	521	–	3,576	10,050
Depreciation	(2,173)	(7,315)	(1,093)	(805)	(206)	–	(11,592)
Disposals	–	(309)	(28)	–	–	–	(337)
Closing net book amount	64,425	68,644	3,145	1,522	19	3,576	141,331
At 31 December 2011							
Cost	77,961	104,533	6,905	6,563	507	3,576	200,045
Accumulated depreciation	(13,536)	(35,889)	(3,760)	(5,041)	(488)	–	(58,714)
Net book amount	64,425	68,644	3,145	1,522	19	3,576	141,331

	Buildings	Plant and machinery	Vehicles	Office equipment and others	Leasehold improvements	Construction-in-progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2012							
Opening net book amount	64,425	68,644	3,145	1,522	19	3,576	141,331
Additions	192	6,081	–	206	386	2,073	8,938
Acquisition of a subsidiary	–	–	–	6	–	–	6
Transfers	–	1,032	–	–	–	(1,032)	–
Depreciation	(2,356)	(7,750)	(785)	(435)	(95)	–	(11,421)
Disposals	–	–	–	(3)	–	–	(3)
Closing net book amount	62,261	68,007	2,360	1,296	310	4,617	138,851
At 31 December 2012							
Cost	78,153	111,646	6,905	6,807	955	4,617	209,083
Accumulated depreciation	(15,892)	(43,639)	(4,545)	(5,511)	(645)	–	(70,232)
Net book amount	62,261	68,007	2,360	1,296	310	4,617	138,851
Six months ended 30 June 2013							
Opening net book amount	62,261	68,007	2,360	1,296	310	4,617	138,851
Additions	232	202	–	64	–	1,819	2,317
Depreciation	(1,181)	(3,976)	(388)	(186)	(46)	–	(5,777)
Disposals	–	(1,699)	–	–	–	–	(1,699)
Closing net book amount	61,312	62,534	1,972	1,174	264	6,436	133,692
At 30 June 2013							
Cost	78,385	108,795	6,905	6,871	955	6,436	208,347
Accumulated depreciation	(17,073)	(46,261)	(4,933)	(5,697)	(691)	–	(74,655)
Net book amount	61,312	62,534	1,972	1,174	264	6,436	133,692

Depreciation expenses have been charged to the consolidated comprehensive income statements as follows:

	Year ended 31 December			Six months ended 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost of sales	6,146	8,063	8,620	4,263
Administrative expenses	2,658	2,970	2,399	1,280
Selling expenses	186	201	44	55
Others	358	358	358	179
	9,348	11,592	11,421	5,777

As at 31 December 2010, 2011 and 2012, and 30 June 2013, buildings with net book values of approximately RMB37,225,000, RMB39,102,000, RMB48,550,000 and RMB47,698,000, respectively, were pledged as collaterals for the Group's bank borrowings (Note 23).

As at 31 December 2010, 2011 and 2012, and 30 June 2013, the Group is in the process of applying for registration of the ownership certificates for certain of its buildings with an aggregate net book value of approximately RMB35,000, RMB33,000, RMB31,000 and RMB30,000, respectively.

9 Intangible assets – Group

Intangible assets represent technical know-how related to advanced fabric dyeing and finishing process, sewage pipes use right and computer software. Movement was as follows:

	Computer software	Technical know-how	Sewage pipes use right	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2010				
Cost	225	–	2,400	2,625
Accumulated amortisation	(66)	–	(170)	(236)
Net book amount	159	–	2,230	2,389
Year ended 31 December 2010				
Opening net book amount	159	–	2,230	2,389
Additions	–	3,264	–	3,264
Amortisation charge	(22)	(129)	(120)	(271)
Closing net book amount	137	3,135	2,110	5,382
At 31 December 2010				
Cost	225	3,264	2,400	5,889
Accumulated amortisation	(88)	(129)	(290)	(507)
Net book amount	137	3,135	2,110	5,382
Year ended 31 December 2011				
Opening net book amount	137	3,135	2,110	5,382
Additions	–	4,010	–	4,010
Amortisation charge	(22)	(413)	(120)	(555)
Closing net book amount	115	6,732	1,990	8,837
At 31 December 2011				
Cost	225	7,274	2,400	9,899
Accumulated amortisation	(110)	(542)	(410)	(1,062)
Net book amount	115	6,732	1,990	8,837

	Computer software	Technical know-how	Sewage pipes use right	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2012				
Opening net book amount	115	6,732	1,990	8,837
Amortisation charge	(22)	(806)	(120)	(948)
Closing net book amount	93	5,926	1,870	7,889
At 31 December 2012				
Cost	225	7,274	2,400	9,899
Accumulated amortisation	(132)	(1,348)	(530)	(2,010)
Net book amount	93	5,926	1,870	7,889
Six months ended 30 June 2013				
Opening net book amount	93	5,926	1,870	7,889
Amortisation charge	(11)	(368)	(60)	(439)
Closing net book amount	82	5,558	1,810	7,450
At 30 June 2013				
Cost	225	7,274	2,400	9,899
Accumulated amortisation	(143)	(1,716)	(590)	(2,449)
Net book amount	82	5,558	1,810	7,450

Amortisation expenses have been charged to the consolidated comprehensive income statements as follows:

	Year ended 31 December			Six months ended 30 June
	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost of sales	249	533	926	428
Administrative expenses	22	22	22	11
	271	555	948	439

10 Available-for-sale financial assets – Group

	Year ended 31 December			Six months ended 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Beginning of the year	–	4,000	4,000	–
Addition	4,000	–	–	–
Disposal	–	–	(4,000)	–
End of year	4,000	4,000	–	–

The Group's available-for-sale financial assets refers to 11.11% of the equity interests in Hangzhou Wenshang Investment Co., Ltd., an unlisted company incorporated in the PRC, held by Hangzhou Yongsheng Trading. In the opinion of the directors, the fair value of the unlisted securities as at 31 December 2010 and 2011 approximated the net book value. Such financial assets were disposed of to Yongsheng Holdings at a consideration of RMB4,000,000 during the year ended 31 December 2012.

11 Deferred income tax – Group

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred income taxes related to the same tax authority. The net deferred income tax balances after offsetting are as follows:

	Year ended 31 December			Six months ended 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred income tax assets:				
– Deferred tax assets to be recovered after more than 12 months	3,711	6,833	3,223	3,147
– Deferred tax assets to be recovered within 12 months	4,421	4,197	7,571	8,424
	8,132	11,030	10,794	11,571

Movement in deferred income tax assets and liabilities during the Relevant Periods, without taking into consideration the offsetting of balance within the same tax jurisdiction, is as follows:

	Provision for write-down of inventories	Deferred income	Accruals	Provision for impairment of receivables	Pre-operating expenses	Changes in fair values of financial assets	Tax losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2010	2,083	2,444	562	1,184	367	139	505	7,284
Recognised in the consolidated comprehensive income statements	(25)	(29)	666	295	–	187	(246)	848
At 31 December 2010	2,058	2,415	1,228	1,479	367	326	259	8,132
Recognised in the consolidated comprehensive income statements	(613)	(29)	1,322	(93)	(187)	(185)	2,683	2,898
At 31 December 2011	1,445	2,386	2,550	1,386	180	141	2,942	11,030
Recognised in the consolidated comprehensive income statements	21	988	(727)	(84)	(141)	(103)	1,026	980
At 31 December 2012	1,466	3,374	1,823	1,302	39	38	3,968	12,010
Recognised in the consolidated comprehensive income statements	(235)	(75)	350	(54)	(26)	(4)	(237)	(281)
At 30 June 2013	1,231	3,299	2,173	1,248	13	34	3,731	11,729

The movement in deferred income tax liabilities during the Relevant Periods is as follows:

	Changes in fair value of financial assets	Unrealised investment income	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2010	(103)	–	(103)
Recognised in the consolidated comprehensive income statements	103	–	103
At 31 December 2010	–	–	–
Recognised in the consolidated comprehensive income statements	–	–	–
At 31 December 2011	–	–	–
Recognised in the consolidated comprehensive income statements	–	(1,216)	(1,216)
At 31 December 2012	–	(1,216)	(1,216)
Recognised in the consolidated comprehensive income statements	–	1,058	1,058
At 30 June 2013	–	(158)	(158)

Deferred income tax liabilities have not been recognised for the withholding tax that would be payable on the unremitted earnings of certain subsidiaries in the PRC as such amounts are permanently reinvested. Unremitted earnings totaled RMB49,601,000 and RMB65,062,000 as at 31 December 2012 and 30 June 2013.

12 Inventories – Group

	As at 31 December			As at 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Finished goods	259,409	236,832	142,232	96,711
Raw materials	13,635	14,802	12,507	13,926
Work in progress	2,720	3,902	2,040	2,999
Less: provision	(9,114)	(6,984)	(5,862)	(4,922)
	266,650	248,552	150,917	108,714

For the years ended 31 December 2010, 2011 and 2012, and for the six months ended 30 June 2013, the cost of inventories recognised as cost of sales amounted to approximately RMB1,425,099,000, RMB1,918,249,000, RMB2,097,283,000 and RMB1,047,196,000, respectively.

For the years ended 31 December 2010, 2011 and 2012, and for the six months ended 30 June 2013, the Group realised provision for inventory write-down of approximately RMB1,662,000, RMB2,130,000, RMB1,122,000 and RMB940,000, respectively. These amounts have been included in the cost of sales in the consolidated comprehensive income statements (Note 26).

13 Trade and bills receivables – Group

	As at 31 December			As at 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	79,030	105,491	207,746	123,562
Bills receivables	14,956	23,729	42,522	22,109
	93,986	129,220	250,268	145,671
Less: provision for impairment	(4,964)	(5,813)	(5,116)	(4,897)
Trade receivables – net	89,022	123,407	245,152	140,774

The Group's sales are mainly made on credit terms of normally 30-90 days. Ageing analysis of trade receivables based on invoice date as at 31 December 2010, 2011 and 2012, and 30 June 2013 was as follows:

	As at 31 December			As at 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables				
Less than 3 months	61,628	87,197	191,028	95,774
3 months to 6 months	1,961	3,244	4,034	20,446
6 months to 1 year	3,443	4,778	7,640	2,009
1 year to 2 years	6,901	2,633	1,196	741
2 years to 3 years	3,889	3,635	1,085	1,227
More than 3 years	1,208	4,004	2,763	3,365
	79,030	105,491	207,746	123,562

Ageing analysis of past due but not impaired trade receivables as at 31 December 2010, 2011 and 2012, and 30 June 2013 was as follows:

	As at 31 December			As at 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables				
3 months to 6 months	1,893	3,244	4,034	20,446
6 months to 1 year	2,939	3,381	7,438	1,843
1 year to 2 years	6,379	760	131	602
2 years to 3 years	977	3,635	–	–
More than 3 years	1,071	815	–	–
	13,259	11,835	11,603	22,891

Based on the past experiences and review of the operating situation with the customers, the directors are of the view that past due trade receivables, amounting to approximately RMB13,259,000, RMB11,835,000, RMB11,603,000 and RMB22,891,000, were not impaired as at 31 December 2010, 2011 and 2012, and 30 June 2013, respectively, as there has not been a significant change in their credit quality and the balances are considered fully recoverable.

The ageing of bills receivables is within 180 days, which is within the credit term.

The carrying amounts of the Group's trade and bills receivables were denominated in the following currencies:

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills receivables denominated in:				
RMB	70,643	89,267	202,601	113,597
US$	21,386	37,903	46,677	31,945
EUR	1,957	2,050	981	129
HK$	–	–	9	–
	93,986	129,220	250,268	145,671

Movement of the provision for impairment of trade receivables is as follows:

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of year	(3,759)	(4,964)	(5,813)	(5,116)
Provision for trade receivables	(1,205)	(849)	(223)	(13)
Write-off of receivables as uncollectible	–	–	920	232
At end of year	(4,964)	(5,813)	(5,116)	(4,897)

Provision for impairment of trade receivables is charged to administrative expenses in the consolidated comprehensive income statements (Note 26). Amounts charged to the allowance account are generally written off when there is no expectation of recovery of additional cash.

The maximum exposure to credit risk as at the balance sheet date is the carrying value of the trade receivables.

14 Prepayments, deposits and other receivables – Group and Company

(a) Group

	Note	As at 31 December 2010 RMB'000	2011 RMB'000	2012 RMB'000	As at 30 June 2013 RMB'000
Prepayment to suppliers		94,787	52,197	19,877	35,974
Value-added tax recoverable		9,997	9,136	–	–
Deposits and other receivables	*a*	5,434	4,381	34,081	2,054
Interest receivables		1,160	4,618	7,098	1,931
Prepaid expense		–	335	2,488	7,162
		111,378	70,667	63,544	47,121
Less: provision for impairment	*b*	(1,574)	(898)	(195)	(195)
Prepayments, deposits and other receivables – net		109,804	69,769	63,349	46,926

(a) Deposits and other receivables comprised:

	Note	As at 31 December 2010 RMB'000	2011 RMB'000	2012 RMB'000	As at 30 June 2013 RMB'000
Loan receivable	*(i)*	–	–	20,819	–
Consideration receivable	*(ii)*	–	–	8,440	–
Other deposits and receivables		5,434	4,381	4,822	2,054
		5,434	4,381	34,081	2,054

(i) This represented a loan extended to a third party company, which is also a customer of the Group amounting to RMB20,819,000. Such loan is unsecured, non-interest bearing and due within three months from the date of the loan. As of the date of this report, such loan has been fully settled by the third party.

(ii) This represented consideration receivable by Yongsheng Trading (HK) in respect of the disposal of an associate of Yongsheng Trading (HK) prior to the acquisition of Yongsheng Trading (HK) by the Group. As of the date of this report, such receivable has been fully settled.

(b) Movement of the provision for impairment of other receivables is as follows:

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of year	(1,535)	(1,574)	(898)	(195)
Provision for other receivables	(39)	(586)	(90)	–
Write-off of receivables as uncollectible	–	1,262	793	–
At end of year	(1,574)	(898)	(195)	(195)

Impairment provision for other receivables is charged to administrative expenses in the consolidated comprehensive income statements (Note 26). Amounts charged to the allowance account are generally written off when there is no expectation of recovery of additional cash.

The maximum exposure to credit risk as at the balance sheet date is the carrying value of prepayments, deposits and other receivables.

(b) Company

	As at 31 December 2012	As at 30 June 2013
	RMB'000	*RMB'000*
Prepaid expense	251	4,068

15 Other financial asset – Group

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Wealth management products	–	–	191,068	15,800

Other financial asset represented wealth management products held at banks in the PRC with fixed interest rate ranging from 3.57% to 4.80% and fixed maturity within 12 months. Such financial asset has been pledged to secure the Group's bank borrowings as at 31 December 2012 and 30 June 2013 (Note 23).

16 Financial assets at fair value through profit or loss – Group

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Listed in the PRC:				
– Futures	1,341	–	–	–
– Listed shares	5,386	–	–	–
– Funds	776	660	645	663
	7,503	660	645	663

Financial assets at fair value through profit or loss represented trading securities such as futures, listed shares and funds. The fair values of these securities are based on their closing bid prices in an active market.

17 Restricted cash – Group

As at 31 December 2010, 2011 and 2012, and 30 June 2013, restricted cash were denominated in the following currencies:

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
RMB	229,729	351,456	80,823	100,025
US$	–	1,997	21,262	2,465
AUD	–	–	30,344	–
	229,729	353,453	132,429	102,490

Restricted cash refers to deposits pledged for letter of credits, bank borrowings and bills payables as collaterals:

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Letter of credits	94,449	60,154	55,819	11,569
Bank borrowings	114,680	272,899	75,855	90,921
Bills payables	20,600	20,400	755	–
	229,729	353,453	132,429	102,490

As at 31 December 2010, 2011 and 2012, and 30 June 2013, the weighted average interest rate on restricted cash was 2.02%, 3.08%, 2.83% and 2.39% per annum, respectively. These deposits had an average maturity of approximately 206 days, 171 days, 94 days and 199 days, respectively.

18 Cash and cash equivalents – Group

Cash and cash equivalents represent cash in hand and demand deposits.

As at 31 December 2010, 2011, 2012, and 30 June 2013, cash and cash equivalents were denominated in the following currencies:

	As at 31 December			As at 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
RMB	27,546	23,574	36,083	5,080
US$	1,747	22,556	19,278	922
EUR	131	–	147	–
HK$	–	–	20,192	5,984
	29,424	46,130	75,700	11,986

As at 31 December 2010, 2011 and 2012, and 30 June 2013, the weighted average interest rate of the demand deposits was 1.00%, 0.75%, 0.69% and 0.55% per annum, respectively.

RMB is currently not a freely convertible currency in international market. The conversion of RMB denominated balances into foreign currencies and the remittance of the foreign currencies out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

19 Share capital and share premium – Group and Company

	Number of authorised shares
Authorised shares:	
As at 19 April 2012 (date of incorporation) and as at 31 December 2012 and 30 June 2013	38,000,000

On 19 April 2012, the Company was incorporated with an authorised share capital of HK$380,000 divided into 38,000,000 shares of HK$0.01 each.

Issued shares:

	Number of shares issued and fully paid	Share capital *RMB'000*	Share premium *RMB'000*	Total *RMB'000*
Issue of one share upon incorporation *(Note (a))*	1	–	–	–
Issue of shares to Ever Thrive *(Note (b))*	583,332	5	–	5
Issue of shares to Shun Sheng Global Limited *(Note (c))*	416,667	3	–	3
Issue of shares to Ever Thrive *(Note (d))*	583,333	5	151,999	152,004
Issue of shares to Shun Sheng Global Limited *(Note (e))*	416,667	3	8,398	8,401
At 31 December 2012	2,000,000	16	160,397	160,413
Issue of shares to Ever Thrive *(Note (f))*	672,990	5	–	5
At 30 June 2013	2,672,990	21	160,397	160,418

(a) Upon the incorporation of the Company, one share was allotted and issued at par to Reid Services Limited, the subscriber of the Company, who subsequently transferred such share to Ever Thrive, a company incorporated in the British Virgin Island and owned and controlled by Mr. Li on the same date, at consideration of HK$0.01.

(b) On 19 April 2012, 583,332 shares at par value of HK$0.01 were allotted and issued to Ever Thrive at consideration of HK$5,833 (equivalent to RMB4,700).

(c) On 19 April 2012, 416,667 shares at par value of HK$0.01 were allotted and issued to Shun Sheng Global Limited, a company incorporated in the British Virgin Island and owned and controlled by other individual shareholders, at consideration of HK$4,167 (equivalent to RMB3,400).

(d) On 31 December 2012, 583,333 shares at par value of HK$0.01 were allotted and issued to Ever Thrive at consideration of approximately HK$187,462,000 (equivalent to RMB152,004,000). The excess of the consideration over the par value of the shares issued amounting to HK$187,456,000 (equivalent to RMB151,999,000) was credited to the share premium. Out of the total proceed of HK$187,462,000, approximately HK$3,880,000 (equivalent to RMB3,146,000) was not yet settled and was presented as an amount due from shareholder as at 31 December 2012.

(e) On 31 December 2012, 416,667 shares at par value of HK$0.01 were allotted and issued to Shun Sheng Global Limited at consideration of approximately HK$10,361,000 (equivalent to RMB8,401,000). The excess of the consideration over the par value of the shares issued amounting to HK$10,357,000 (equivalent to RMB8,398,000) was credited to the share premium.

(f) On 31 January 2013, 672,990 shares at par value of HK$0.01 were allotted and issued to Ever Thrive at consideration of HK$6,730 (equivalent to RMB5,400) by the Company.

20 Other reserves – Group and Company

(a) Group

	Note	Others RMB'000	Statutory reserves RMB'000	Subtotal RMB'000
At 1 January 2010		50,121	1,770	51,891
Capital injection by equity holders	*a*	30,000	–	30,000
Appropriation to statutory reserves	*b*	–	4,349	4,349
Deemed distribution to equity holders	*c*	(47,571)	–	(47,571)
At 31 December 2010		32,550	6,119	38,669
Deemed contribution by equity holders	*c*	11,838	–	11,838
At 31 December 2011		44,388	6,119	50,507
Distribution to equity holders	*d*	(134,695)	–	(134,695)
Acquisition of non-controlling interests	*e*	1,796	–	1,796
Disposal of equity interest in subsidiaries	*f*	(1,587)	–	(1,587)
Deemed contribution by equity holders	*c*	29,190	–	29,190
Appropriation to statutory reserves	*b*	–	5,071	5,071
Waived dividend payable by non-controlling interests	*g*	7,953	–	7,953
Gain from acquisition	*h*	6,950	–	6,950
At 31 December 2012		(46,005)	11,190	(34,815)
Currency translation differences		(321)	–	(321)
At 30 June 2013		(46,326)	11,190	(35,136)

(a) This represented capital contribution by Yongsheng Group, the then shareholder, to Nantong Yongsheng amounting to RMB30,000,000 in June 2010.

(b) In accordance with the respective articles of association and board resolutions, certain subsidiaries of the Group incorporated in the PRC (the "**PRC Subsidiaries**") appropriate certain percentage of the annual statutory net profits, after offsetting any prior year losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing any dividends. The statutory surplus reserve fund can be used to offset prior year losses, if any, and may be converted into paid-in-capital.

For the years ended 31 December 2010, 2011 and 2012, and for the six months ended 30 June 2013, RMB4,349,000, nil, RMB5,071,000 and nil were appropriated to the statutory surplus reserve fund from net profits of the PRC Subsidiaries.

(c) This represented the net equity movement of the trading of textile raw material and products businesses of Yongsheng Group and Yongsheng Holdings during the period from 1 January 2010 up to the date of Reorganisation, which was treated as deemed contribution/distribution by the equity holder of the Group.

(d) This represented cash paid to the then shareholders of the four operating subsidiaries now comprising the Group (namely Hangzhou Yongsheng Trading, Nantong Yongsheng, Yongsheng Chemical Fiber and Yongsheng Dyeing) for acquisition of the equity interests by the Group upon Reorganisation.

(e) In November 2012, the Group acquired a 35% equity interest in Yongsheng Dyeing from the non-controlling shareholder at cash consideration of RMB21,105,000. The carrying amount of the non-controlling interests on the date of acquisition amounted to RMB22,901,000. The difference between the consideration and the acquired non-controlling interests, amounting to RMB1,796,000 was credited into the other reserve. Upon the completion of the acquisition, Yongsheng Dyeing became a wholly owned subsidiary of the Group.

(f) In November 2012, Yongsheng Group sold a 10% equity interests in Nantong Yongsheng to four management team members of Nantong Yongsheng for cash consideration of RMB3,000,000. The carrying amount of the disposed equity interests on the date of disposal amounted to RMB1,587,000.

(g) This represented dividend waived by the non-controlling shareholder of Yongsheng Dyeing with respect to dividend declared by Yongsheng Dyeing in September 2012.

(h) This represented gain from acquisition of Yongsheng Trading (HK) from Yongsheng Holdings in December 2012. Refer to Note 36 for details.

(b) *Company*

	Other reserve
	RMB'000
At 31 December 2012	–
Currency translation differences	(2,806)
At 30 June 2013	(2,806)

21 Trade and bills payables – Group

	As at 31 December			**As at 30 June**
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	371,216	254,724	235,065	94,755
Bills payables	40,000	33,590	1,165	–
	411,216	288,314	236,230	94,755

As at 31 December 2010, 2011 and 2012, and 30 June 2013, bills payables represented bank acceptance notes issued by the Group with maturity within six months.

Ageing analysis of trade and bills payables based on invoice date as at 31 December 2010, 2011 and 2012, and 30 June 2013 was as follows:

	As at 31 December			As at 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Less than 6 months	404,184	283,332	230,504	91,385
6 months to 1 year	3,594	1,808	2,717	475
1 year to 2 years	322	1,033	1,561	1,475
2 years to 3 years	1,932	306	541	18
More than 3 years	1,184	1,835	907	1,402
	411,216	288,314	236,230	94,755

	As at 31 December			As at 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables denominated in:				
RMB	281,226	193,738	153,414	43,254
US$	129,990	94,576	80,575	51,501
HK$	–	–	2,241	–
	411,216	288,314	236,230	94,755

22 Accruals and other current liabilities – Group and Company

(a) Group

	As at 31 December			As at 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deposits	4,900	442	5,554	240
Accrued payroll	4,847	6,845	2,965	3,769
Pension and other social welfare payables	2,143	3,531	4,952	5,268
Value-added and other taxes payable	2,997	9,162	3,887	5,565
Accruals	357	2,298	1,452	6,716
Payables for purchase of property, plant and equipment	353	828	853	751
Others	5,701	1,132	1,625	431
	21,298	24,238	21,288	22,740

(b) Company

	As at 31 December 2012	As at 30 June 2013
	RMB'000	*RMB'000*
Accruals	–	3,780

23 Borrowings – Group

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current				
Bank borrowings	9,205	–	47,000	25,000
Current				
Bank borrowings	371,615	530,544	380,065	210,608
Total borrowings	380,820	530,544	427,065	235,608
Unsecured	–	–	8,171	53,049
Secured –				
Pledged *(a)*	159,601	314,990	343,405	182,559
Guaranteed *(b)*	221,219	215,554	75,489	–
	380,820	530,544	427,065	235,608

(a) As at 31 December 2010, bank borrowings of RMB102,601,000 were pledged by restricted bank deposits of RMB114,680,000 (Note 17), and bank borrowings of RMB57,000,000 were pledged by buildings with net book value of RMB37,225,000 (Note 8) and land use rights with net book value of RMB18,547,000 (Note 7).

As at 31 December 2011, bank borrowings of RMB249,990,000 were pledged by restricted bank deposits of RMB272,899,000 (Note 17), and bank borrowings of RMB65,000,000 were pledged by buildings with net book value of RMB39,102,000 (Note 8) and land use rights with net book value of RMB23,663,000 (Note 7).

As at 31 December 2012, bank borrowings of RMB72,244,000 were pledged by restricted bank deposits of RMB75,855,000 (Note 17), bank borrowings of RMB189,161,000 were pledged by other financial asset with net book value of RMB191,068,000 (Note 15) and bank borrowings of RMB82,000,000 were pledged by buildings with net book value of RMB48,550,000 (Note 8) and land use rights with net book value of RMB27,828,000 (Note 7).

As at 30 June 2013, bank borrowings of RMB87,276,000 were pledged by restricted bank deposits of RMB90,921,000 (Note 17), bank borrowings of RMB13,783,000 were pledged by other financial asset with net book value of RMB15,800,000 (Note 15) and bank borrowings of RMB81,500,000 were pledged by buildings with net book value of RMB47,698,000 (Note 8) and land use rights with net book value of RMB27,483,000 (Note 7).

(b) As at 31 December 2010, bank borrowings of RMB142,209,000 were guaranteed by related parties, bank borrowings of RMB8,610,000 were guaranteed by third parties, and bank borrowings of RMB70,400,000 were jointly guaranteed by related parties and third parties.

As at 31 December 2011, bank borrowings of RMB136,963,000 were guaranteed by related parties, bank borrowings of RMB8,191,000 were guaranteed by third parties, and bank borrowings of RMB70,400,000 were jointly guaranteed by related parties and third parties.

As at 31 December 2012, all bank borrowings were guaranteed by related parties. All these guarantees have been released prior to the Listing of the Company.

Analysis of the carrying amounts of the Group's borrowings by type and currency was as follows:

	As at 31 December			As at 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At fixed rates in RMB	222,198	189,430	105,432	40,000
At fixed rates in US$	112,261	65,052	110,079	41,832
At floating rates in RMB	15,000	82,999	42,000	66,500
At floating rates in US$	31,361	193,063	149,150	87,276
At floating rates in EUR	–	–	20,404	–
	380,820	530,544	427,065	235,608

The weighted average interest rates per annum as at 31 December 2010, 2011and 2012, and 30 June 2013 were as follows:

	As at 31 December			As at 30 June
	2010	**2011**	**2012**	**2013**
RMB	4.77%	5.72%	6.35%	6.37%
US$	2.87%	4.09%	4.68%	3.26%
EUR	–	–	2.86%	2.38%
HK$	–	–	1.30%	–

The maturity of borrowings as at 31 December 2010, 2011 and 2012, and 30 June 2013 was as follows:

	As at 31 December			As at 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	371,615	530,544	380,065	210,608
1 year to 2 years	9,205	–	47,000	25,000
	380,820	530,544	427,065	235,608

The fair values of current bank borrowings equal their carrying amounts as the discounting impact is not significant.

The carrying amounts and fair values of the non-current bank borrowings are as follows:

	As at 31 December			As at 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amounts	9,205	–	47,000	25,000
Fair values	9,421	–	47,169	25,109

The fair values of bank borrowings are based on cash flows discounted using the annual interest rate published by the People's Bank of China for long-term bank loans prevailing at each balance sheet date.

24 Other non-current liabilities – Group

Other non-current liabilities referred to government grants were as follows:

	As at 31 December			As at 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Government grants	10,029	9,797	13,652	13,311
Less: current portion	(232)	(232)	(682)	(682)
	9,797	9,565	12,970	12,629

The movement on the government grants was as follows:

	Year ended 31 December			As at 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Beginning balance of the year	10,261	10,029	9,797	13,652
Grant received during the year	–	–	4,500	–
Amortised as income *(Note 25)*	(232)	(232)	(645)	(341)
Ending balance of the year	10,029	9,797	13,652	13,311

Government grants were provided to the Group to support its purchase of land use rights in Hangzhou and the plant expansion in Nantong. The amounts were deferred to match with amortisation of related land use rights over an expected useful life of from 48 to 50 years. For Nantong's plant expansion, the amount was deferred to match with depreciation of the related equipments over the expected useful lives of 10 years.

25 Other gains/losses, net

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Gains/(losses) on disposal of financial assets at fair value through profit or loss	29,094	26,854	(3,711)	662	(382)
Reimbursement for transportation expense *(a)*	2,571	3,398	1,266	1,191	–
Foreign exchange gains/(losses) *(Note 31)*	2,281	1,380	(5,118)	(1,514)	411
Subsidy income *(b)*	1,631	444	1,262	1	258
Gains/(losses) on disposal of property, plant and equipment, net *(Note 33(a))*	506	(222)	(3)	(3)	106
Government grant *(Note 24)*	232	232	645	303	341
Reimbursement by a supplier on cancelled purchase	–	6,372	–	–	–
Waiver of deposits by customers on cancelled sales	–	–	785	–	–
Interest income from deposits placed at brokers' account in respect of the Group's financial assets at fair value through profit or loss	–	–	1,702	546	–
Donation expenditure	(400)	–	–	–	–
Fair value (losses)/gains on financial assets at fair value through profit or loss	(1,599)	(117)	(15)	127	18
Commission income	–	–	–	–	551
Others	(197)	113	69	(30)	504
Other gains, net	34,119	38,454	(3,118)	1,283	1,807

(a) This represents reimbursement of transportation expense by the Bureau of Finance in Hangzhou, the PRC in respect of the Group's purchases of cotton from XinJiang Uygur Autonomous Region, the PRC.

(b) Subsidy income primarily represents tax refund by local Taxation Bureau to encourage the Group's business growth and other subsidies granted by the Bureau of Finance in Hangzhou, the PRC.

26 Expenses by nature

Expenses included in cost of sales, selling expenses and administrative expenses were analysed as follows:

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Changes in inventories of finished goods and work in progress	(80,467)	21,395	96,462	28,717	44,562
Raw materials consumed and consumable used	1,471,291	1,847,365	1,949,057	1,124,500	976,855
Utilities charges	20,139	20,238	21,810	9,424	10,213
Transportation cost	26,868	34,313	21,956	15,211	9,846
Employee benefit expenses, including directors' emoluments *(Note 27, 28)*	21,717	31,865	31,403	16,250	18,981
Depreciation and amortisation *(Note 7, 8, 9)*	10,238	12,945	13,167	6,320	6,396
Stamp duty, property tax and other surcharges	4,184	6,439	6,394	3,215	3,404
Travelling and entertainment	2,359	3,830	2,484	1,298	861
Bank Charges	1,364	1,737	1,393	759	962
Provision for impairment of receivables *(Note 13, 14, 33(a))*	1,244	1,435	313	33	13
Office rental	265	432	724	322	796
Professional service expenses	183	730	447	150	280
Listing expenses	–	–	2,647	1,423	4,306
Auditors' remuneration	112	89	122	52	54
(Realisation of)/provision for write-down of inventories *(Note 12, 33(a))*	(1,662)	(2,130)	(1,122)	7,509	(940)
Others	2,536	1,886	1,690	1,254	1,330
Total cost of sales, selling expenses and administrative expenses	1,480,371	1,982,569	2,148,947	1,216,437	1,077,919

27 Employee benefit expenses

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Salaries, bonus and other welfares	19,047	28,033	27,256	14,201	16,811
Defined contribution plans	1,007	1,545	1,646	795	879
Social security insurance	1,663	2,287	2,501	1,254	1,291
	21,717	31,865	31,403	16,250	18,981

28 Directors and senior management's emoluments

(a) Directors' emoluments

The emoluments of individual director of the Company for the years ended 31 December 2010, 2011 and 2012, and for the six months ended 30 June 2012 and 2013, which were included in the employee benefit expense as disclosed in Note 27 were set out below:

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Directors' emoluments					
– Salaries and allowances	325	389	389	194	195
– Discretionary bonus	410	624	30	15	153
– Social security insurance	12	18	25	13	14
	747	1,031	444	222	362

Name of Director	Salaries and allowances *RMB'000*	Discretionary bonus *RMB'000*	Social Security Insurance *RMB'000*	Total *RMB'000*
For year ended 31 December 2010				
Directors				
– Li Cheng	66	30	2	98
– Li Conghua	100	240	4	344
– Ma Qinghai	95	80	4	179
– Zhao Jidong	64	60	2	126
	325	410	12	747
For year ended 31 December 2011				
Directors				
– Li Cheng	66	36	3	105
– Li Conghua	100	420	5	525
– Ma Qinghai	96	96	5	197
– Zhao Jidong	127	72	5	204
	389	624	18	1,031
For year ended 31 December 2012				
Directors				
– Li Cheng	66	–	4	70
– Li Conghua	100	–	7	107
– Ma Qinghai	96	30	7	133
– Zhao Jidong	127	–	7	134
	389	30	25	444
For six months ended 30 June 2012 (Unaudited)				
Directors				
– Li Cheng	33	–	2	35
– Li Conghua	50	–	4	54
– Ma Qinghai	48	15	3	66
– Zhao Jidong	63	–	4	67
	194	15	13	222
For six months ended 30 June 2013				
Directors				
– Li Cheng	33	30	2	65
– Li Conghua	50	10	4	64
– Ma Qinghai	48	55	4	107
– Zhao Jidong	64	58	4	126
	195	153	14	362

(b) *Five highest paid individuals*

For the years ended 31 December 2010, 2011 and 2012, and for the six months ended 30 June 2012 and 2013, the five individuals whose emoluments were the highest in the Group include three, three, two, two and one directors, respectively, whose emoluments are reflected in the analysis presented above. The emoluments paid to the remaining two, two, three, three and four individuals were as follows:

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Salary and allowances	354	355	1,004	473	995
Discretionary bonus	141	26	30	15	55
Social security insurance	4	5	17	8	18
	499	386	1,051	496	1,068

During the year ended 31 December 2010, 2011 and 2012, and the six months ended 30 June 2012 and 2013, no directors or any of the five highest paid individuals received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office. No directors waived or agreed to waive any emoluments.

29 Finance costs, net

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Interest expenses on bank borrowings	22,281	32,319	38,098	17,928	15,057
Interest expenses on borrowings from related parties *(Note 37(a))*	3,348	3,938	3,241	2,027	–
Net exchange (gains)/losses on financing activities *(Note 31)*	(4,056)	(10,397)	1,227	2,648	(119)
Total finance cost	21,573	25,860	42,566	22,603	14,938
Interest income from cash and cash equivalents, restricted cash deposits and other financial asset	(2,470)	(7,595)	(14,505)	(6,207)	(5,205)
Interest income on loan to related parties *(Note 37(a))*	(6,623)	(5,293)	(8,321)	(5,343)	–
Total finance income	(9,093)	(12,888)	(22,826)	(11,550)	(5,205)
Net finance cost	12,480	12,972	19,740	11,053	9,733

30 Income tax expense

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Current income tax					
– Enterprise income tax	24,919	23,146	5,825	2,666	6,473
Deferred income tax	(951)	(2,898)	236	(264)	(777)
	23,968	20,248	6,061	2,402	5,696

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the effective tax rate applicable to profits of the companies comprising the Group as follows:

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Profit before income tax	106,898	80,259	39,048	14,792	24,997
Tax calculated at domestic tax rate applicable to profits in PRC (25%)	26,725	20,065	9,762	3,698	6,249
Effect of difference between Hong Kong income tax rate and domestic tax rate	–	–	–	–	21
Effect of preferential corporate income tax rate	(3,202)	(2,421)	(4,995)	(2,368)	(1,126)
Tax losses for which no deferred income tax asset was recognised	–	2,166	1,243	1,015	–
Change of tax rates	–	(145)	(344)	(171)	–
Expenses not deductible for tax purpose	445	583	395	228	552
Income tax expense	23,968	20,248	6,061	2,402	5,696
Effective tax rate	22%	25%	16%	16%	23%

(a) Cayman Islands income tax

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law of Cayman Islands and, accordingly, is exempted from payment of Cayman Islands income tax.

(b) Hong Kong profits tax

Enterprises incorporated in Hong Kong are subject to profits tax rates of 16.5% for the Relevant Periods.

(c) PRC corporate income tax

Enterprises incorporated in the PRC are generally subject to income tax rates of 25% throughout the Relevant Periods except for enterprises with approval for preferential rate (Note (d) below).

The income tax provision of the Group in respect of its operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the Relevant Periods based on existing legislations, interpretations and practices.

Since the deferred income tax assets and liabilities shall be measured at the tax rates that are expected to apply to the year when the assets is realised or the liability is settled, the change in the applicable tax rate will affect the determination of the carrying values of deferred tax assets and liabilities of the Group's subsidiaries located in the PRC.

(d) Tax effect of reduced tax rate

Certain subsidiaries of the Group enjoyed preferential income tax rates throughout the Relevant Periods and have obtained approvals from the relevant tax authorities in the PRC. Yongsheng Chemical Fiber is entitled to a two-year exemption from income tax followed by a 50% reduction in income tax for subsequent three years, commencing from 2008. Yongsheng Dyeing is entitled to a two-year exemption from income tax followed by a 50% reduction in income tax for subsequent three years, commencing from 2007. Yongsheng Dyeing obtained the certificate of qualifying as "advanced technology company" in 2012 and is subject to 15% corporate income tax rate for three years from 2012 to 2014.

The effective corporate income tax rate for the companies with tax preferential treatment throughout the Relevant Periods are as follows:

	Year ended 31 December			Six months ended 30 June
	2010	**2011**	**2012**	**2013**
Yongsheng Chemical Fiber	12.5%	12.5%	12.5%	25%
Yongsheng Dyeing	12.5%	12.5%	15%	15%

No tax reductions and exemptions were granted to the other subsidiaries of the Company in the PRC throughout the Relevant Periods.

(e) PRC withholding income tax

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on the dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of their earnings generated from the date when these subsidiaries became foreign owned enterprises in the PRC. No PRC withholding income tax has been provided by the Group during the Relevant Periods as the directors have confirmed that no dividend will be declared out of the subsidiaries' retained earnings since the date there subsidiaries became foreign owned enterprises in the PRC up to 30 June 2013.

31 Net foreign exchange gains/(losses)

The exchange differences/credited in the consolidated comprehensive income statements are included as follows:

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Other gains/(losses) – net *(Note 25)*	2,281	1,380	(5,118)	(1,514)	411
Net exchange gains/(losses) on financing activities *(Note 29)*	4,056	10,397	(1,227)	(2,648)	119
	6,337	11,777	(6,345)	(4,162)	530

32 Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the deemed weighted average number of ordinary shares in issue during the Relevant Periods.

In determining the weighted average number of ordinary shares in issue during the Relevant Periods, the 2,000,000 shares issued as set out in Note 19 in connection with the Reorganisation has been treated as if the shares were in issue since 1 January 2010. In addition, the basic and diluted earnings per share has reflected the 672,990 shares issued on 31 January 2013 as set out in Note (19)(f). As such additional shares were issued without changing the share holdings of the ultimate shareholders, the basic and diluted earnings per share for the years ended 31 December 2010, 2011, 2012 and the six months ended 30 June 2012 and 30 June 2013 have been adjusted to reflect an adjustment to outstanding shares arising from the issuance of shares on 31 January 2013 as if the adjustment was effective on 1 January 2010.

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
				(Unaudited)	
Profit attributable to the equity holders of the Company *(RMB'000)*	78,217	54,206	23,173	6,253	15,461
Weighted average number of ordinary shares in issue *(thousand)*	2,673	2,673	2,673	2,673	2,673
Basic earnings per share *(RMB per share)*	29.26	20.28	8.67	2.34	5.78

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

The fully diluted earnings per share for the Relevant Periods is the same as the basic earnings per share as there are no dilutive potential ordinary shares for the Relevant Periods.

The basic earnings per share and diluted earnings per share as presented on the consolidated statements of comprehensive income have not been taken into account the proposed capitalisation issue as described in Note 38.

33 Notes to consolidated cash flow statements

(a) Reconciliation of cash generated from operations

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Profit before income tax	106,898	80,259	39,048	14,792	24,997
Adjustments for:					
– Depreciation of property, plant and equipment *(Note 8)*	9,348	11,592	11,421	5,646	5,777
– Amortisation of land use rights *(Note 7)*	619	798	798	399	400
– Amortisation of intangible assets *(Note 9)*	271	555	948	496	439
– (Gains)/Losses on disposal of property, plant and equipment *(Note 25)*	(506)	222	3	3	(106)
– Provision for loss of receivables *(Note 26)*	1,244	1,435	313	33	13
– (Reversed)/Provision for write-down of inventories to their net realisable value *(Note 26)*	(1,662)	(2,130)	(1,122)	7,509	(940)
– Net foreign exchange (gains)/losses	(3,906)	(9,991)	1,688	2,219	167
– Interest income	(8,857)	(12,678)	(22,612)	(11,112)	(5,073)
– Interest expenses *(Note 29)*	25,629	36,257	41,339	19,955	15,057
Operating profits before working capital changes	129,078	106,319	71,824	39,940	40,731
Changes in working capital:					
– Inventories	(87,891)	20,228	98,757	26,902	43,143
– Trade and bills receivables	(51,562)	(35,233)	(111,323)	(42,157)	104,365
– Prepayments, financial assets at fair value through profit or loss and other receivables	(82,502)	38,465	57,058	(6,358)	4,225
– Trade and bills payables	22,496	(122,902)	33,445	(21,447)	(141,475)
– Advance receipts from customers	94,519	17,346	(54,024)	(89,455)	(134,110)
– Accruals and other payables	19,952	(1,851)	6,453	14,553	(14,718)
Cash flow generated from operations	44,090	22,372	102,190	(78,022)	(97,839)

(b) *In the consolidated cash flow statements, proceeds from disposal of property, plant and equipment comprise:*

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Net book amount disposed *(Note 8)*	1,302	337	3	3	1,699
Gain/(loss) on disposal of property, plant and equipment *(Note 25)*	506	(222)	(3)	(3)	106
(Increase)/decrease in other receivables on disposal of property, plant and equipment	(860)	860	–	–	–
Proceeds from disposal of property, plant and equipment	948	975	–	–	1,805

34 Dividends

No dividend has been paid or declared by the Company since its incorporation.

Dividends during the year ended 31 December 2012 represented dividends declared by the companies now comprising the Group to the then equity holders of the companies for the year ended 31 December 2012. The rates for dividend and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this report.

35 Commitments

Operating lease commitments

The Group leases certain office premises under non-cancellable operating lease agreements.

The Group's future aggregate minimum lease payments to be paid under non-cancellable operating leases were as follows:

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Not later than 1 year	242	535	652	585
1 – 2 years	517	543	570	566
2 – 3 years	543	570	599	594
3 – 4 years	570	599	–	100
4 – 5 years	599	–	–	–
	2,471	2,247	1,821	1,845

36 Business combination

On 28 December 2012, the Group acquired the entire 100% equity interest of Yongsheng Trading (HK) from Yongsheng Holdings at cash consideration of US$500,000 (equivalent to RMB3,146,000).

The following table summarises the consideration paid, the carrying value of assets and liabilities acquired as the acquisition date.

	RMB'000
Purchase consideration as amount due to related parties as set out in Note 37.	3,146
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	6
Trade and bills receivables	25,859
Prepayments, deposits and other receivables	53,468
Amounts due from inter companies	73,970
Cash and cash equivalents	5,759
Restricted cash	755
Trade and bills payables	(2,241)
Accruals, advances from customers and other current liabilities	(90,071)
Amounts due to inter companies	(45,156)
Taxes payable	(234)
Borrowings	(12,019)
Total identifiable net assets	10,096
Gain from acquisition recognised in equity *(Note 20(h))*	(6,950)

Yongsheng Trading (HK) contributed insignificant revenue and net profit to the Group for the period since the acquisition date.

Had Yongsheng Trading (HK) been consolidated from 1 January 2012, the Group's revenue and profit attributable to equity holders would have been RMB2,497,647,000 and RMB26,074,000, respectively.

37 Related party transactions

During the Relevant Periods, the Directors are of the view that the following companies are related parties of the Group:

Name	**Relationship with the Group**
Ever Thrive	Controlled by the Controlling Shareholders
Yongsheng Group	Controlled by the Controlling Shareholders
Yongsheng Holdings	Controlled by the Controlling Shareholders
Hangzhou Yongsheng Weaving Limited	Controlled by the Controlling Shareholders
Hangzhou Shining 3D Tech Co., Ltd.	Controlled by the Controlling Shareholders
Hangzhou Yongsheng Haiyi Differential Fiber Fabric Limited	Controlled by the Controlling Shareholders
Hangzhou Yongzhuo Chemical Fiber Limited	Controlled by the Controlling Shareholders
Yongsheng Trading (HK)	30% owned by the Controlling Shareholders
HUVIS Corporation and its subsidiary	Joint venture partner and its subsidiary
Hangzhou Xiaoshan HongChang Chemical Fiber Co., Ltd.	Controlled by Mr. Li Zhihong, one of the individual shareholders of the Group
City Prosper International Limited	50% owned by Mr. Li Cheng
Hangzhou Qingwang Trading Co., Ltd.	50% owned by Ms. Li Yuzhen, sister of Mr. Li Cheng

(a) Transactions with related parties

Save as disclosed in Note 36 in the financial statements for the years ended 31 December 2010, 2011, 2012, and for the six months ended 30 June 2012 and 2013, the Group had the following significant related party transactions with related parties.

Continued transactions:

(i) Purchase of goods

	Year ended 31 December			**Six months ended 30 June**	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
HUVIS Corporation and its subsidiary	14,981	13,629	29,297	13,104	29,039
Hangzhou Yongsheng Haiyi Differential Fiber Fabric Limited*	1,270	536	171	97	–
	16,251	14,165	29,468	13,201	29,039

(ii) Sale of goods

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Hangzhou Yongsheng Haiyi Differential Fiber Fabric Limited*	8,073	7,837	6,314	3,133	–

* The Controlling Shareholders completed the disposal of its entire interests in Hangzhou Yongsheng Haiyi Differential Fiber Fabric Limited in early 2013 and thus this company ceased to be the related party of the Group thereafter.

(iii) Rental income

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Hangzhou Yongsheng Haiyi Differential Fiber Fabric Limited	–	–	120	–	–
Yongsheng Group	–	–	–	–	440
	–	–	120	–	440

(iv) Storage fee paid to related parties

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Yongsheng Group	–	–	–	–	211

Non-continuing transactions:

(i) Purchase of goods

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Yongsheng Trading (HK)	6,934	6,906	46,343	16,138	–
Hangzhou Yongzhuo Chemical Fiber Limited	476	–	–	–	–
Hangzhou Yongsheng Weaving Limited	–	–	1,020	–	–
Hangzhou Xiaoshan HongChang Chemical Fiber Co., Ltd.	–	–	–	–	4,174
	7,410	6,906	47,363	16,138	4,174

(ii) Sale of goods

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Yongsheng Trading (HK)	182,333	212,558	114,734	107,616	–
Hangzhou Xiaoshan HongChang Chemical Fiber Co., Ltd.	7,649	10,291	22,234	9,629	–
Hangzhou Yongzhuo Chemical Fiber Limited	5,405	377	–	–	–
Hangzhou Yongsheng Weaving Limited	4,355	425	647	644	–
Hangzhou Qingwang Trading Co., Ltd.	–	–	26,574	25,234	–
	199,742	223,651	164,189	143,123	–

(iii) Interest charged from related parties

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Yongsheng Group	3,348	3,938	3,241	2,027	–

(iv) Interest income from related parties

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Yongsheng Group	6,623	5,293	8,321	5,343	–

(v) Management fee paid to related parties

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Yongsheng Group	265	360	300	180	–

(vi) Rental income

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Hangzhou Shining 3D Tech Co., Ltd.	60	–	–	–	–
Hangzhou Yongzhuo Chemical Fiber Limited	19	1	5	–	–
Hangzhou Xiaoshan HongChang Chemical Fiber Co., Ltd	18	61	35	17	–
	97	62	40	17	–

(vii) Purchase of technical know-how from related parties

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
HUVIS Corporation	3,264	4,010	–	–	–

(viii) Sale of available-for-sale financial assets

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Yongsheng Holdings	–	–	4,000	–	–

The above related parties transactions were carried out in accordance with the terms agreed with related parties and in the normal course of business.

(b) *Year-end balances arising from related party transactions:*

The Group had the following significant balances with its related parties:

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Due from related parties				
Trade:				
Yongsheng Trading (HK)	9,880	36,433	–	–
Hangzhou Xiaoshan HongChang Chemical Fiber Co., Ltd.	8,050	–	4,829	–
Hangzhou Yongsheng Haiyi Differential Fiber Fabric Limited	1,696	3,350	1,616	–
Hangzhou Yongzhuo Chemical Fiber Limited	667	–	–	–
Hangzhou Yongsheng Weaving Limited	–	211	–	–
Yongsheng Group	–	–	14,877	155
Hangzhou Qingwang Trading Co., Ltd.	–	–	956	–
	20,293	39,994	22,278	155
Non-trade:				
Yongsheng Group	216,263	189,905	–	–
Mr. Li Cheng	–	–	6,482	–
Ever Thrive	–	–	3,146	–
	236,556	229,899	31,906	155

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Due to related parties				
Trade:				
Yongsheng Trading (HK)	7,021	390	–	–
HUVIS Corporation	2,260	5,745	8,005	13,988
Hangzhou Yongsheng Weaving Limited	15	13	–	–
Hangzhou Yongzhuo Chemical Fiber Limited	–	519	–	–
Hangzhou Yongsheng Haiyi Differential Fiber Fabric Limited	–	40	1	–
Yongsheng Group	–	–	21,767	18
	9,296	6,707	29,773	14,006
Non-trade:				
Yongsheng Group	44,900	39,540	–	–
Yongsheng Trading (HK)	26,821	25,518	–	–
Yongsheng Holdings	–	–	3,146	–
City Prosper International Limited	–	–	2,994	–
	81,017	71,765	35,913	14,006

All trade balances with related parties are unsecured and bear no interest.

All non-trade balances with related parties are unsecured and repayable on demand. Except for the amount due from and to Yongsheng Group which bear interest ranging 5.07%, 6.56% and from 6.56% to 8.85% for the year ended 31 December 2010, 2011 and 2012, respectively, other balances are interest free.

All non-trade balances with related parties will be fully settled prior to the listing of the Company.

Details of amount due from Mr. Li Cheng, a director is as follows:

Year ended 31 December	At end of the year	At beginning of the year	Maximum outstanding during the year	Terms
	RMB'000		*RMB'000*	
2012	6,482	–	6,482	The balance was unsecured and interest free, which was repayable on demand.

(c) *Key management compensation:*

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Salary and allowances	232	314	1,016	480	616
Discretionary bonus	112	91	30	15	240
Social security insurance	10	18	36	20	30
	354	423	1,082	515	886

38 Subsequent events

Pursuant to the written resolutions passed by the shareholders of the Company on 7 November 2013,

(a) the authorised share capital of the Company will increase from HK$380,000 to HK$20,000,000 by the creation of an additional of 1,962,000,000 shares of HK$0.01 each, each rank pari passu in all respects with the shares then in issue.

(b) conditional on the share premium account of the Company being credited as a result of the public offering of shares of the Company, the directors of the Company was authorized to capitalise an amount of HK$2,973,270 (the "**capitalisation issue**") and to appropriate such amount as capital to pay up in full at par 297,327,010 shares for allotment and issue to the persons whose names appear on the register of members of the Company on 6 November 2013 in proportion to their then existing shareholdings in the Company, each ranking pari passu in all respects with the shares then in issue.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2013 up to the date of this report. No dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2013.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The information sets out in this Appendix does not form part of the Accountant's Report prepared by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of our Company, as set out in Appendix I to this prospectus, and is included herein for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the "Accountant's Report" set out in Appendix I to this prospectus.

The following unaudited pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purpose only, and is set out below to provide further information on how the financial information of our Group might be affected by the completion of the Share Offer as if the Share Offer had been completed on 30 June 2013.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma statement of adjusted net tangible assets of Yongsheng Advanced Materials Company Limited which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Share Offer as if it had taken place on 30 June 2013. This pro forma financial information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of Yongsheng Advanced Materials Company Limited had the Share Offer been completed as at 30 June 2013 or at any future date.

	Audited consolidated net tangible assets attributable to equity holders of our Company as at 30 June 2013(1)	**Estimated net proceeds from the Share Offer** (2)	**Unaudited pro forma adjusted net tangible assets attributable to equity holders of our Company as at 30 June 2013**	**Unaudited pro forma adjusted net tangible assets per Share**(3)	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
Based on an Offer Price of HK$0.8 per Share	182,894	43,251	226,145	0.57	0.71
Based on an Offer Price of HK$1.2 per Share	182,894	73,951	256,845	0.64	0.81

Notes:

(1) The audited consolidated net tangible assets of our Group attributable to equity holders of our Company as at 30 June 2013 has been extracted from the Accountant's report of our Company as set out in Appendix I to this Prospectus which is based on the audited consolidated net assets of our Group attributable to equity holders of our Company as at 30 June 2013 of RMB190,344,000 with an adjustment for the intangible assets of RMB7,450,000.

(2) The estimated net proceeds from the Share Offer are based on the Offer Price range of HK$0.8 per Share and HK$1.2 per Share, respectively, after deduction of the underwriting fees and other related expenses payable by our Company. No account has been taken of the Shares that may be allotted and issued upon the exercise of the Over-allotment Option or any options granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the General Mandate and the Repurchase Mandate.

(3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 400,000,000 Shares were in issue assuming that Share Offer and the Capitalisation Issue had been completed on 30 June 2013 but takes no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the General Mandate and the Repurchase Mandate.

(4) By comparing the valuation of our Group's property interests of RMB154,470,000 as set out in Appendix III to this Prospectus and the unaudited net book value of these properties as of 30 September 2013, the net revaluation surplus is approximately RMB61,770,000, which has not been included in the above net tangible assets attributable to equity holders of the Company as of 30 June 2013. The revaluation of the Group's property interests will not be incorporated in the Group's financial information. If the revaluation surplus is to be included in the Group's financial information, an additional depreciation charge of approximately RMB1,550,000 per annum relating to the property interests would be recorded.

(5) No adjustment has been made to reflect any trading result or other transaction of our Group entered into subsequent to 30 June 2013.

(6) For the purpose of the estimated net proceeds from the Share Offer, the translation of RMB into HK dollars was made at the rate of HK$1.00 to RMB0.79151. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

B. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION INCLUDED IN A PROSPECTUS

TO THE DIRECTORS OF YONGSHENG ADVANCED MATERIALS COMPANY LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Yongsheng Advanced Materials Company Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at 30 June 2013, and related notes (the "**Unaudited Pro Forma Financial Information**") as set out on pages II-1 to II-2 of the Company's prospectus dated 15 November 2013 (the "**Prospectus**"), in connection with the proposed initial public offering of the shares of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described in Notes 1 to 6.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed initial public offering on the Group's financial position as at 30 June 2013 as if the proposed initial public offering had taken place at 30 June 2013. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial information for the period ended 30 June 2013, on which an accountant's report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant complies with ethical requirements and plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering at 30 June 2013 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and

- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 15 November 2013

The following is the text of a letter, summary of valuations and valuation certificates prepared for the purpose of incorporation in this prospectus received from DTZ Debenham Tie Leung Limited, an independent property valuer, in connection with its valuations as at 30 September 2013 of the Properties of the Group.

DTZ 戴德梁行
a UGL company

16/F, Jardine House
1 Connaught Place
Central
Hong Kong

15 November 2013

The Directors
Yongsheng Advanced Materials Company Limited
Office 1616, 16th Floor,
Tower Two Lippo Centre,
No. 89 Queensway,
Hong Kong

Dear Sirs,

Instructions, Purpose & Date of Valuation

In accordance with your instruction for us to carry out valuations of the market values of the Properties (the "**Properties**") held by Yongsheng Advanced Materials Company Limited (the "**Company**") and its subsidiaries (hereinafter together referred to as the "**Group**") in the People's Republic of China (the "**PRC**") and in Hong Kong, we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we considered necessary for the purpose of providing you with our opinion of the market values of the Properties in existing state as at 30 September 2013 (the "**date of valuation**").

Definition of Market Value

Our valuations of each of the Properties represents its market value which in accordance with The HKIS Valuation Standards 2012 Edition published by The Hong Kong Institute of Surveyors is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Valuation Basis and Assumption

Our valuations of the Properties exclude an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

In the course of our valuations of the Properties held and occupied by the Group in the PRC, we have prepared our valuations on the basis that transferable land use rights in respect of the Properties for its specific term at nominal annual land use fee have been granted and that any premium payable has already been fully paid. We have relied on the information and advice given by the Group and the PRC legal opinion of the legal adviser, Tian Yuan Law Firm (北京市天元律師事務所), regarding the title to the Properties and the interests in the Properties. In valuing the Properties, with reference to the PRC legal opinion, we have prepared our valuations on the basis that the owners have enforceable title to the Properties and have free and uninterrupted rights to use, occupy or assign the Properties for the whole of the unexpired terms as granted.

No allowance has been made in our valuations for any charges, pledges or amounts owing on the Properties nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Properties are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

Method of Valuation

In valuing the Properties in Group I, which are held by the Group for owner-occupation in the PRC, in the absence of relevant market data to arrive at the market values of the Properties by means of market-based evidence, we have valued the Properties by Depreciated Replacement Cost Approach which requires a valuations of the market values of the land in its existing use and an estimate of the new replacement cost of the buildings and structures, from which deductions are made to allow for the age, condition and functional obsolescence. The reported market values by Depreciated Replacement Cost Approach only apply to the whole of the Properties as a unique interest respectively, and no piecemeal transaction of the Properties is assumed. The market values are subject to adequate potential profitability of the business from the use of the Properties as a whole.

The Properties in Groups II and III, which are rented by the Group in the PRC and Hong Kong respectively, are considered to have no commercial value due to the prohibitions against assignment of the Properties or otherwise due to the lack of substantial profit rents.

In valuing the Properties, we have complied with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and The HKIS Valuation Standards 2012 Edition published by the Hong Kong Institutes of Surveyors.

Source of Information

We have caused search to be made at the Land Registry in Hong Kong, however, we have not searched the original documents to ascertain ownership or to verify any amendments. We have been provided with extracts of documents in relation to the title to the Properties in the PRC but we have not inspected the originals. We have relied upon information given to us by the Group and its PRC legal adviser, in respect of the Group's interest in the Properties in the PRC.

We have relied to a very considerable extent on the information given by the Group and the opinion of the PRC legal adviser as to PRC laws. We have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, identification of Properties, completion dates of buildings, particulars of occupancy, tenancy information, site and floor areas and all other relevant matters.

Dimension, measurements and areas included in this valuation report are based on the information provided to us and are therefore only approximation. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuations. We were also advised that no material facts have been omitted from the information supplied.

We would point out that the copies of documents provided to us are mainly compiled in Chinese characters and the transliteration into English represents our understanding of the contents. We would therefore advise the Company to make reference to the original Chinese edition of the documents and consult your legal adviser regarding the legality and interpretation of these documents.

Title Investigation

We have been provided by the Group with copies or extracts of documents. However, we have not searched the original documents to verify ownership or to ascertain any amendments. All documents have been used for reference only and all dimensions, measurements and areas are approximate.

Site Inspection

Our DTZ Hangzhou Office valuer, Tom Zheng and Jason Cheng (Registered China Real Estate Appraiser) and our DTZ Shanghai Office valuer, Jack Sun (Registered China Real Estate Appraiser) have inspected the exterior and, wherever possible, the interior of the Properties on 10 September 2013 and 18 September 2013 respectively. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report that the Properties are free of rot, infestation or any other structural defects. No tests were carried out to any of the services.

Unless otherwise stated, we have not been able to carry out detailed on-site measurements to verify the site and floor areas of the Properties and we have assumed that the areas shown on the copies of documents handed to us are correct.

Currency

Unless otherwise stated, all sums stated in our valuations are in Renminbi, the official currency of the PRC.

We attach herewith a summary of valuations and valuation certificates.

Yours faithfully,
for and on behalf of
DTZ Debenham Tie Leung Limited
Philip C Y Tsang
Registered Professional Surveyor (General Practice)
Registered China Real Estate Appraiser
MSc, MRICS, MHKIS
Director

Note: Mr. Philip C Y Tsang is a Registered Professional Surveyor who has over 23 years property valuation experience in the PRC and in Hong Kong.

SUMMARY OF VALUATIONS

	Property	Market Value in existing state as at 30 September 2013	The Group's attributable interest	Market Value in existing state as at 30 September 2013 attributable to the Group
		RMB	*%*	*RMB*
Group I – Properties held by the Group for owner-occupation in the PRC				
1.	An industrial complex situated at Jingjiang Industry Zone (Qing Six Lane), Xiaoshan District, Hangzhou, Zhejiang Province, the PRC	88,400,000	100	88,400,000
2.	An industrial complex situated at Jingjiang Industry Zone (Jingjiang North Road), Xiaoshan District, Hangzhou, Zhejiang Province, the PRC	36,600,000	70	25,620,000

	Property	Market Value in existing state as at 30 September 2013 *RMB*	The Group's attributable interest *%*	Market Value in existing state as at 30 September 2013 attributable to the Group *RMB*
3.	An industrial complex situated at No. 29 Tongfu South Road, Economic and Technological Development Zone, Nantong, Jiangsu Province, the PRC	29,470,000 (Excludes the Market Value of the warehouse with a gross floor area of approximately 68.01 sq. m. which has not been issued with Building Ownership Certificate. Please see note below.)	90	26,523,000
	Grand Total of Group I:	**154,470,000**		**140,543,000**

Note: According to the PRC legal opinion, a warehouse with a gross floor area of approximately 68.01 sq. m. has not been issued with Building Ownership Certificate. As confirmed by Nantong Yongsheng Fiber Advanced Materials Company Limited (南通永盛纖維新材料有限公司), the said warehouse is no longer in use, therefore, Nantong Yongsheng Fiber Advanced Materials Company Limited (南通永盛纖維新材料有限公司) has no significant impact on production and operation if Building Ownership Certificate of the said warehouse has not been obtained. Meanwhile, Nantong Economic Technological Development District and Real Estate Planning Bureau (南通市經濟技術開發區規劃房產局) confirmed that will not require Nantong Yongsheng Fiber Advanced Materials Company Limited (南通永盛纖維新材料有限公司) to remove the said warehouse and will not take any action to punish Nantong Yongsheng Fiber Advanced Materials Company Limited (南通永盛纖維新材料有限公司). Thus, the possibility of punishment of Nantong Yongsheng Fiber Advanced Materials Company Limited (南通永盛纖維新材料有限公司) was very low.

SUMMARY OF VALUATIONS

Property	Market Value in existing state as at 30 September 2013 *RMB*
Group II – Properties rented by the Group in the PRC	
4. Room East 02 and West 03, Level 24, Ludu World Trade Plaza, No. 819 Shixin Zhong Road, Xiaoshan District, Hangzhou, Zhejiang Province, the PRC	No commercial value
5. Room 1703, Tianchen International Building (also known as Block No. 5), Tianchen International Plaza, No. 72 Shixin North Road, Xiaoshan District, Hangzhou, Zhejiang Province, the PRC	No commercial value
6. Room A6, Level 18, Hongshan New Century Building, No. 8 Xinhua North Road, Urumqi, Xinjiang UAR, the PRC	No commercial value
7. Room 207, Textile Raw Material Market (Jinggang Building), Free Trade Zone, Zhangjiagang, Suzhou, Jiangsu Province, the PRC	No commercial value

Property	Market Value in existing state as at 30 September 2013
	RMB

Group III – Property rented by the Group in Hong Kong

8.	Office 1616, 16th Floor, Tower Two Lippo Centre, No. 89 Queensway, Hong Kong	No commercial value

VALUATION CERTIFICATE

Group I – Properties held by the Group for owner-occupation in the PRC

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 September 2013
1.	An industrial complex situated at Jingjiang Industry Zone (Qing Six Lane), Xiaoshan District, Hangzhou, Zhejiang Province, the PRC	The Property comprises an industrial complex erected on a parcel of land with a site area of approximately 65,141 sq. m. The industrial complex comprises various buildings which were completed in between 2004 and 2007. The gross floor area of the Property is shown as follows: **Building** / **Gross Floor Area** *(sq. m.)* Workshop No. 1 16,267.60 Office 1,807.44 Canteen 963.23 Staff Quarter Building 1,556.47 Workshop No. 3 3,501.71 Boiler 834.70 Water Purify Room 156.10 Power Distribution Room 189.10 New Staff Quarter Building 1,848.00 Arrangement Workshop 15,923.00 Janitor's Room 39.33 **Total: 43,086.68** The land use rights of the Property have been granted for a term of 50 years due to expire on 7 August 2053 for industrial use.	Portion of the Arrangement Workshop, Canteen and portion of Workshop No. 3 with a total gross floor area of approximately 10,260.08 sq. m. was leased to Yongsheng Group, a connected party to the Group, for a term from 1 January 2013 to 31 December 2014 with an annual rent of RMB930,000. Portion of the Arrangement Workshop and portion of Workshop No. 3 with a total gross floor area of approximately 5,647.42 sq. m. was leased to Hangzhou Yongsheng Haiyi Differential Fiber Fabric Limited (杭州永盛海一差別化纖維織物有限公司), for a term of 2 years from 1 September 2012 to 31 August 2014 with an annual rent of RMB510,000. In the course of our valuation, we have disregarded the said tenancies and valued it on vacant possession basis. The remaining portions of the Property are currently owner-occupied.	RMB88,400,000 (100% interest attributable to the Group: RMB88,400,000)

Notes:

(1) According to State-owned Land Use Rights Certificate No. (2008)3000002 dated 29 February 2008, the land use rights of the Property, comprising a site area of 65,141 sq. m., have been granted to Hangzhou Huvis Yongsheng Dyeing and Finishing Company Limited (杭州匯維仕永盛染整有限公司) for a term of 50 years due to expire on 7 August 2053 for industrial use.

(2) According to 11 Building Ownership Certificates, comprising a total gross floor area of 43,086.68 sq. m., have been vested in Hangzhou Huvis Yongsheng Dyeing and Finishing Company Limited (杭州匯維仕永盛染整有限公司), the details are shown as below:

Certificate No.	Uses	Gross Floor Area *(sq. m.)*
070933	Workshop No. 1	16,267.60
00087794	Office	1,807.44
00087795	Canteen	963.23
00087769	Staff Quarter Building	1,556.47
00031172	Workshop No. 3	3,501.71
00060417	Boiler	834.70
00060414	Water Purify Room	156.10
00060416	Power Distribution Room	189.10
00065280	New Staff Quarter Building	1,848.00
00065281	Arrangement Workshop	15,923.00
00060415	Janitor's Room	39.33
	Total:	**43,086.68**

(3) According to Business Licence No. 330100400002030 dated 1 March 2013, Hangzhou Huvis Yongsheng Dyeing and Finishing Company Limited (杭州匯維仕永盛染整有限公司) was established as a limited liability company with a registered capital of RMB138,000,000 for a valid operation period from 8 August 2003 to 7 August 2053.

(4) According to the PRC legal opinion:

(i) Hangzhou Huvis Yongsheng Dyeing and Finishing Company Limited (杭州匯維仕永盛染整有限公司), a 100% owned subsidiary of Yongsheng Advanced Materials Company Limited (永盛新材料有限公司), has legally obtained valid business licence and legally established under the PRC law;

(ii) Hangzhou Huvis Yongsheng Dyeing and Finishing Company Limited (杭州匯維仕永盛染整有限公司) has fully settled all land premium and obtained all State-owned Land Use Rights Certificate and Building Ownership Certificates;

(iii) Hangzhou Huvis Yongsheng Dyeing and Finishing Company Limited (杭州匯維仕永盛染整有限公司) has right to transfer the Property but subject to a notice to Agricultural Bank of China Hangzhou Xiaoshan Yisheng Branch (中國農業銀行杭州蕭山義盛支行); and

(iv) Portion of the Property with a total gross floor area of 20,594.74 sq. m. is subject to a mortgage in favour of Agricultural Bank of China Hangzhou Xiaoshan Yisheng Branch (中國農業銀行杭州蕭山義盛支行) for a period from 21 May 2012 to 21 May 2014 with a maximum mortgage loan of RMB67,380,000.

(5) The status of the title and grant of major approvals and licence in accordance with the information provided by the Group and the opinion of the PRC legal adviser:

State-owned Land Use Rights Certificate	Yes
Building Ownership Certificate	Yes
Business Licence	Yes

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 September 2013
2.	An industrial complex situated at Jingjiang Industry Zone (Jingjiang North Road), Xiaoshan District, Hangzhou, Zhejiang Province, the PRC	The Property comprises an industrial complex erected on two parcels of land with a total site area of approximately 39,008.2 sq. m. The industrial complex comprises various buildings which were completed in 2006. The gross floor area of the Property is shown as follows:	Portion of the Property is currently owner-occupied and portion of the Property is currently vacant.	RMB36,600,000 (70% interest attributable to the Group: RMB25,620,000)

Building	Gross Floor Area *(sq. m.)*
Office	939.23
Construction Workshop	2,275.56
Workshop	9,260.98
Total:	**12,475.77**

The land use rights of the Property have been granted for various terms due to expire 27 October 2053 and 20 February 2054 for industrial use.

Notes:

(1) According to 2 State-owned Land Use Rights Certificates, the land use rights of the Property, comprising a total site area of approximately 39,008.2 sq. m., have been granted to Hangzhou Huvis Yongsheng Chemical Fiber Limited (杭州匯維仕永盛化纖有限公司) with details as follows:

Certificate No.	**Issued Date**	**Location**	**Approximate Site Area** *(sq. m.)*	**Uses**	**Expiry Date**
(2006)3000007	28 March 2006	Yinan Village, Jingjiang Town	19,518.0	Industrial	20 February 2054
(2010)3000009	19 August 2010	Yinan Village, Jingjiang Town	19,490.2	Industrial	27 October 2053
		Total:	**39,008.2**		

(2) According to 3 Building Ownership Certificates, comprising a total gross floor area of 12,475.77 sq. m., have been vested in Hangzhou Huvis Yongsheng Chemical Fiber Limited (杭州匯維仕永盛化纖有限公司), the details are shown as below:

Certificate No.	**Uses**	**Gross Floor Area** *(sq. m.)*
00035050	Office	939.23
00060412	Construction Workshop	2,275.56
00012779	Workshop	9,260.98
	Total:	**12,475.77**

(3) According to Business Licence No. 330100400007727 dated 26 November 2012, Hangzhou Huvis Yongsheng Chemical Fiber Limited (杭州匯維仕永盛化纖有限公司) was established as a limited liability company with a registered capital of RMB40,000,000 for a valid operation period from 28 April 2004 to 27 April 2054.

(4) According to the PRC legal opinion:

(i) Hangzhou Huvis Yongsheng Chemical Fiber Limited (杭州匯維仕永盛化纖有限公司), a 70% owned subsidiary of Yongsheng Advanced Materials Company Limited (永盛新材料有限公司), has legally obtained valid business licence and legally established under the PRC law;

(ii) Hangzhou Huvis Yongsheng Chemical Fiber Limited (杭州匯維仕永盛化纖有限公司) has fully settled all land premium and obtained all State-owned Land Use Rights Certificates and Building Ownership Certificates;

(iii) Hangzhou Huvis Yongsheng Chemical Fiber Limited (杭州匯維仕永盛化纖有限公司) has right to transfer the Property but subject to a notice to China Construction Bank Corporation Hangzhou Xiaoshan Branch (中國建設銀行股份有限公司杭州蕭山支行);

(iv) The Property is subject to a mortgage in favour of China Construction Bank Corporation Hangzhou Xiaoshan Branch (中國建設銀行股份有限公司杭州蕭山支行) for a period from 6 November 2012 to 5 February 2014 with a maximum mortgage loan of RMB29,830,400; and

(v) According to Supplementary Agreement of Land Grant Contract No. (2005)56 signed between Hangzhou Huvis Yongsheng Chemical Fiber Limited (杭州匯維仕永盛化纖有限公司) and Hangzhou Land Resource Bureau Xiaoshan Branch (杭州市國土資源局蕭山分局) on 20 February 2013, the date of commencement of construction work and the date of completion of construction work of the land, under State-owned Land Use Rights Certificate No. (2006)3000007, has been extended to June 2013 and December 2014 respectively. Therefore, the risk of liability of breach of contract or subject to administrative penalties was very low, it will not affect Hangzhou Huvis Yongsheng Chemical Fiber Limited (杭州匯維仕永盛化纖有限公司) has legally obtained the land use rights of the said land.

(5) The status of the title and grant of major approvals and licence in accordance with the information provided by the Group and the opinion of the PRC legal adviser:

State-owned Land Use Rights Certificate	Yes
Building Ownership Certificate	Yes
Business Licence	Yes

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 September 2013
3.	An industrial complex situated at No. 29 Tongfu South Road, Economic and Technological Development Zone, Nantong, Jiangsu Province, the PRC	The Property comprises an industrial complex erected on a parcel of land with a site area of approximately 36,907.18 sq. m. The industrial complex comprises various buildings which were completed in 2003. As advised, the gross floor area of the Property is shown as follows:	The Property is currently owner-occupied.	RMB29,470,000 (90% interest attributable to the Group: RMB26,523,000) (Excludes the Market Value of the warehouse with a gross floor area of approximately 68.01 sq. m. which has not been issued with Building Ownership Certificate) (Please see note (1))

Building	**Gross Floor Area** *(sq. m.)*
Office	1,793.50
Main Workshop	10,976.46
Air Compressor Room	446.61
High Allocation Room	566.01
Warehouse	3,744.44
Hardware Warehouse	81.08
Eastern Janitor's Room	63.91
Western Janitor's Room	33.68
Auxiliary Room	159.37
New Air Compressor Room	530.56
Assembly Workshop	911.20
Sub-total with Building Ownership Certificate:	**19,306.82**
Warehouse (without Building Ownership Certificate)	68.01
Total:	**19,374.83**

The land use rights of the Property have been granted for a term of 50 years due to expire on 10 April 2052 for industrial use.

Notes:

(1) According to the PRC legal opinion, a warehouse with a gross floor area of approximately 68.01 sq. m. has not been issued with Building Ownership Certificate. As confirmed by Nantong Yongsheng Fiber Advanced Materials Company Limited (南通永盛纖維新材料有限公司), the said warehouse is no longer in use, therefore, Nantong Yongsheng Fiber Advanced Materials Company Limited (南通永盛纖維新材料有限公司) has no significant impact on production and operation if Building Ownership Certificate of the said warehouse has not been obtained. Meanwhile, Nantong Economic Technological Development District and Real Estate Planning Bureau (南通市經濟技術開發區規劃房產局) confirmed that will not require Nantong Yongsheng Fiber Advanced Materials Company Limited (南通永盛纖維新材料有限公司) to remove the said warehouse and will not take any action to punish Nantong Yongsheng Fiber Advanced Materials Company Limited (南通永盛纖維新材料有限公司). Thus, the possibility of punishment of Nantong Yongsheng Fiber Advanced Materials Company Limited (南通永盛纖維新材料有限公司) was very low.

(2) According to State-owned Land Use Rights Certificate No. (2010)0301060 dated 25 November 2010, the land use rights of the Property, comprising a site area of 36,907.18 sq. m., have been granted to Nantong Yongsheng Fiber Advanced Materials Company Limited (南通永盛纖維新材料有限公司) for a term of 50 years due to expire on 10 April 2052 for industrial use.

(3) According to 7 Building Ownership Certificates dated 9 November 2010 and 21 May 2013 respectively, the building ownership rights of the Property comprising a total gross floor area of 19,306.82 sq. m., have been vested in Nantong Yongsheng Fiber Advanced Materials Company Limited (南通永盛纖維新材料有限公司), the details are shown as below:

Certificate No.	**Uses**	**Gross Floor Area** *(sq. m.)*
32047999	Office	1,793.50
	Main Workshop	10,976.46
	Air Compressor Room	446.61
	High Allocation Room	566.01
	Warehouse	3,744.44
32081775	Hardware Warehouse	81.08
32081776	Eastern Janitor's Room	63.91
32081777	Western Janitor's Room	33.68
32081778	Auxiliary Room	159.37
32081779	New Air Compressor Room	530.56
32081780	Assembly Workshop	911.20
	Total:	**19,306.82**

(4) According to Business Licence No. 320691000057666 dated 29 November 2012, Nantong Yongsheng Fiber Advanced Materials Company Limited (南通永盛纖維新材料有限公司) was established as a limited liability company with a registered capital of RMB30,000,000 for a valid operation period from 28 June 2010 to 27 June 2050.

(5) According to the PRC legal opinion:

(i) Nantong Yongsheng Fiber Advanced Materials Company Limited (南通永盛纖維新材料有限公司), a 90% owned subsidiary of Yongsheng Advanced Materials Company Limited (永盛新材料有限公司), has legally obtained valid business licence and legally established under the PRC law;

(ii) Nantong Yongsheng Fiber Advanced Materials Company Limited (南通永盛纖維新材料有限公司) has obtained all State-owned Land Use Rights Certificates and 7 Building Ownership Certificates with a total gross floor area of 19,306.82 sq. m. through auction and the purchase price has been fully settled;

(iii) A warehouse with a gross floor area of approximately 68.01 sq. m. has not been issued with Building Ownership Certificate. As confirmed by Nantong Yongsheng Fiber Advanced Materials Company Limited (南通永盛纖維新材料有限公司), the said warehouse is no longer in use, therefore, Nantong Yongsheng Fiber Advanced Materials Company Limited (南通永盛纖維新材料有限公司) has no significant impact on production and operation if Building Ownership Certificate of the said warehouse has not been obtained. Meanwhile, Nantong Economic Technological Development District and Real Estate Planning Bureau (南通市經濟技術開發區規劃房產局) confirmed that will not require Nantong Yongsheng Fiber Advanced Materials Company Limited (南通永盛纖維新材料有限公司) to remove the said warehouse and will not take any action to punish Nantong Yongsheng Fiber Advanced Materials Company Limited (南通永盛纖維新材料有限公司). Thus, the possibility of punishment of Nantong Yongsheng Fiber Advanced Materials Company Limited (南通永盛纖維新材料有限公司) was very low; and

(iv) Portion of the Property with a total gross floor area of 17,527.02 sq. m. and the corresponding land is subject to a mortgage in favour of Industrial Bank Co., Ltd. Nantong Branch (興業銀行股份有限公司南通分行) for a period from 2 August 2013 to 1 August 2016 with a maximum mortgage loan of RMB25,000,000. Nantong Yongsheng Fiber Advanced Materials Company Limited (南通永盛纖維新材料有限公司) has right to transfer the said portion of the Property but subject to a notice to Industrial Bank Co., Ltd. Nantong Branch (興業銀行股份有限公司南通分行). Nantong Yongsheng Fiber Advanced Materials Company Limited (南通永盛纖維新材料有限公司) has right to transfer, lease, pledge the remaining portion of the Property.

(6) The status of the title and grant of major approvals and licence in accordance with the information provided by the Group and the opinion of the PRC legal adviser:

State-owned Land Use rights Certificate	Yes
Building Ownership Certificate	Yes (Part)
Business Licence	Yes

VALUATION CERTIFICATE

Group II – Properties rented by the Group in the PRC

	Property	Description and tenure	Market Value in existing state as at 30 September 2013
4.	Room East 02 and West 03, Level 24, Ludu World Trade Plaza, No. 819 Shixin Zhong Road, Xiaoshan District, Hangzhou, Zhejiang Province, the PRC	The Property comprises an office unit on level 24 of Ludu World Trade Plaza with a total gross floor area of approximately 798.5 sq. m. which is used for office purpose. The Property is currently rented by the Group from 1 September 2011 to 31 August 2016 at an annual rental of RMB517,428 on 1st and 2nd year and has a 5% increment each year starting from the 3rd year. According to the PRC legal opinion, Building Ownership Certificate is vested to Saintyear Holding Co., Ltd. (三元控股集團有限公司) rather than the lessor Hangzhou Shengyuan Real Estate Development Co., Ltd. (杭州盛元房地產開發有限公司). However, Letter of Authority was issued by Saintyear Holding Co., Ltd. (三元控股集團有限公司) and the lessor is entitled to lease the Property to the lessee and the tenancy agreement is legal, valid and binding. The tenancy agreement has not been registered; however, it would not affect its validity.	No commercial value

VALUATION CERTIFICATE

	Property	Description and tenure	Market Value in existing state as at 30 September 2013
5.	Room 1703, Tianchen International Building (also known as Block No. 5), Tianchen International Plaza, No. 72 Shixin North Road, Xiaoshan District, Hangzhou, Zhejiang Province, the PRC	The Property comprises an office unit on level 17 of Tianchen International Building (also known as Block 5), Tianchen International Plaza with a total gross floor area of approximately 313.98 sq. m. which is used for office purpose. The Property is currently rented by the Group for a term of 5 years from 1 April 2011 to 31 March 2016. The annual rental on 1st year was RMB220,000 and there is a 5% increment on 2nd and 3rd year respectively. The rental increment will be a minimum of 5% plus the consideration of market rental starting from the 4th year. According to the PRC legal opinion, Building Ownership Certificate is vested to the lessor for the Property, the lessor is entitled to lease the Property to the lessee and the tenancy agreement is legal, valid and binding. The tenancy agreement has not been registered; however, it would not affect its validity.	No commercial value

VALUATION CERTIFICATE

	Property	Description and tenure	Market Value in existing state as at 30 September 2013
6.	Room A6, Level 18, Hongshan New Century Building, No. 8 Xinhua North Road, Urumqi, Xinjiang UAR, the PRC	The Property comprises an office unit on level 18 of Hongshan New Century Building with a total gross floor area of approximately 75 sq. m. which is used for office purpose. The Property is currently rented by the Group for a term of 1 year from 1 March 2013 to 28 February 2014 at an annual rent of RMB43,800. According to the PRC legal opinion, Building Ownership Certificate is vested to the lessor for the Property, the lessor is entitled to lease the Property to the lessee and the tenancy agreement is legal, valid and binding. The tenancy agreement has not been registered; however, it would not affect its validity.	No commercial value

VALUATION CERTIFICATE

	Property	Description and tenure	Market Value in existing state as at 30 September 2013
7.	Room 207, Textile Raw Material Market (Jinggang Building), Free Trade Zone, Zhangjiagang, Suzhou, Jiangsu Province, the PRC	The Property comprises an office unit in Textile Raw Material Market (Jinggang Building) with a total gross floor area of approximately 76 sq. m. which is used for office purpose. The Property is currently rented by the Group for a term of 1 year from 1 August 2013 to 31 July 2014 at an annual rent of RMB40,000. According to the PRC legal opinion, Building Ownership Certificate is vested to Zhangjiagang Free Trade Zone Jinggang Real Estate Co., Ltd. (張家港保稅區京港置業有限公司) rather than the lessor Zhangjiagang Free Trade Zone Textile Raw Material Market Co., Ltd. (張家港保稅區紡織原料市場有限公司). No Letter of Authority on such tenancy to be provided by Zhangjiagang Free Trade Zone Jinggang Real Estate Co., Ltd. (張家港保稅區京港置業有限公司). However, concerning the comparative small size of the leased property and the leased property was currently used by the Group for communication purpose rather than production purpose, termination of such lease would not have signification affect to the operation of the Group. The tenancy agreement has not been registered; however, it would not affect its validity.	No commercial value

VALUATION CERTIFICATE

Group III – Property rented by the Group in Hong Kong

	Property	Description and tenure	Market Value in existing state as at 30 September 2013
8.	Office 1616, 16th Floor, Tower Two Lippo Centre, No. 89 Queensway, Hong Kong	The Property comprises an office unit on 16th Floor of Tower Two Lippo Centre with a total saleable floor area of approximately 65.696 sq. m. which is used for office purpose. The Property is currently rented by the Group for a term of 2 years from 21 July 2012 to 20 July 2014 at a monthly rental of RMB53,530, exclusive of government rates, management fee and air-conditioning charges and other outgoings.	No commercial value

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 19 April 2012 under the Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (the "**Memorandum**") and the Amended and Restated Articles of Association (the "**Articles**").

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and since the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 7 November 2013. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) Classes of shares

The share capital of the Company consists of ordinary shares.

(ii) Share certificates

Every person whose name is entered as a member in the register of members shall be entitled to receive a certificate for his shares. No shares shall be issued to bearer.

Every certificate for shares, warrants or debentures or representing any other form of securities of the Company shall be issued under the seal of the Company, and shall be signed autographically by one Director and the Secretary, or by 2 Directors, or by some other person(s) appointed by the Board for the purpose. As regards any certificates for shares or debentures or other securities of the Company, the Board may by resolution determine that such signatures or either of them shall be dispensed with or affixed by some method or system of mechanical signature other than autographic or may be printed thereon as specified in such resolution or that such certificates need not be signed by any person. Every share certificate issued shall specify the number and class of shares in respect of which it is issued and the amount paid thereon and may otherwise be in such form as the Board may from time to time prescribe. A share certificate shall relate to only one class of shares, and where the capital of the Company includes shares with different voting rights, the designation of each class of shares, other than those which carry the general right to vote at general meetings, must include the words "restricted voting" or "limited voting" or "non-voting" or some other appropriate designation which is commensurate with the rights attaching to the relevant class of shares. The Company shall not be bound to register more than 4 persons as joint holders of any share.

(b) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that upon the happening of a specified event or upon a given date and either at the option of the Company or the holder thereof, they are liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate thereof shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate thereof has been destroyed and the Company has received an indemnity in such form as the Board shall think fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(iii) Compensation or payments for loss of office

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors and their associates which are equivalent to provisions of Hong Kong law prevailing at the time of adoption of the Articles.

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective associates, or if any one or more of the Directors hold (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(v) *Disclosure of interest in contracts with the Company or with any of its subsidiaries*

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and, upon such terms as the Board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, either as vendor, purchaser or otherwise, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any Share by reason that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to the Company.

A Director shall not vote (nor shall he be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or other proposal in which he or his associate(s) is/are materially interested, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters namely:

(aa) the giving of any security or indemnity to the Director or his associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to Directors, his associate(s) and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not generally accorded to the employees to which such scheme or fund relates; or

(ee) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(vi) Remuneration

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree or failing agreement, equally, except that in such event any Director holding office for only a portion of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he has held office. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with other companies (being subsidiaries of the Company or with which the Company is associated in business), or may make contributions out of the Company's monies to, such schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

In addition, the Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Appointment, retirement and removal

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

At each annual general meeting, one third of the Directors for the time being will retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors who shall retire in each year will be those who have been longest in the office since their last re-election or appointment but as between persons who become or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the registration office. The period for lodgment of such notices will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting and the minimum length of the period during which such notices to the Company may be given must be at least 7 days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to the Board or retirement therefrom.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. The number of Directors shall not be less than two.

In addition to the foregoing, the office of a Director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to the Company at the registered office or head office of the Company for the time being or tendered at a meeting of the Board;

(bb) if he dies or becomes of unsound mind as determined pursuant to an order made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Board resolves that his office be vacated;

(cc) if, without special leave, he is absent from meetings of the Board for six (6) consecutive months, and the Board resolves that his office is vacated;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(ee) if he is prohibited from being a director by law;

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles;

(gg) if he has been validly required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director and the relevant time period for application for review of or appeal against such requirement has lapsed and no application for review or appeal has been filed or is underway against such requirement; or

(hh) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) then in office.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director or Directors and other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(viii) Borrowing powers

Pursuant to the Articles, the Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The provisions summarised above, in common with the Articles of Association in general, may be varied with the sanction of a special resolution of the Company.

(ix) Register of Directors and officers

Pursuant to the Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers, including a change of the name of such directors or officers.

(x) Proceedings of the Board

Subject to the Articles, the Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

(c) Alterations to the constitutional documents

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed by the Company by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings shall mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or in the case of a shareholder being a corporation, by its duly authorised representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Alteration of capital

The Company may, by an ordinary resolution of its members, (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; and (e) cancel shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorised and subject to any conditions prescribed by law.

Reduction of share capital – subject to the Companies Law and to confirmation by the court, a company limited by shares may, if so authorised by its Articles of Association, by special resolution, reduce its share capital in any way.

(f) Special resolution – majority required

In accordance with the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. However, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given.

Under Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 14 clear days' notice has been given and held in accordance with the Articles. A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

(g) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote, and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purpose as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded or otherwise required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles). A poll may be demanded by:

(i) the chairman of the meeting; or

(ii) at least two members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or

(iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s), be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s), as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(h) Annual general meetings

The Company must hold an annual general meeting each year. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

(i) Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the assets and liabilities of the Company and of all other matters required by the Companies Law necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account or book or document of the Company except as conferred by the Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarised financial statements to shareholders who has, in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles), consented and elected to receive summarised financial statements instead of the full financial statements. The summarised financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles), and must be sent to the shareholders not less than 21 days before the general meeting to those shareholders that have consented and elected to receive the summarised financial statements.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

(j) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution must be called by at least 21 days' notice in writing, and any other extraordinary general meeting shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting, and particulars of the resolution(s) to be considered at that meeting, and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member either personally or by sending it through the post in a prepaid envelope or wrapper addressed to such member at his registered address as appearing in the Company's register of members or by leaving it at such registered address as aforesaid or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which for the purpose of service of notice shall be deemed to be his registered address. Where the registered address of the member is outside Hong Kong, notice, if given through the post, shall be sent by prepaid airmail letter where available. Subject to the

Companies Law and the Listing Rules, a notice or document may be served or delivered by the Company to any member by electronic means to such address as may from time to time be authorised by the member concerned or by publishing it on a website and notifying the member concerned that it has been so published.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the issued shares giving that right.

All business transacted at an extraordinary general meeting shall be deemed special business and all business shall also be deemed special business where it is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of Directors in place of those retiring;

(dd) the appointment of auditors;

(ee) the fixing of the remuneration of the Directors and of the auditors;

(ff) the granting of any mandate or authority to the Board to offer, allot, grant options over, or otherwise dispose of the unissued shares of the Company representing not more than 20% in nominal value of its existing issued share capital (or such other percentage as may from time to time be specified in the rules of the Stock Exchange) and the number of any securities repurchased by the Company since the granting of such mandate; and

(gg) the granting of any mandate or authority to the Board to repurchase securities in the Company.

(k) Transfer of shares

Subject to the Companies Law, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve provided always that it shall be in such form prescribed by the Stock Exchange and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers in any case in which it in its discretion thinks fit to do so, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share option scheme upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The Board may decline to recognize any instrument of transfer unless a fee of such maximum sum as the Stock Exchange may determine to be payable or such lesser sum as the Board may from time to time require is paid to the Company in respect thereof, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules (as defined in the Articles), be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction with respect to the right of the holder thereof to transfer such shares (except when permitted by the Stock Exchange) and shall also be free from all liens.

(l) Power of the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles, code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price, and if purchases are by tender, tenders shall be available to all members alike.

(m) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

(n) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

(i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share; and

(ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared on the share capital of the Company, the Board may resolve:

(aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or

(bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, but in the case of joint holders, shall be addressed to the holder whose name stands first in the register of members of the Company in respect of the shares at his address as appearing in the register, or addressed to such person and at such address as the holder or joint holders may in writing so direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

(o) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for use by him for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(p) Calls on shares and forfeiture of shares

The Board may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for the payment thereof to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Board may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and it shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

(q) Inspection of corporate records

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. However, the members of the Company will have such rights as may be set forth in the Articles. The Articles provide that for so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of member is closed) without charge and require the provision to him of copies or extracts thereof in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or outside the Cayman Islands, as its directors may, from time to time, think fit.

(r) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(s) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(t) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

(i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed pari passu amongst such members in proportion to the amount paid up on the shares held by them respectively; and

(ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, on the shares held by them respectively.

In the event that the Company is wound up (whether the liquidation is voluntary or compelled by the court) the liquidator may, with the sanction of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator shall think fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

(u) Untraceable members

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

In accordance with the Articles, the Company is entitled to sell any of the shares of a member who is untraceable if:

(i) all cheques or warrants, being not less than three in total number, for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years;

(ii) upon the expiry of the 12 years and 3 months period (being the 3 months notice period referred to in sub-paragraph (iii)), the Company has not during that time received any indication of the existence of the member; and

(iii) the Company has caused an advertisement to be published in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the stock exchange of the Relevant Territory (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(v) Subscription rights reserve

Pursuant to the Articles, provided that it is not prohibited by and is otherwise in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on 19 April 2012 subject to the Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Company operations

As an exempted company, the Company must conduct its operations mainly outside the Cayman Islands. Moreover, the Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

In accordance with the Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

(i) paying distributions or dividends to members;

(ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;

(iii) any manner provided in section 37 of the Companies Law;

(iv) writing-off the preliminary expenses of the company; and

(v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, the Companies Law provides that no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

It is further provided by the Companies Law that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

The Articles include certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company when proposing to grant such financial assistance discharge their duties of care and acting in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. Nonetheless, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares without the manner and terms of purchase first being authorised by an ordinary resolution of the company. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Under Section 37A(1) the Companies Law, shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if (a) the memorandum and articles of association of the company do not prohibit it from holding treasury shares; (b) the relevant provisions of the memorandum and articles of association (if any) are complied with; and (c) the company is authorised in accordance with the company's articles of association or by a resolution of the directors to hold such shares in the name of the company as treasury shares prior to the purchase, redemption or surrender of such shares. Shares held by a company pursuant to section 37A(1) of the Companies Law shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of sections 34 and 37A(7) of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see sub-paragraph 2(n) of this Appendix for further details). Section 37A(7)(c) of the Companies Law provides that for so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions thereto) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge:

(i) an act which is *ultra vires* the company or illegal;

(ii) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company; and

(iii) an irregularity in the passing of a resolution the passage of which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members thereof holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report thereon.

Moreover, any member of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

(g) Disposal of assets

There are no specific restrictions in the Companies Law on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interest of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

Section 59 of the Companies Law provides that a company shall cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters with respect to which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Section 59 of the Companies Law further states that proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If the Company keeps its books of account at any place other than at its registered office or at any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

(i) Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

(i) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and

(ii) in addition, that no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:

(aa) on or in respect of the shares, debentures or other obligations of the Company; or

(bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The undertaking for the Company is for a period of twenty years from 15 May 2012.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments.

(k) Stamp duty on transfers

There is no stamp duty payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(l) Loans to directors

The Companies Law contains no express provision prohibiting the making of loans by a company to any of its directors. However, the Articles provide for the prohibition of such loans under specific circumstances.

(m) Inspection of corporate records

The members of the company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

(n) Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. The Companies Law contains no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

(o) Winding up

A Cayman Islands company may be wound up either by (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company occurs where the Company so resolves by special resolution that it be wound up voluntarily, or, where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due; or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or where the event occurs on the occurrence of which the memorandum or articles provides that the company is to be wound up. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators shall be appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order shall take effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, there may be appointed one or more persons to be called an official liquidator or official liquidators; and the court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one persons are appointed to such office, the court shall declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

(p) Reconstructions

Reconstructions and amalgamations are governed by specific statutory provisions under the Companies Law whereby such arrangements may be approved by a majority in number representing 75% in value of members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member would have the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, nonetheless the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

(q) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

(r) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

4. GENERAL

Appleby, the Company's legal adviser on Cayman Islands law, has sent to the Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents Available for Inspection" in Appendix VII. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

Yongsheng Group

Increase of Registered Capital in May 2000

On 8 May 2000, the equity interest holders of Yongsheng Group resolved to increase the registered capital of Yongsheng Group from RMB1,680,000 to RMB5,680,000, the additional capital was contributed by each of the equity interest holders of Yongsheng Group in cash with reference to their respective equity holding percentage in Yongsheng Group. Upon completion of the said increase in registered capital, the equity holding percentage of the then equity holders of Yongsheng Group remained unchanged and the registered capital of Yongsheng Group was beneficially owned in the manner as follows:–

	Name of equity holder	**Registered Capital**	
		(RMB)	*Approximately %*
a)	Mr. Li[1]	4,544,000	80%
b)	Mr. Zhang Sanchun (章三春)[1 & 3]	284,000	5%
c)	Mr. Jin JL[1]	284,000	5%
d)	Mr. Jin BH[2]	284,000	5%
e)	Mr. Wu[2]	284,000	5%
		5,680,000	100%

1 Directors of Yongsheng Group at the relevant time.

2 Employee of Yongsheng Group or the then subsidiary company of Yongsheng Group at the relevant time.

3 Mr. Zhang Sanchun (章三春) is the father of Mr. Li's brother-in-law.

The aforesaid capital contribution was verified by a capital verification report issued by a PRC accountant firm dated 25 May 2000. On 2 June 2000, Hangzhou AIC Xiaoshan Branch issued a business licence to Yongsheng Group for the said increase in registered capital.

Equity Transfer and Increase of Registered Capital in June 2003

To the best knowledge of the Directors, as Mr. Zhang Sanchun (章三春) was suffering from serious illness at the relevant time, on 20 June 2003, an equity transfer agreement was entered into between Mr. Zhang Sanchun (章三春) and Ms. Chen Wenqing (陳文青) under which Mr. Zhang Sanchun (章三春) transferred his 5% equity interest or his RMB284,000 registered capital contribution in Yongsheng Group to Ms. Chen Wenqing (陳文青) at the consideration of RMB284,000 which was determined with reference and equivalent to his capital contribution in Yongsheng Group. Ms. Chen Wenqing (陳文青) was the spouse of Mr. Zhang Sanchun (章三春) and the mother of Mr. Li's brother-in-law.

As confirmed by the Directors, with an aim to improve the working incentives of certain then employees and then directors of Yongsheng Group, on 21 June 2003, the equity interest holders of Yongsheng Group resolved to increase the registered capital of Yongsheng Group from RMB5,680,000 to RMB67,680,000. The additional capital was contributed in cash by 3 groups of parties: (i) then existing equity holders, namely Mr. Li, Ms. Chen Wenqing, Mr. Jin JL, Mr. Jin BH and Mr. Wu; (ii) then director, Mr. Wang; and (iii) certain then employees of Yongsheng Group, namely Mr. Li CH, Mr. Li WH, Mr. Li M and Mr. Xu Mingchang (徐明昌). Their respective contribution was RMB39,448,000, RMB3,100,000, RMB3,100,000, RMB3,100,000, RMB3,100,000, RMB3,384,000, RMB1,692,000, RMB1,692,000, RMB1,692,000 and RMB1,692,000. Upon completion of said increase in registered capital and equity transfer, the registered capital of Yongsheng Group was beneficially owned in the manner as follows:-

	Name of equity holder	**Registered Capital**	
		(RMB)	*Approximately %*
a)	Mr. Li[1]	43,992,000	65%
b)	Ms. Chen Wenqing (陳文青)[4 & 5]	3,384,000	5%
c)	Mr. Jin JL[1]	3,384,000	5%
d)	Mr. Jin BH[3]	3,384,000	5%
e)	Mr. Wu[1 & 2]	3,384,000	5%
f)	Mr. Wang[1 & 2]	3,384,000	5%
g)	Mr. Xu Mingchang (徐明昌)[3]	1,692,000	2.5%
h)	Mr. Li M[3]	1,692,000	2.5%
i)	Mr. Li WH[3 & 4]	1,692,000	2.5%
j)	Mr. Li CH[3 & 4]	1,692,000	2.5%
		67,680,000	100%

1 Directors of Yongsheng Group at the relevant time.
2 Mr. Wu and Mr. Wang were appointed as the directors of Yongsheng Group in June 2003.
3 Employees of Yongsheng Group at the relevant time.
4 Relatives of Mr. Li.
5 Ms. Chen Wenqing (陳文青) is the mother of Mr. Li's brother-in-law and play a passive role at the relevant time.

The aforesaid capital contribution was verified by a capital verification report issued by a PRC accountant firm dated 25 June 2003. On 2 July 2003, Hangzhou AIC issued a business licence to Yongsheng Group for the said increase in registered capital.

Equity Transfers in October 2007

On 23 October 2007, twenty eight (28) equity transfer agreements were executed for the purpose of transferring certain equity interests between Mr. Li, Mr. Li's relatives, certain then employees of Yongsheng Group or its then subsidiaries and certain passive investors. The considerations of the respective transfers were determined with reference and equal to the corresponding capital contribution of the equity interest involved and were determined after arm's length negotiations and having taken into account, among others, their relationships with Mr. Li, their ability/contribution in the past or to the future development of Yongsheng Group, the incentives to the employees and the long term relationship which intended to be maintain between Mr. Li, Yongsheng Group and the passive investors (as the case maybe). Hangzhou AIC Xiaoshan Branch issued a business licence to Yongsheng Group on 25 October 2007 for the said transfers. The reasons for and details of each of the transfers are set out below:

	Transferor	Transferee	Consideration *(RMB)*	Equity interest involved *Approximately %*
Transfers of equity interests to family members of Mr. Li due to Mr. Li's personal decision				
a)	Mr. Li[1]	Mr. Li ZH[1 & 5]	2,000,000	2.955%
b)	Mr. Li[1]	Mr. Zhou[5 & 6]	1,500,000	2.216%
c)	Mr. Li[1]	Ms. Li YQ[5 & 6]	1,200,000	1.773%
d)	Mr. Li[1]	Mr. Li TF[2 & 5]	800,000	1.182%
Transfers of equity interests to senior management/employees to improve working incentives				
e)	Mr. Li[1]	Ms. Wen[1]	4,000,000	5.910%
f)	Mr. Li[1]	Mr. Ma[1]	1,500,000	2.216%
g)	Mr. Li[1]	Mr. Li M[1]	308,000	0.455%
h)	Mr. Li[1]	Mr. Cheng Jiaying (程家瑛)[2]	1,000,000	1.478%
i)	Mr. Li[1]	Mr. Zhong Zhiping (鍾治平)[2]	1,000,000	1.478%
j)	Mr. Li[1]	Mr. Zhao Donglai (趙東來)[2]	1,000,000	1.478%
k)	Mr. Li[1]	Mr. Tao[2]	800,000	1.182%
l)	Mr. Li[1]	Ms. Zhang[2]	800,000	1.182%
m)	Mr. Li[1]	Ms. Fang Songzi (方松子)[2]	700,000	1.034%
n)	Mr. Li[1]	Mr. Liu XM[2]	500,000	0.739%
o)	Mr. Li[1]	Mr. Zhang Fuqiang (張富強)[2]	400,000	0.591%
p)	Mr. Li[1]	Ms. Chen GP[2]	300,000	0.443%
q)	Mr. Li[1]	Mr. Rao Shaohong (饒紹宏)[2]	200,000	0.296%

	Transferor	Transferee	Consideration	Equity interest involved
			(RMB)	*Approximately %*
Transfers of equity interests to passive investors at the relevant time due to Mr. Li's personal decision				
r)	Mr. Li[1]	Mr. Zhao[6 & 7]	6,768,000	10.000%
s)	Mr. Li[1]	Ms. Liu XL[6]	3,500,000	5.171%
t)	Mr. Li[1]	Mr. Jin BW[6]	3,300,000	4.876%
Transfers of equity interests due to the transferors' own financial needs				
u)	Ms. Chen Wenqing (陳文青)[5 & 11]	Mr. Li[1]	3,384,000	5.000%
v)	Mr. Jin BH[2]	Mr. Li[1]	1,884,000	2.784%
w)	Mr. Li CH[2 & 5]	Mr. Li[1]	1,692,000	2.500%
x)	Mr. Li WH[5 & 10]	Mr. Li[1]	1,692,000	2.500%
y)	Mr. Xu Mingchang (徐明昌)[2]	Mr. Li[1]	692,000	1.022%
Transfers of equity interests due to the resignation or redesignation of transferors				
z)	Mr. Jin JL[2 & 4]	Mr. Li[1]	2,184,000	3.227%
aa)	Mr. Wu[8 & 9]	Mr. Li[1]	2,184,000	3.227%
bb)	Mr. Wang[2 & 3]	Mr. Li[1]	1,384,000	2.045%

1 Directors of Yongsheng Group at the relevant time.

2 Employees of Yongsheng Group or its then subsidiaries at the relevant time.

3 Mr. Wang ceased to be director of Yongsheng Group in October 2007. However, Mr. Wang was retained as an employee of Yongsheng Dyeing at the relevant time.

4 Mr. Jin JL ceased to be director of Yongsheng Group in October 2007. However, Mr. Jin JL was retained as an employee of Yongsheng Chemical Fiber at the relevant time.

5 Relatives of Mr. Li. Details of their relationships with Mr. Li are set out in note 11 below or in the section headed "Definition" in this prospectus.

6 Passive investors with no involvement in the operation or management of Yongsheng Group at the relevant time.

7 Mr. Li, at the relevant time being the controlling shareholder and the chairman of the board of Yongsheng Group, had an intention to invite Mr. Zhao as the senior management of Yongsheng Group in view of Mr. Zhao's experience in the textile industry. Therefore, Mr. Li transferred his 10% equity interest in Yongsheng Group to Mr. Zhao as an inducement to Mr. Zhao for joining Yongsheng Group.

8 Ex-employees of Yongsheng Group or its then subsidiary at the relevant time.

9 Mr. Wu ceased to be director of Yongsheng Group in October 2007.

10 At the relevant time, Mr. Li WH had been redesignated to other companies which were owned by Mr. Li and involved in businesses different from Yongsheng Group in 2006 and did not have any involvement in Yongsheng Group's business. Due to his own financial needs, Mr. Li WH cashed all of his investment.

11 Ms. Chen Wenqing (陳文青) is the mother of Mr. Li's brother-in-law and ceased to be a shareholder of Yongsheng Group upon completion of the aforesaid equity transfer in October 2007.

Upon completion of the aforesaid transfers of equity interest in October 2007, Mr. Li's equity interest in Yongsheng Group decreased from 65% to 40.65%, and the registered capital of Yongsheng Group was beneficially owned in the manner as follows:-

	Name of equity holder	**Registered Capital** *(RMB)*	*Approximately %*
a)	Mr. Li[1]	*27,512,000*	*40.65%*
Relatives of Mr. Li			
b)	Mr. Li ZH[1 & 3]	2,000,000	2.955%
c)	Mr. Zhou[3 & 5]	1,500,000	2.216%
d)	Ms. Li YQ[3 & 5]	1,200,000	1.773%
e)	Mr. Li TF[2 & 3]	800,000	1.182%
		5,500,000	*8.126%*
Senior Management/Employees/Ex-employees of Yongsheng Group or its then subsidiaries			
f)	Ms. Wen[1]	4,000,000	5.910%
g)	Mr. Ma[1]	1,500,000	2.216%
h)	Mr. Li M[1]	2,000,000	2.955%
i)	Mr. Wang[2]	2,000,000	2.955%
j)	Mr. Jin JL[2]	1,200,000	1.773%
k)	Mr. Zhong Zhiping (鍾治平)[2]	1,000,000	1.478%
l)	Mr. Cheng Jiaying (程家瑛)[2]	1,000,000	1.478%
m)	Mr. Zhao Donglai (趙東來)[2]	1,000,000	1.478%
n)	Mr. Xu Mingchang (徐明昌)[2]	1,000,000	1.478%
o)	Mr. Tao[2]	800,000	1.182%
p)	Ms. Zhang[2]	800,000	1.182%
q)	Ms. Fang Songzi (方松子)[2]	700,000	1.034%
r)	Mr. Liu XM[2]	500,000	0.739%
s)	Mr. Zhang Fuqiang (張富強)[2]	400,000	0.591%
t)	Ms. Chen GP[2]	300,000	0.443%
u)	Mr. Rao Shaohong (饒紹宏)[2]	200,000	0.296%
v)	Mr. Jin BH[2]	1,500,000	2.216%
w)	Mr. Wu[4]	1,200,000	1.773%
		21,100,000	*31.177%*

	Name of equity holder	Registered Capital	
		(RMB)	*Approximately %*
Others			
x)	Mr. Zhao[5 & 6]	6,768,000	10%
y)	Ms. Liu XL[5 & 6]	3,500,000	5.171%
z)	Mr. Jin BW[5 & 6]	3,300,000	4.876%
		13,568,000	*20.047%*
	Total:	67,680,000	100%

1 Directors of Yongsheng Group at the relevant time.
2 Employees of Yongsheng Group or its then subsidiaries at the relevant time.
3 Relatives of Mr. Li.
4 Ex-employees of Yongsheng Group at the relevant time.
5 Passive investors with no involvement in the operation or management of Yongsheng Group at the relevant time.
6 Independent third parties at the relevant time.

For corporate changes of Yongsheng Group that had occurred since March 2008, please refer to the section headed "History and Development" of this prospectus.

Hangzhou Yongsheng Trading

Equity Transfers in 2001 and 2003

At the relevant time, as advised by our PRC Legal Advisers, due to the change in government policies which allowed foreign trade companies to be wholly-owned by private individuals or corporations, state-owned enterprises hence were given the opportunity to reduce their ownership interest in companies involved in trading businesses. In such circumstances, a state-owned corporate asset transfer agreement dated 8 August 2001 was entered into between Xiaoshan CCC and Yongsheng Group, pursuant to which Xiaoshan CCC transferred its 50% interest or its RMB2,500,000 registered capital contribution in Hangzhou Yongsheng Trading to Yongsheng Group at the consideration of RMB2,500,000 which was determined with reference and equivalent to its capital contribution in Hangzhou Yongsheng Trading. Hangzhou City Xiaoshan District State-owned Asset Management Bureau (杭州市蕭山區國有資產管理局) approved the said transfer on 5 September 2001.

In 2003, Xiaoshan CAMC also desired to take advantage of the aforementioned change of government policies and at the same time, Ms. Wen, a senior management of Hangzhou Yongsheng Trading, intended to contribute in the capital of Hangzhou Yongsheng Trading. In such circumstances, an capital contribution transfer agreement dated 1 December 2003 was entered into between Xiaoshan CAMC and Ms. Wen, under which Xiaoshan CAMC transferred its 10% interest or its RMB500,000 registered capital contribution in Hangzhou Yongsheng Trading to Ms. Wen at the consideration of RMB500,000 which was determined with reference and equivalent to its capital contribution in Hangzhou Yongsheng Trading. The People's Government of Jingjiang Town (靖江鎮人民政府) approved the said transfer of 10% equity interest in Hangzhou Yongsheng Trading on 7 January 2004. On 20 April 2004, Hangzhou AIC issued a new business licence to Hangzhou Yongsheng Trading for the aforesaid transfers of equity interests respectively from Xiaoshan CCC and Xiaoshan CAMC to Yongsheng Group and Ms. Wen.

Upon completion of the aforesaid transfers of equity interests respectively from Xiaoshan CCC and Xiaoshan CAMC to Yongsheng Group and Ms. Wen in April 2004, Hangzhou Yongsheng Trading was beneficially owned by Yongsheng Group and Ms. Wen as to 90% and 10% respectively.

As advised by our PRC Legal Advisers, at the relevant time, the transfer of Hangzhou Yongsheng Trading's equity interest from Xiaoshan CCC to Yongsheng Group did not comply with the required procedures for valuation of state-owned assets and the transfer of Hangzhou Yongsheng Trading's equity interest from Xiaoshan CAMC to Wen Yan did not comply with the required procedures for valuation of collective assets as well as employee's representative meeting of the collective enterprise. Notwithstanding the above, in view of (i) the approval issued by Hangzhou City Xiaoshan District State-owned Asset Management Bureau (杭州市蕭山區國有資產管理局) on 5 September 2001; (ii) the approval of the People's Government of Jingjiang Town (靖江鎮人民政府) on 7 January 2004; (iii) the confirmation issued by Xiaoshan District Financial and Administrative Bureau (蕭山區財政局), the governing bureau of Xiaoshan CCC, on 14 February 2012; and (iv) the confirmation issued by Jingjiang Street Office (靖江街道辦事處), the successor of the People's Government of Jingjiang Town (靖江鎮人民政府) on 14 February 2012, our PRC Legal Advisers confirmed that the said non-compliance would not have any material adverse effect on the validity of the aforesaid equity transfers.

Equity Transfers and Increase in Registered Capital in 2005

In 2004, Ms. Wen was redesignated to Yongsheng Group and ceased to be a senior management of Hangzhou Yongsheng Trading. In view of her good working relationship with Wang Linfeng (王琳烽), Ms. Zhang, Wang Yanbin (王燕斌) and Liu Xiangping (劉湘萍), all being the other senior management of Hangzhou Yongsheng Trading at the relevant time, Ms. Wen and each of Liu Xiangping (劉湘萍) and Wang Linfeng (王琳烽) entered into two (2) equity interest transfer agreements in February 2005, pursuant to which Ms. Wen transferred her 2% and 2.6% equity interests or her RMB100,000 and RMB130,000 registered capital contribution in Hangzhou Yongsheng Trading to Liu Xiangping (劉湘萍) and Wang Linfeng (王琳烽) respectively for the consideration of RMB100,000 and RMB130,000, all determined with reference and equal to her respective capital contributions in Hangzhou Yongsheng Trading. Further, pursuant to two (2) equity interest transfer agreements entered into between Ms. Wen and each of Wang Yanbin (王燕斌) and Ms. Zhang in March 2005, Ms. Wen transferred her respective 2.7% and 2.7% equity interests or her RMB135,000 and RMB135,000 registered capital contribution in Hangzhou Yongsheng Trading to Wang Yanbin (王燕斌) and Ms. Zhang at the consideration of RMB135,000 and RMB135,000 respectively which were determined with reference and equal to their respective capital contribution in Hangzhou Yongsheng Trading.

On 1 March 2005, the equity interest holders of Hangzhou Yongsheng Trading resolved to increase the registered capital of Hangzhou Yongsheng Trading from RMB5,000,000 to RMB6,800,000, the additional capital was contributed in cash as to RMB1,402,400, RMB204,000, RMB60,400, RMB48,600, RMB48,600 and RMB36,000 by Yongsheng Group, Han Jian (韓劍), Wang Linfeng (王琳烽), Ms. Zhang, Wang Yanbin (王燕斌) and Liu Xiangping (劉湘萍) respectively. As confirmed by the Directors, Han Jian (韓劍) was a senior management of Hangzhou Yongsheng Trading and the reason for inviting him and other senior management to contribute to the capital of Hangzhou Yongsheng Trading was to improve their working incentives. The aforesaid capital injection was verified by a capital verification report issued by a PRC accountant firm dated 11 March 2005. Hangzhou AIC issued a new business licence to Hangzhou Yongsheng Trading on 29 March 2005 for the aforesaid transfers of equity interest from Ms. Wen to Liu Xiangping (劉湘萍), Wang Linfeng (王琳烽), Wang Yanbin (王燕斌) and Ms. Zhang and the increase in the registered capital.

Upon completion of the aforesaid transfers of equity interest and increase in registered capital in March 2005, Hangzhou Yongsheng Trading was beneficially owned by Yongsheng Group, Han Jian (韓劍), Wang Linfeng (王琳烽), Ms. Zhang, Wang Yanbin (王燕斌) and Liu Xiangping (劉湘萍) as to 86.8%, 3%, 2.8%, 2.7%, 2.7% and 2% respectively. To the best knowledge of our Directors, Han Jian (韓劍), Wang Linfeng (王琳烽), Ms. Zhang, Wang Yanbin (王燕斌) and Liu Xiangping (劉湘萍), save as being employees of Hangzhou Yongsheng Trading at relevant time, were all Independent Third Parties at the time of the aforesaid transfers of equity interest and increase in registered capital. Ms. Zhang was an employee of our Group as at the Latest Practicable Date. Han Jian (韓劍), Wang Linfeng (王琳烽), Wang Yanbin (王燕斌), and Liu Xiangping (劉湘萍) left Hangzhou Yongsheng Trading in July 2008, January 2007, March 2011, and April 2007 respectively.

Equity Transfers in August 2006

As confirmed by the Directors, to simplify the equity holding structure of its subsidiaries to the effect that Hangzhou Yongsheng Trading would be wholly owned by Yongsheng Group by reducing the number of individual shareholders, five (5) equity interest transfer agreements all dated 1 August 2006 were entered into between Yongsheng Group and each of Han Jian (韓劍), Wang Linfeng (王琳烽), Ms. Zhang, Wang Yanbin (王燕斌) and Liu Xiangping (劉湘萍), pursuant to which each of Han Jian (韓劍), Wang Linfeng (王琳烽), Ms. Zhang, Wang Yanbin (王燕斌) and Liu Xiangping (劉湘萍) transferred their respective 3%, 2.8%, 2.7%, 2.7% and 2% equity interests or RMB204,000, RMB190,400, RMB183,600, RMB183,600 and RMB136,000 of their respective registered capital contribution in Hangzhou Yongsheng Trading to Yongsheng Group for the considerations of RMB204,000, RMB190,400, RMB183,600, RMB183,600 and RMB136,000. As confirmed by the Directors, in view of their good working relationship with Hangzhou Yongsheng Trading during their employment and to maintain the same, each of Han Jian (韓劍), Wang Linfeng (王琳烽), Ms. Zhang, Wang Yanbin (王燕斌) and Liu Xiangping (劉湘萍) agreed that the consideration of the aforesaid transfers would be determined with reference to their respective capital contributions in Hangzhou Yongsheng Trading. On 9 August 2006, Hangzhou AIC Xiaoshan Branch issued a new business licence to Hangzhou Yongsheng Trading. Upon completion of all the aforesaid transfers of equity interest in August 2006, Hangzhou Yongsheng Trading was wholly and beneficially owned by Yongsheng Group.

For corporate changes of Hangzhou Yongsheng Trading that had occurred since April 2008, please refer to the section headed "History and Development" of this prospectus.

Yongsheng Chemical Fiber

Extension of Initial Capital Contribution in November 2005

On 22 November 2005, the board of directors of Yongsheng Chemical Fiber resolved, among others, that the deadline for the first phase Initial Capital contribution representing 26% equivalent to RMB13,000,000 of the Initial Capital should be paid up on or before November 2005 while the deadline for the second phase Initial Capital contribution representing 74% of the Initial Capital should be paid up no later than the end of April 2006. On 8 December 2005, the extension of the first phase and second phase Initial Capital contribution was approved by Hangzhou FTEC.

As at 8 December 2005, Yongsheng Group and HUVIS respectively contributed RMB3,900,000 and US$1,127,717.06 (equivalent to RMB9,115,497.76) in cash representing in aggregate approximately 26% of the Initial Capital of which Yongsheng Group and HUVIS contributed approximately 30% and 70% respectively. The aforesaid capital injection was verified by a capital verification report issued by a PRC accounting firm which confirmed that the aforesaid capital injection was received by Yongsheng Chemical Fiber as of 8 December 2005. Hangzhou AIC issued a new business licence to Yongsheng Chemical Fiber on 16 January 2006.

According to our PRC Legal Advisers, Yongsheng Group and HUVIS did not make their capital contributions in accordance with the deadline stipulated in the joint venture agreement dated 23 March 2004 and Yongsheng Chemical Fiber failed to, before expiry of the deadline, obtain the approval from relevant governing authorities for the delay of capital contributions by Yongsheng Group and HUVIS. Notwithstanding the aforesaid, in view of the fact that (i) both shareholders of Yongsheng Chemical Fiber delayed their capital contribution which did not constitute any unilateral breach of the joint venture agreement by either party; (ii) Yongsheng Chemical Fiber subsequently obtained the approval for the extension of capital contributions by Yongsheng Group and HUVIS from relevant government authorities; (iii) Yongsheng Chemical Fiber subsequently passed all the required annual inspections for foreign invested enterprise; and (iv) the confirmation issued by Hangzhou AIC Xiaoshan Branch on 22 February 2013, our PRC Legal Advisers opined that the said delay of capital contributions by Yongsheng Group and HUVIS would not have any material adverse effect on the valid existence of Yongsheng Chemical Fiber.

On 20 March 2006, the board of directors of Yongsheng Chemical Fiber resolved, among others, that the deadline for the Second Phase Initial Capital contribution (i.e. end of April 2006) should be further extended to 27 April 2007. On 28 April 2006, the further extension of the Initial Capital contribution was approved by Hangzhou FTEC.

Capital Reduction and Equity Transfer in November 2006

On 23 November 2006, the board of directors of Yongsheng Chemical Fiber resolved, among others, that the Initial Capital contribution be reduced from RMB50,000,000 to RMB40,000,000 ("**Capital Reduction**"). On 22 December 2006, Yongsheng Group and HUVIS entered into an equity transfer agreement, pursuant to which, Yongsheng Group agreed to acquire 40% equity interest or RMB16,000,000 of the registered capital contribution of Yongsheng Chemical Fiber from HUVIS ("**Equity Transfer**") at the consideration of RMB16,000,000 which was determined with reference and equal to 40% of the reduced registered capital in Yongsheng Chemical Fiber. On 15 May 2007, the Capital Reduction and the transfer of equity interest were approved by Hangzhou FTEC.

On 18 August 2007, Yongsheng Group and HUVIS respectively contributed RMB8,100,000 and US$2,351,614.17 (equivalent to RMB18,914,609.29) in cash representing the outstanding committed amount payable under the reduced registered capital of RMB40,000,000. The capital contribution by Yongsheng Group and HUVIS after the Capital Reduction and the transfer of equity interest was verified by a capital verification report issued by a PRC accountant firm which confirmed that such capital contribution was received by Yongsheng Chemical Fiber as of 18 August 2007. After the aforesaid capital contribution, Yongsheng Group paid RMB16,000,000 to HUVIS as to RMB12,000,000, RMB2,000,000 and RMB2,000,000 in December 2007, December 2008 and July 2009 respectively being the consideration for the Equity Transfer.

As confirmed by the Directors, the Equity Transfer was entered due to the fact that HUVIS was a foreign corporation with limited local management presence in the PRC and the then directors of Yongsheng Group and HUVIS considered that it would be more efficient and convenient for Yongsheng Group to take management control of Yongsheng Chemical Fiber.

The People's Government of Zhejiang Province (浙江省人民政府) granted a certificate of approval on 29 August 2007 and Hangzhou AIC issued a new business licence to Yongsheng Chemical Fiber on 3 September 2007.

Upon completion of the Capital Reduction and the transfer of equity interest in September 2007, Yongsheng Chemical Fiber was beneficially owned by Yongsheng Group and HUVIS as to 70% and 30% respectively.

For corporate changes of Yongsheng Chemical Fiber that had occurred since November 2012, please refer to the section headed "History and Development" of this prospectus.

Yongsheng Trading (HK)

Equity Transfer in January 2006

As confirmed by the Directors, with a view to establishing a local connection for the benefit of business development in Hong Kong, on 27 January 2006, pursuant to an instrument of transfer and a bought and sold note both dated 27 January 2006, Yongsheng Group transferred 250,000 shares of Yongsheng Trading (HK) to Amass Riches Corporation Limited (滙盈豐興業有限公司) ("**HK Partner**"), a Hong Kong based fabric retailer, for the consideration of US$250,000. The consideration for the aforesaid transfer was determined after arm's length negotiations between the parties and was determined with reference and equal to its par value. To the best knowledge of the Directors, the HK Partner was an Independent Third Party.

Upon completion of the aforesaid share transfers on 27 January 2006, Yongsheng Trading (HK) was beneficially owned by Yongsheng Group and the HK Partner as to 50% and 50% respectively.

Equity Transfer in December 2007

As confirmed by the Directors, given the intention of Mr. Li and Mr. Li WH to strengthen the control of Yongsheng Trading (HK), it was decided that Yongsheng Trading (HK) would be held by Yongsheng Holdings, a company wholly owned by Mr. Li and Mr. Li WH at the relevant time as opposed to by Yongsheng Group which was owned by other individual shareholders as to 59.35% at the relevant time. As such, on 27 December 2007, pursuant to an instrument of transfer and a bought and sold note both dated 27 December 2007, Yongsheng Group transferred all its shareholding in Yongsheng Trading (HK), representing 250,000 shares, to Yongsheng Holdings for the consideration of US$250,000. The consideration for the aforesaid transfer was determined with reference and equal to its par value.

Upon completion of the aforesaid transfers on 27 December 2007, Yongsheng Trading (HK) was beneficially owned by Yongsheng Holdings and HK Partner as to 50% and 50% respectively.

For corporate changes of Yongsheng Trading (HK) that had occurred since April 2008, please refer to the section headed "History and Development" of this prospectus.

A. FURTHER INFORMATION ABOUT OUR COMPANY

1. Incorporation of our Company

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 19 April 2012. Our Company has been registered as a non-Hong Kong company under Part XI of the Companies Ordinance on 12 July 2013 and our principal place of business in Hong Kong is at Office 1616, 16th Floor, Tower Two, Lippo Centre, No. 89 Queensway, Hong Kong. Loong & Yeung of Suites 2000-2005, 20th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong has been appointed as the authorised representative of our Company for the acceptance of service of process and notices in Hong Kong.

As our Company is incorporated in the Cayman Islands, we are subject to the relevant laws of the Cayman Islands and our constitution which comprises the Memorandum and the Articles. A summary of the relevant aspects of the Companies Law and certain provisions of the Articles is set out in Appendix IV to this prospectus.

2. Changes in share capital of our Company

(a) As at the date of incorporation of our Company, our authorised share capital was HK$380,000 divided into 38,000,000 Shares of HK$0.01 each. One Share was allotted and issued nil paid to the subscriber on 19 April 2012, which was subsequently transferred to Ever Thrive on the same date and was fully paid on 28 November 2012;

(b) On 19 April 2012, 583,332 Shares and 416,667 Shares were allotted and issued nil paid to Ever Thrive and Shun Sheng, respectively;

(c) On 28 November 2012, the said 583,332 Shares and 416,667 Shares respectively allotted and issued to Ever Thrive and Shun Sheng have been fully paid;

(d) On 31 December 2012, 571,913 Shares and 408,510 Shares were allotted and issued credited as fully paid to Ever Thrive and Shun Sheng, respectively;

(e) On 31 December 2012, 11,420 Shares and 8,157 Shares were allotted and issued nil paid to Ever Thrive and Shun Sheng, respectively;

(f) On 31 January 2013, 672,990 Shares were alloted and issued to Ever Thrive for cash at par;

(g) On 21 February 2013, the said 11,420 Shares and 8,157 Shares respectively allotted and issued to Ever Thrive and Shun Sheng have been credited as fully paid; and

(h) On 7 November 2013, our Shareholders resolved to increase the authorised share capital of our Company from HK$380,000 to HK$20,000,000 by the creation of an additional of 1,962,000,000 Shares, each ranking pari passu with our Shares then in issue in all respects.

Immediately following completion of the Capitalisation Issue and the Share Offer, and assuming that the Over-allotment Option is not exercised, the authorised share capital of our Company will be HK$20,000,000 divided into 2,000,000,000 Shares, of which 400,000,000 Shares will be issued fully paid or credited as fully paid, and 1,600,000,000 Shares will remain unissued. Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed "Written resolutions of our Shareholders passed on 7 November 2013" in this Appendix and pursuant to the Share Option Scheme, we do not have any present intention to issue any of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders at general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this prospectus, there has been no alteration in our Company's share capital since its incorporation.

3. Written resolutions of our Shareholders passed on 7 November 2013

By written resolutions of our Shareholders passed on 7 November 2013:

(a) our Company approved and adopted the Memorandum and the Articles;

(b) the authorised share capital of our Company was increased from HK$380,000 to HK$20,000,000 by the creation of an additional of 1,962,000,000 Shares of HK$0.01 each, each ranking pari passu with our Shares then in issue in all respects;

(c) conditional on the (i) Listing Committee of the Stock Exchange granting listing of, and permission to deal in, our Shares in issue and Shares to be issued as mentioned in this prospectus including any Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme and the Over-allotment Option; and (ii) on the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before the date falling 30 days after the date of this prospectus:

(i) the Share Offer was approved and our Directors were authorised to allot and issue the Offer Shares pursuant to the Share Offer to rank *pari passu* with our Shares then in issue in all respects;

(ii) the rules of the Share Option Scheme were approved and adopted and our Directors were authorised, at their absolute discretion, subject to the terms and conditions of the Share Option Scheme, to grant options to subscribe for Shares thereunder and to allot, issue and deal with our Shares pursuant to the exercise of subscription rights attaching to any options granted under the Share Option Scheme and to take all such actions as they consider necessary or desirable to implement the Share Option Scheme;

(iii) the Over-allotment Option was approved and our Directors were authorised to allot and issue our Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option to rank *pari passu* with our Shares then in issue in all respects; and

(iv) the Capitalisation Issue was approved and conditional further on the share premium account of our Company being credited as a result of the Share Offer, our Directors were authorised to capitalise an amount of HK$2,973,270.1 standing to the credit of the share premium account of our Company and to appropriate such amount as capital to pay up in full at par 297,327,010 Shares for allotment and issue to the persons whose names appear on the register of members of our Company at the close of business on 6 November 2013 in proportion (as nearly as possible without involving fractions) to their then existing shareholdings in our Company, each ranking pari passu in all respects with our Shares then in issue, and our Directors were authorised to give effect to such capitalisation and distributions;

(d) a general unconditional mandate was given to our Directors to exercise all power of our Company to allot, issue and deal with, otherwise than by way of rights or an issue of Shares pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme or any other share option scheme of our Company or any Shares allotted in lieu of the whole or part of a dividend on our Shares in accordance with the Articles or pursuant to a specific authority granted by our Shareholders or pursuant to the Share Offer or Capitalisation Issue, Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such securities convertible into Shares, and to make or grant offers, agreements and options which might require the exercise of such power, with an aggregate nominal value not exceeding 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Share Offer but excluding any Shares which may be issued under the Over-allotment Option or pursuant to the exercise of the options which may be granted under the Share Option Scheme, and such mandate to remain in effect until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of our Company; or

(ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or

(iii) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders at general meeting;

(e) a general unconditional mandate was given to our Directors authorising them to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Share Offer but excluding any Shares which may be issued under the Over-allotment Option or pursuant to the exercise of the options which may be granted under the Share Option Scheme, and such mandate to remain in effect until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of our Company; or

(ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or

(iii) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders at general meeting; and

(f) the general unconditional mandate mentioned in sub-paragraph (d) above was extended by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to the mandate to repurchase Shares referred to in sub-paragraph (e) above, provided that such extended amount shall not exceed 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Share Offer but excluding any Shares which may be issued under the Over-allotment Option or pursuant to the exercise of the options which may be granted under the Share Option Scheme.

4. Corporate Reorganisation

The companies comprising our Group underwent the Reorganisation to rationalise our Group's structure in preparation for the Listing, pursuant to which our Company became the holding company of our Group. The Reorganisation which was effected in preparation for the Listing, whereby our Company became the holding company of our Group, included the following major steps:

(a) On 19 April 2012, our Company was incorporated under the laws of the Cayman Islands as an exempted company and one nil paid Share was allotted and issued to the subscriber, which was subsequently transferred to Ever Thrive on the same date, and was fully paid on 28 November 2012;

(b) On 19 April 2012, 583,332 Shares and 416,667 Shares were allotted and issued nil paid to Ever Thrive and Shun Sheng respectively, the said 583,332 Shares and 416,667 Shares held by Ever Thrive and Shun Sheng were fully paid on 28 November 2012;

(c) On 21 May 2012, Yongsheng (BVI) was incorporated in the BVI with an authorised share capital of US$50,000 divided into 50,000 shares with a par value of US$1.00 each and on the same date, 1 share of Yongsheng (BVI) was allotted and issued to our Company for cash at par;

(d) On 31 May 2012, Yongsheng (HK) was incorporated in Hong Kong with limited liability and an authorised share capital of US$1,000 divided into 1,000 shares of US$1.00 each, 1 share of Yongsheng (HK) was allotted and issued for cash at par to Yongsheng (BVI) on the same date;

(e) On 19 October 2012, pursuant to an equity transfer agreement referred in item (a) of the paragraph headed "Summary of material contracts" in this Appendix, Yongsheng Group transferred 65% of its equity interest in Yongsheng Dyeing to Yongsheng (HK);

(f) On 19 October 2012, pursuant to an equity transfer agreement referred in item (b) of the paragraph headed "Summary of material contracts" in this Appendix, HUVIS transferred 35% of its equity interest in Yongsheng Dyeing to Yongsheng (HK);

(g) On 11 November 2012, pursuant to an equity transfer agreement referred in item (c) of the paragraph headed "Summary of material contracts" in this Appendix, Yongsheng Group transferred 90% of its equity interest in Nantong Yongsheng to Yongsheng Dyeing;

(h) On 15 November 2012, pursuant to an equity transfer agreement referred in item (d) of the paragraph headed "Summary of material contracts" in this Appendix, Yongsheng Group transferred 100% of its equity interest in Hangzhou Yongsheng Trading to Yongsheng Dyeing;

(i) On 20 November 2012, pursuant to an equity transfer agreement referred in item (e) of the paragraph headed "Summary of material contracts" in this Appendix, Yongsheng Group transferred 70% of its equity interest in Yongsheng Chemical Fiber to Yongsheng Dyeing; and

(j) On 28 December 2012, pursuant to a sale and purchase agreement referred in item (h) of the paragraph headed "Summary of material contracts" in this Appendix, Yongsheng Holdings transferred 500,000 shares of Yongsheng Trading (HK), which represented the entire issued share capital of Yongsheng Trading (HK) to Yongsheng (BVI).

Immediately after completion of the share transfers referred to in item (j) above, our Company then became the holding company of our Group.

5. Changes in share capital of subsidiaries

The subsidiaries of our Company are listed in the Accountant's Report, the text of which is set out in Appendix I to this prospectus. In addition to the alterations described in paragraph headed "Corporate Reorganisation" above, the following changes in the share capital (or registered capital, as the case may be) of our subsidiaries took place within the two years immediately preceding the date of this prospectus:

Yongsheng (BVI)

On 21 May 2012, Yongsheng (BVI) was incorporated in the BVI with an authorised share capital of US$50,000 divided into 50,000 shares with a par value of US$1.00 each and on the same date, 1 share of Yongsheng (BVI) was allotted and issued to our Company for cash at par.

Yongsheng (HK)

On 31 May 2012, Yongsheng (HK) was incorporated in Hong Kong with limited liability and an authorised share capital of US$1,000 divided into 1,000 shares of US$1.00 each, one of which was allotted and issued for cash at par to Yongsheng (BVI) on the same date.

Yongsheng Dyeing

As approved by the Hangzhou Xiaoshan Bureau of Commerce (杭州市蕭山區商務局), the People's Government of Zhejiang Province (浙江省人民政府) and Hangzhou AIC Xiaoshan Branch (杭州市工商行政管理局蕭山分局), the registered capital of Yongsheng Dyeing was increased from RMB49,000,000 to RMB138,000,000 and to be updated and paid up in cash by Yongsheng (HK). The aforesaid capital contribution had been verified by two capital verification reports issued by a PRC accountant firm dated 24 December 2012 and 18 February 2013.

6. Repurchase of our Shares by our Company

This section includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase of our Shares by our Company.

(a) Provisions of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to purchase their shares on the Stock Exchange subject to certain restrictions.

(i) Shareholders' approval

The Listing Rules provide that all proposed repurchases of shares (which must be fully paid in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval of a specific transaction.

Note: Pursuant to the written resolutions of our Shareholders passed on 7 November 2013, a general unconditional mandate (the "Repurchase Mandate") was given to our Directors authorising our Directors to exercise all powers of our Company to repurchase on the Stock Exchange, or any other stock exchange on which the securities of our Company may be listed and recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the aggregate nominal value of our shares capital of our Company in issue immediately following completion of the Capitalisation Issue and the Share Offer but excluding any Shares which may be issued under the Over-allotment Option or pursuant to the exercise of the options which may be granted under the Share Option Scheme, and the Repurchase Mandate shall remain in effect until whichever is the earliest of the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next annual general meeting of our Company is required by the Companies Law or any other applicable laws of the Cayman Islands or the Articles to be held, or the time when the Repurchase Mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting.

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles and the laws of the Cayman Islands. A listed company may not repurchase its own shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange.

Any repurchases by our Company may be made out of profits or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorised by the Articles and subject to the Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of profits of our Company or out of our Company's share premium account before or at the time our Shares are repurchased or, if authorised by the Articles and subject to the Companies Law, out of capital.

(iii) Connected parties

The Listing Rules prohibit our Company from knowingly repurchasing our Shares on the Stock Exchange from a "connected person", which includes a Director, chief executive or substantial Shareholder of our Company or any of our subsidiaries or an associate of any of them and a connected person shall not knowingly sell his/her Shares to our Company.

(b) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have a general authority from our Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of our Company's net asset value and/or earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

(c) Exercise of the Repurchase Mandate

Exercise in full of the Repurchase Mandate, on the basis of 400,000,000 Shares in issue after completion of the Capitalisation Issue and Share Offer but excluding any Shares which may be issued under the Over-allotment Option or pursuant to the exercise of the options which may be granted under the Share Option Scheme, could accordingly result in up to 40,000,000 Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force.

(d) Funding of repurchase

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws of the Cayman Islands.

Our Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

(e) General

None of our Directors or, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the Listing Rules), has any present intention if the Repurchase Mandate is exercised to sell any Shares to our Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

If as a result of a repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers and Share Repurchases (the "Takeovers Code"). Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of our Shareholders' interest, could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase. Save as disclosed above, our Directors are not aware of any consequence that would arise under the Takeovers Code as a result of a repurchase pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No connected person (as defined in the Listing Rules) of our Company has notified our Company that he has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT THE BUSINESS

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this prospectus and are or may be material:

(a) an equity transfer agreement (股權轉讓協議) dated 19 October 2012 in Chinese entered into between Yongsheng Group and Yongsheng (HK) pursuant to which, Yongsheng Group transferred its 65% equity interest in Yongsheng Dyeing to Yongsheng (HK) at a consideration of RMB39,195,000;

(b) an equity transfer agreement (股權轉讓協議) dated 19 October 2012 in Chinese entered into between HUVIS and Yongsheng (HK) pursuant to which, HUVIS transferred its 35% equity interest in Yongsheng Dyeing to Yongsheng (HK) at a consideration of RMB21,105,000;

(c) an equity transfer agreement (股權轉讓協議) dated 11 November 2012 in Chinese entered into between Yongsheng Group and Yongsheng Dyeing pursuant to which, Yongsheng Group transferred 90% of its equity interest in Nantong Yongsheng to Yongsheng Dyeing at a consideration of RMB27,000,000;

(d) an equity transfer agreement (股權轉讓協議) dated 15 November 2012 in Chinese entered into between Yongsheng Group and Yongsheng Dyeing pursuant to which, Yongsheng Group transferred 100% of its equity interest in Hangzhou Yongsheng Trading to Yongsheng Dyeing at a consideration of RMB37,500,000;

(e) an equity transfer agreement (股權轉讓協議) dated 20 November 2012 in Chinese entered into between Yongsheng Group and Yongsheng Dyeing pursuant to which, Yongsheng Group transferred 70% of its equity interest in Yongsheng Chemical Fiber to Yongsheng Dyeing at a consideration of RMB31,000,000;

(f) a sale and purchase agreement dated 20 December 2012 entered into between Yongsheng Trading (HK) Management Shareholders, Yongsheng Holdings and Yongsheng (BVI) pursuant to which, Yongsheng Holdings and Yongsheng Trading (HK) Management Shareholders agreed to transfer in total 500,000 shares of Yongsheng Trading (HK), which represented the entire issued share capital of Yongsheng Trading (HK) to Yongsheng (BVI) at a total consideration of US$500,000;

(g) a termination deed dated 27 December 2012 entered into between Yongsheng Holdings, Yongsheng Trading (HK) Management Shareholders and Yongsheng (BVI) pursuant to which, Yongsheng Holdings, Yongsheng Trading (HK) Management Shareholders and Yongsheng (BVI) terminated and void each of the sale and purchase agreement as set out in item (f) above and instruments of transfer and bought and sold notes between Yongsheng (BVI) as purchaser and each of Yongsheng Holdings and Yongsheng Trading (HK) Management Shareholders and such that the aforesaid sale and purchase agreement and transfer documents shall have no legal force and effect whatsoever and not legally binding on and enforceable against each of Yongsheng Holdings, Yongsheng Trading (HK) Management Shareholders and Yongsheng (BVI);

(h) a sale and purchase agreement dated 28 December 2012 (as supplemented by a confirmatory deed dated 10 May 2013) entered into between Yongsheng (BVI) and Yongsheng Holdings pursuant to which, Yongsheng Holdings transferred 500,000 shares of Yongsheng Trading (HK), which represented 100% of the entire issued share capital of Yongsheng Trading (HK) to Yongsheng (BVI) at a consideration of US$500,000;

(i) an instrument of transfer dated 28 December 2012 entered into between Yongsheng (BVI) and Yongsheng Holdings pursuant to which, Yongsheng Holdings transferred 500,000 shares of Yongsheng Trading (HK), which represented 100% of the entire issued share capital of Yongsheng Trading (HK) to Yongsheng (BVI) at a consideration of US$500,000;

(j) bought and sold notes dated 28 December 2012 entered into between Yongsheng Holdings, and Yongsheng (BVI), pursuant to which Yongsheng Holdings sold 500,000 shares of Yongsheng Trading (HK), which represented 100% of the entire issued share capital of Yongsheng Trading (HK) to Yongsheng (BVI) at a consideration of US$500,000;

(k) a shareholder loan agreement (股東借款協議) dated 31 October 2012 in Chinese entered into between Yongsheng (HK) and Ever Thrive pursuant to which Ever Thrive advanced an interest-free loan in an amount of US$3,300,000 to Yongsheng (HK) for a term of one year;

(l) a shareholder loan agreement (股東借款協議) dated 9 November 2012 in Chinese entered into between Yongsheng (HK) and Ever Thrive pursuant to which Ever Thrive advanced an interest-free loan in an amount of US$6,300,000 to Yongsheng (HK) for a term of one year;

(m) a shareholder loan agreement (股東借款協議) dated 21 December 2012 in Chinese entered into between Yongsheng (HK) and Ever Thrive pursuant to which Ever Thrive advanced an interest-free loan in an amount of US$12,236,000 to Yongsheng (HK) for a term of one year;

(n) a shareholder loan agreement (股東借款協議) dated 21 December 2012 in Chinese entered into between Yongsheng (BVI) and Ever Thrive pursuant to which Ever Thrive agreed to advance an interest-free loan in an amount of HK$3,880,000 to Yongsheng (BVI) for a term of one year;

(o) a shareholder loan agreement (股東借款協議) dated 28 December 2012 in Chinese entered into between Yongsheng (HK) and Ever Thrive pursuant to which Ever Thrive advanced an interest-free loan in an amount of HK$14,505,800 to Yongsheng (HK) for a term of one year;

(p) a shareholder loan agreement (股東借款協議) dated 28 December 2012 in Chinese entered into between Yongsheng (HK) and Shun Sheng pursuant to which Shun Sheng advanced an interest-free loan in an amount of HK$10,361,300 to Yongsheng (HK) for a term of one year;

(q) an assignment dated 31 December 2012 entered into between the Company, Yongsheng (HK) and Ever Thrive pursuant to which Ever Thrive assigned to the Company its loan for the amount of US$3,300,000 due from Yongsheng (HK) and as consideration, the Company issued and allotted (a) 75,370 Shares credited as fully paid to Ever Thrive and (b) as directed by Ever Thrive, 53,836 Shares credited as fully paid to Shun Sheng;

(r) an assignment dated 31 December 2012 entered into between the Company, Yongsheng (HK) and Ever Thrive pursuant to which Ever Thrive assigned to the Company its loan for the amount of US$6,300,000 due from Yongsheng (HK) and as consideration, the Company issued and allotted (a) 143,889 Shares credited as fully paid to Ever Thrive and (b) as directed by Ever Thrive, 102,778 Shares credited as fully paid to Shun Sheng;

(s) an assignment dated 31 December 2012 entered into between the Company, Yongsheng (HK) and Ever Thrive pursuant to which Ever Thrive assigned to the Company its loan for the amount of US$12,236,000 due from Yongsheng (HK) and as consideration, the Company issued and allotted (a) 279,464 Shares credited as fully paid to Ever Thrive and (b) as directed by Ever Thrive, 199,618 Shares credited as fully paid to Shun Sheng;

(t) an assignment dated 31 December 2012 (as supplemented by a confirmatory deed dated 10 May 2013) entered into between the Company, Yongsheng (BVI) and Ever Thrive pursuant to which Ever Thrive agreed to assign to the Company its loan for the amount of HK$3,880,000 agreed to be advanced to Yongsheng (BVI) on 21 December 2012 and such assignment was confirmed to be taken place with effect from 21 February 2013 (being the date of advancement of the said loan) as confirmed by the parties in the confirmatory deed and as consideration, the Company issued and allotted (a) 11,420 Shares credited as fully paid to Ever Thrive and (b) as directed by Ever Thrive, 8,157 Shares credited as fully paid to Shun Sheng;

(u) an assignment dated 31 December 2012 entered into between the Company, Yongsheng (HK) and Ever Thrive pursuant to which Ever Thrive assigned to the Company its loan for the amount of HK$14,505,800 due from Yongsheng (HK) and as consideration, the Company issued and allotted 73,190 Shares credited as fully paid to Ever Thrive;

(v) an assignment dated 31 December 2012 entered into between the Company, Yongsheng (HK) and Shun Sheng pursuant to which Shun Sheng assigned to the Company its loan for the amount of HK$10,361,300 due from Yongsheng (HK) and as consideration, the Company issued and allotted 52,278 Shares credited as fully paid to Shun Sheng;

(w) a deed of non-competition (不競爭契約) dated 7 November 2013 in Chinese executed by Mr. Li, Ever Thrive and the Company, details of which are set out in the paragraph headed "Non-competition Undertaking" under the section headed "Relationship with our Controlling Shareholders" in this prospectus;

(x) a deed of indemnity dated 7 November 2013 executed by Mr. Li and Ever Thrive in favour of the Group containing the indemnities referred to in the paragraph headed "Tax and other indemnities" in this Appendix; and

(y) the Public Offer Underwriting Agreement.

2. Intellectual property rights

Set out below is a summary of our material intellectual property rights. Our material intellectual property rights were determined by our Directors on the basis of their materiality to our business operation, financial position and prospects.

(a) Patents

As at the Latest Practicable Date, our Group had the following patents which, in the opinion of our Directors, are material to our business:

Type of Patent	Patent description	Registered owner	Effective Period	Patent number
Practical New Model	a type of dust removal machine (一種除塵器)	Yongsheng Dyeing	From 31 January 2011 to 30 January 2021	ZL201120034506.6
Practical New Model	a type of desulfurisation tower (一種脱硫塔)	Yongsheng Dyeing	From 31 January 2011 to 30 January 2021	ZL201120034509.X
Practical New Model	a type of dyeing machine system (一種染色機系統)	Yongsheng Dyeing	From 31 January 2011 to 30 January 2021	ZL201120034507.0
Practical New Model	a type of recovery device for residual heat of smoke (一種煙氣餘熱回收裝置)	Yongsheng Dyeing	From 31 January 2011 to 30 January 2021	ZL201120034500.9
Practical New Model	a type of recycle system for hot water of dyeing machine (一種染色機熱水回用系統)	Yongsheng Dyeing	From 31 January 2011 to 30 January 2021	ZL201120034511.7
Practical New Model	a type of device for the recovery of residual heat of smoke for drying dyed cloth (一種回收烘乾染布煙氣餘熱的裝置)	Yongsheng Dyeing	From 31 January 2011 to 30 January 2021	ZL201120034513.6
Practical New Model	Shaped thin nylon elastic fiber (異型錦綸細旦纖維)	Nantong Yongsheng	From 14 March 2011 to 13 March 2021	ZL201120065085.3

(b) Trademarks

As at the Latest Practicable Date, our Group had the following registered trademarks which, in the opinion of our Directors, are material to our business:

Trademark	Registration/ Trade Mark Number	Class	Registration Date (Year/ Month/Day)	Expiry Date (Year/ Month/Day)	Place of Registration	Registrant
HUVIS-YONGSHENG	5676201	40	2009/12/28	2019/12/27	PRC	Yongsheng Dyeing
汇维仕永盛	5676202	40	2009/12/28	2019/12/27	PRC	Yongsheng Dyeing
	5676203	40	2009/12/28	2019/12/27	PRC	Yongsheng Dyeing
	5676204	35	2009/10/28	2019/10/27	PRC	Yongsheng Dyeing
YongSheng	5676207	40	2009/12/28	2019/12/27	PRC	Yongsheng Dyeing
永盛	5676208	40	2009/12/28	2019/12/27	PRC	Yongsheng Dyeing
HUVIS-YS	5676221	40	2009/12/28	2019/12/27	PRC	Yongsheng Dyeing
	302472679	22, 23, 24, 35, 40	2012/12/19	2022/12/18	Hong Kong	Yongsheng (BVI)

(c) Domain Names

As at the Latest Practicable Date, our Group has registered the following domain names:

Registrant	Domain Name	Registration Date	Expiration Date
Yongsheng Dyeing	hwsysrz.cn	9 Jul 2009	9 Jul 2014
Yongsheng Trading (HK)	yongsheng.com.hk	4 Oct 2010	20 Oct 2014
Yongsheng Chemical Fiber	huvishz.com	16 Mar 2009	16 Mar 2014
Yongsheng Dyeing	chinaysgroup.com	19 Sept 2011	19 Sept 2015

The contents of the website(s), registered or licenced, do not form part of this prospectus.

Except the aforesaid, there are no other trademarks, patents other intellectual or industrial property rights of our Group which are or may be material in relation to our Group's business as at the Latest Practicable Date.

3. Information about the PRC Subsidiaries of our Group

Name: Yongsheng Dyeing

Date of establishment:	8 August 2003
Corporate nature:	Limited liability company (solely owned by legal person of Taiwan, Hong Kong and Macau Special Administrative Region, PRC)
Total registered capital:	RMB138,000,000
Attributable interest of our Company:	100%
Term:	From 8 August 2003 to 7 August 2053
Scope of business:	Processing: dyeing and tidying of high-ended fabrics; Wholesale, import and export of textile, knitwear and raw materials for chemical fibers (the import and export of the above commodities do not involve commodities which are under special administration of state-run trade, import and export quota licence, tender of export quota, export license, etc. And the import and export of other commodities which are under special administration shall be conducted in accordance with relevant national regulations)
Legal representative:	Mr. Ma QH

Name: Yongsheng Chemical Fiber

Date of establishment:	28 April 2004
Corporate nature:	sino-foreign jointly owned enterprise
Total registered capital:	RMB40,000,000
Attributable interest of our Company:	70%
Term:	From 28 April 2004 to 27 April 2054
Scope of business:	Production and adding elasticity: differential fiber
Legal representative:	Mr. Li

Name: Nantong Yongsheng

Date of establishment:	28 June 2010
Corporate nature:	Limited liability company
Total registered capital:	RMB30,000,000
Attributable interest of our Company:	90%
Term:	From 28 June 2010 to 27 June 2050
Scope of business:	Production and sale of fiber and textile products; sale of textile products and its raw and auxiliary materials; self-operating and being the agent of import and export business in respect of a range of products and techniques, except commodities and technologies which are operated by nationally prescribed enterprise and import and export forbidden
Legal representative:	Mr. Li M

Name: Hangzhou Yongsheng Trading

Date of establishment:	2 August 2000
Corporate nature:	Limited liability company (solely owned by wholly foreign-owned enterprise)
Total registered capital:	RMB11,000,000
Attributable interest of our Company:	100%
Term:	From 2 August 2000 to 2 August 2030
Scope of business:	Licenced Operations: None; General Operations: Wholesale, import and export of textile, knitwear and textile raw materials (the import and export of the above commodities do not involve commodities which are under special administration of state-run trade, import and export quota licence, tender of export quota, export licence, etc. And the import and export of other commodities which are under special administration shall be conducted in accordance with relevant national regulations) (the abovementioned business scope does not include operations banned, restricted or licenced for business by laws and regulations)
Legal representative:	Mr. Li CH

C. FURTHER INFORMATION ABOUT SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND EXPERTS

1. Disclosure of interests

(a) Immediately following the completion of the Capitalisation Issue and the Share Offer but taking no account of our Shares to be issued pursuant to options which may be granted under the Share Option Scheme or pursuant to the exercise of the Over-allotment Option and without taking into account the arrangement under the Stock Borrowing Agreement, the interests and short positions of our Directors or chief executive of our Company in our Shares, underlying Shares and debentures of our Company or any of our associated corporations (within the meaning of Part XV of the SFO) which, once our Shares are listed on the Stock Exchange, will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests which they are taken or deemed to have under such provisions of the SFO) or will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to our Company and the Stock Exchange, in each case once our Shares are listed on the Stock Exchange, will be as follows:

(i) Long position in our Shares

Name of Director	Capacity/Nature	No. of Shares held	Approximate percentage of interest
Mr. Li *(Note)*	Interest of controlled corporations	300,000,000	75%

(ii) Long position in the ordinary shares of associated corporation

Name of Director	Name of Associated Corporation	Capacity/Nature	No. of shares held	Approximate percentage of interest
Mr. Li *(Note)*	Ever Thrive	Beneficial owner	371	79.61%

Note: Mr. Li beneficially owns approximately 79.61% of the issued share capital of Ever Thrive which in turn, beneficially holds 206,471,600 Shares. Therefore, Mr. Li is deemed or taken to be interested in all our Shares held by Ever Thrive for the purposes of the SFO. Mr. Li is the sole director of Shun Sheng and Shun Sheng is accordingly accustomed to act in accordance with Mr. Li's directions. Therefore, Mr. Li is deemed or taken to be interested in all our Shares held by Shun Sheng for the purposes of the SFO. Mr. Li is also the sole director of Ever Thrive.

(b) So far as is known to our Directors and save as disclosed in this prospectus and taking no account of any Shares which may be taken up under the Share Offer, and Shares to be issued pursuant to options which may be granted under the Share Option Scheme or pursuant to the exercise of the Over-allotment Option and without taking into account the arrangement under the Stock Borrowing Agreement, the following persons (not being a Director or chief executive of our Company) will, immediately following the completion of the Capitalisation Issue and the Share Offer, have interests or short positions in Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Substantial Shareholders

Name	Nature of Interest	No. of Shares held	Approximate percentage of shareholding
Ever Thrive	Beneficial owner	206,471,700	51.62%
Shun Sheng	Beneficial owner	93,528,300	23.38%
Ms. Chen Fangqin *(Note)*	Interest of Spouse	300,000,000	75%

Note: Ms. Chen Fangqin is the spouse of Mr. Li. Therefore, Ms. Chen Fangqin was deemed, or taken to be interested in all our Shares which are interested by Mr. Li for the purposes of the SFO.

Substantial Shareholders of our Subsidiaries

Huvis holds 30% of the equity interest in Yongsheng Chemical Fiber as at the Latest Practicable Date. For details, please refer to the paragraph headed "Yongsheng Chemical Fiber" set out in the section headed "History and development" of this prospectus.

2. Particulars of service agreements

Each of our executive Directors has entered into a service agreement with our Company for an initial term of three years commencing on 7 November 2013, subject to the termination provision therein. Each of our executive Directors or our Company may terminate the appointment by giving the other party not less than three months' prior notice in writing.

Each of our independent non-executive Directors has entered into a service agreement with our Company as an independent non-executive Director for a term of three years commencing on 7 November 2013, subject to the termination provision therein. Each of our independent non-executive Directors or our Company may terminate the appointment by giving the other party not less than three months' prior notice in writing.

Save as disclosed in this prospectus, no Director has entered into any service agreement with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

3. Directors' remuneration

(a) The aggregate amount of remuneration paid to our Directors by our Group in respect of each of the three years ended 31 December 2012 and the six months ended 30 June 2013 were approximately RMB747,000, RMB1,031,000, RMB444,000 and RMB362,000, respectively.

(b) Under the arrangements currently in force, the aggregate emoluments (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to our Directors for the year ending 31 December 2013 will be approximately RMB475,000.

(c) Under the arrangements currently proposed, conditional upon the Listing, the basic annual remuneration (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to each of our Directors will be as follows:

	RMB
Executive Directors	
Mr. Li	145,000
Mr. Zhao	206,000
Mr. Li CH	179,000
Mr. Ma	174,000
Independent non-executive Directors	
Mr. Duan Xiaoping	79,000
Ms. Wong Wai Ling	103,000
Mr. Shiping James Wang	79,000

4. Fees or commission received

Save as disclosed in the paragraph headed "Commission and expenses" in the section headed "Underwriting" of this prospectus, none of our Directors or the experts named in the paragraph headed "Consents of experts" in this Appendix had received any agency fee or commissions from our Group within the two years preceding the date of this prospectus.

5. Related party transactions

Details of the related party transactions are set out under note 37 to the Accountant's Report set out in Appendix I to this prospectus.

6. Disclaimers

Save as disclosed in this prospectus:

(a) there are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) between our Directors and any member of our Group;

(b) none of our Directors or the experts named in the paragraph headed "Consents of experts" in this Appendix has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

(c) none of our Directors or the experts named in the paragraph headed "Consents of experts" in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;

(d) taking no account of our Shares which may be issued pursuant to options which may be granted under our Share Option Scheme or pursuant to the exercise of the Over-allotment Option and without taking into account the arrangements under the Stock Borrowing Agreement, none of our Directors knows of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the Share Offer and the Capitalisation Issue, have any interest in Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be interested, directly or indirectly, in

10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;

(e) none of our Directors or chief executive of our Company has any interest or short position in our Shares, underlying Shares or debentures of our Company or any of our associated corporations (within the meaning of the SFO) which, once our Shares are listed on the Stock Exchange, will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which he will be taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to our Company and the Stock Exchange; and

(f) so far as is known to our Directors, none of our Directors, their respective associates (as defined under the Listing Rules) or Shareholders who are interested in more than 5% of the issued share capital of our Company has any interests in the five largest customers or the five largest suppliers of our Group.

D. SHARE OPTION SCHEME

(a) Definitions

For the purpose of this section, the following expressions have the meanings set out below unless the context requires otherwise:

"Adoption Date"	7 November 2013, the date on which the Share Option Scheme is conditionally adopted by the Shareholders by way of written resolution
"Board"	the board of Directors or a duly authorised committee of the board of Directors
"business day"	any day on which Stock Exchange is open for the business of dealing in securities
"Group"	our Company and any entity in which our Company, directly or indirectly, holds any equity interest

(b) Summary of terms

The following is a summary of the principal terms of the rules of the Share Option Scheme conditionally adopted by the written resolutions of our Shareholders passed on 7 November 2013:

(i) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), directors, consultants, advisors, distributors, contractors, suppliers, agents, customers, business partners or service providers of our Group and to promote the success of the business of our Group.

(ii) Who may join and basis of eligibility

The Board may, at its absolute discretion and on such terms as it may think fit, grant any employee (full-time or part-time), director, consultant or advisor of our Group, or any substantial shareholder of our Group, or any distributor, contractor, supplier, agent, customer, business partner or service provider of our Group, options to subscribe at a price calculated in accordance with paragraph (iii) below for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme.

The basis of eligibility of any participant to the grant of any option shall be determined by the Board (or as the case may be, the independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of our Group.

(iii) Price of Shares

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of: (i) the closing price of our Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a business day; (ii) the average of the closing prices of our Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option, provided always that for the purpose of calculating the subscription price, where our Company has been listed on the Stock Exchange for less than five business days, the new issue price shall be used as the closing price for any business day falling within the period before listing.

(iv) Grant of options and acceptance of offers

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to our Company on acceptance of the offer for the grant of an option is HK$1.

(v) Maximum number of Shares

(aa) Subject to sub-paragraph (bb) and (cc) below, the maximum number of Shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company as from the Adoption Date (excluding, for this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) must not in aggregate exceed 10% of all our Shares in issue as at the Listing Date. Therefore, it is expected that our Company may grant options in respect of up to 40,000,000 Shares (or such numbers of Shares as shall result from a sub-division or a consolidation of such 40,000,000 Shares from time to time) to the participants under the Share Option Scheme.

(bb) The 10% limit as mentioned above may be refreshed at any time by obtaining approval of the Shareholders in general meeting provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company must not exceed 10% of our Shares in issue as at the date of approval of the refreshed limit. Options previously granted under the Share Option Scheme and any other share option schemes of our Company (including those outstanding, canceled or lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of our Company) will not be counted for the purpose of calculating the refreshed 10% limit. A circular must be sent to the Shareholders containing the information as required under the Listing Rules in this regard.

(cc) Our Company may seek separate approval by the Shareholders in general meeting for granting options beyond the 10% limit provided the options in excess of the 10% limit are granted only to grantees specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to the Shareholders containing a generic description of such grantees, the number and terms of such options to be granted and the purpose of granting options to them with an explanation as to how the terms of the options will serve such purpose and all other information required under the Listing Rules.

(dd) The aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company must not exceed 30% of our Shares in issue from time to time. No options may be granted under the Share Option Scheme or any other share option schemes of our Company, if this will result in such 30% limit being exceeded.

(vi) Maximum entitlement of each participant

The total number of Shares issued and to be issued upon exercise of options granted to any participant (including both exercised and outstanding options) under the Share Option Scheme, in any 12-month period up to the date of grant shall not exceed 1% of our Shares in issue. Any further grant of options in excess of such limit must be separately approved by Shareholders in general meeting with such grantee and his associates abstaining from voting. In such event, our Company must send a circular to the Shareholders containing the identity of the grantee, the number and terms of the options to be granted (and options previously granted to such grantee), and all other information required under the Listing Rules. The number and terms (including the subscription price) of the options to be granted must be fixed before the approval of the Shareholders and the date of the Board meeting proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

(vii) Grant of options to certain connected persons

(aa) Any grant of an option to a Director, chief executive or substantial shareholder of our Company (or any of their respective associates) must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the option).

(bb) Where any grant of options to a substantial Shareholder or an independent non-executive Director (or any of their respective associates) will result in the total number of Shares issued and to be issued upon exercise of all options already granted and to be granted to such person under the Share Option Scheme and any other share option schemes of our Company (including options exercised, canceled and outstanding) in any 12-month period up to and including the date of grant:

(i) representing in aggregate over 0.1% of our Shares in issue; and

(ii) having an aggregate value, based on the closing price of our Shares at the date of each grant, in excess of HK$5 million, such further grant of options is required to be approved by Shareholders at a general meeting of our Company, with voting to be taken by way of poll. Our Company shall send a circular to the Shareholders containing all information as required under the Listing Rules in this regard. All connected persons of our Company shall abstain from voting (except where any connected person intends to vote against the proposed grant and his/her intention to do so has been stated in the aforesaid circular). Any change in the terms of an option granted to a substantial shareholder or an independent non-executive Director or any of their respective associates is also required to be approved by Shareholders in the aforesaid manner.

(viii) Restrictions on the times of grant of options

(aa) An offer for the grant of options may not be made after any inside information (as defined in the SFO) has come to the knowledge of our Company until such inside information has been announced pursuant to the requirements of the Listing Rules and the SFO. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

(i) the date of the Board meeting (such date to first be notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or other interim period (whether or not required under the Listing Rules); and

(ii) the last day for our Company to publish an announcement of the results for any year, or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules) and ending on the date of the result announcement.

(bb) Further to the restrictions in paragraph (aa) above, no option may be granted to a Director on any day on which financial results of our Company are published:

(i) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and

(ii) during the period of 30 days immediately preceding the publication date of the quarterly results (if any) and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

(ix) Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

(x) Performance targets

Save as determined by the Board and provided in the offer of the grant of the relevant options, there is no performance target which must be achieved before any of the options can be exercised.

(xi) Ranking of Shares

Our Shares to be allotted upon the exercise of an option will be subject to all the provisions of the Articles for the time being in force and will rank pari passu in all respects with the fully paid Shares in issue on the date of allotment and accordingly will entitle the holders to participate in all dividends or other distributions paid or made after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be on or before the date of allotment, save that our Shares allotted upon the exercise of any option shall not carry any voting rights until the name of the grantee has been duly entered on the register of members of our Company as the holder thereof.

(xii) Rights are personal to grantee

An option shall not be transferable or assignable and shall be personal to the grantee of the option.

(xiii) Rights on cessation of employment by death

In the event of the death of the grantee (provided that none of the events which would be a ground for termination of employment referred to in (xiv) below arises within a period of three years prior to the death, in the case the grantee is an employee at the date of grant), the legal personal representative(s) of the grantee may exercise the option up to the grantee's entitlement (to the extent which has become exercisable and not already exercised) within a period of 12 months following his/her death provided that where any of the events referred to in (xvii), (xviii) and (xix) occurs prior to his death or within such period of 12 months following his/her death, then his/her legal personal representative(s) may so exercise the option within such of the various periods respectively set out therein.

(xiv) Rights on cessation of employment by dismissal

In the event that the grantee is an employee of our Group at the date of grant and he/she subsequently ceases to be an employee of our Group on any one or more of the grounds that he/she has been guilty of serious misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his/her creditors generally, or has been convicted of any criminal offence involving his/her integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his/her employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group, his/her option shall lapse automatically (to the extent not already exercised) on the date of cessation of his/her employment with our Group.

(xv) Rights on cessation of employment for other reasons

In the event that the grantee is an employee of our Group at the date of grant and he/she subsequently ceases to be an employee of our Group for any reason other than his death or the termination of his employment on one or more of the grounds specified in (xiv) above, the option (to the extent not already lapsed or exercised) shall lapse on the expiry of three months after the date of cessation of such employment (which date will be the last actual working day, on which the grantee was physically at work with our Company or the relevant member of our Group whether salary is paid in lieu of notice or not).

(xvi) Effects of alterations to share capital

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable, whether by way of Capitalisation of profits or reserves, rights issue, open offer, consolidation, subdivision or reduction of the share capital of our Company (other than an issue of Shares as consideration in respect of a transaction to which any member of our Group is a party), such corresponding adjustments (if any) shall be made in the number of Shares subject to the option so far as unexercised; and/or the subscription prices, as the auditors of or independent financial advisor to our Company shall certify or confirm in writing (as the case maybe) to the Board to be in their opinion fair and reasonable in compliance with the relevant provisions of the Listing Rules, or any guideline or supplemental guideline issued by the Stock Exchange from time to time (no such certification or confirmation is required in case of adjustment made on a Capitalisation Issue), provided that any alteration shall give a grantee, as near as possible, the same proportion of the issued share capital of our Company as that to which he/she/it was previously entitled, but no adjustment shall be made to the effect of which would be to enable a Share to be issued at less than its nominal value.

(xvii) Rights on a general offer

In the event of a general offer (whether by way of takeover offer or scheme of arrangement or otherwise in like manner) being made to all the Shareholders (or all such holders other than the offeror and/or any persons controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becoming or being declared unconditional, the grantee (or, as the case may be, his legal personal representative(s)) shall be entitled to exercise the option in full (to the extent not already lapsed or exercised) at any time within one month after the date on which the offer becomes or is declared unconditional.

(xviii) Rights on winding-up

In the event a notice is given by our Company to the members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it dispatches such notice to each member of our Company give notice thereof to all grantees and thereupon, each grantee (or, as the case may be, his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than two business days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

(xix) Rights on compromise or arrangement

In the event of a compromise or arrangement between our Company and the Shareholders or the creditors of our Company being proposed in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies pursuant to the Companies Law, our Company shall give notice thereof to all the grantees on the same day as it gives notice of the meeting to the Shareholders or the creditors of our Company to consider such a compromise or arrangement and the options (to the extent not already lapsed or exercised) shall become exercisable in whole or in part on such date not later than two business days prior to the date of the general meeting directed to be convened by the court for the purposes of considering such compromise or arrangement ("Suspension Date"), by giving notice in writing to our Company accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given whereupon our Company shall as soon as practicable and, in any event, no later than 3:00 p.m. on the business day immediately prior to the date of the proposed general meeting, allot and issue the relevant Shares to the grantee credited as fully paid. With effect from the Suspension Date, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. The Board shall endeavor to procure that our Shares issued as a result of the exercise of options hereunder shall for the purposes of such compromise or arrangement form part of the issued share capital of our Company on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the court (whether upon the terms presented to the court or upon any other terms as may be approved by such court), the rights of grantees to exercise their respective options shall with effect from the date of the making of the order by the court be restored in full but only up to the extent not already exercised and shall thereupon become exercisable (but subject to the other terms of the Share Option Scheme) as if such compromise or arrangement had not been proposed by our Company and no claim shall lie against our Company or any of its officers for any loss or damage sustained by any grantee as a result of such proposal, unless any such loss or damage shall have been caused by the act, neglect, fraud or willful default on the part of our Company or any of its officers.

(xx) Lapse of options

An option shall lapse automatically on the earliest of:

(aa) the expiry of the period referred to in paragraph (ix) above;

(bb) the date on which the Board exercises our Company's right to cancel, revoke or terminate the option on the ground that the grantee commits a breach of paragraph (xii);

(cc) the expiry of the relevant period or the occurrence of the relevant event referred to in paragraphs (xiii), (xv), (xvii) or (xviii) above;

(dd) subject to paragraph (xviii) above, the date of the commencement of the winding-up of our Company;

(ee) the occurrence of any act of bankruptcy, insolvency or entering into of any arrangements or compositions with his/her creditors generally by the grantee, or conviction of the grantee of any criminal offence involving his/her integrity or honesty;

(ff) where the grantee is only a substantial shareholder of any member of our Group, the date on which the grantee ceases to be a substantial shareholder of such member of our Group; or

(gg) subject to the compromise or arrangement as referred to in paragraph (xix) become effective, the date on which such compromise or arrangement becomes effective.

(xxi) Cancellation of options granted but not yet exercised

Any cancellation of options granted but not exercised may be effected on such terms as may be agreed with the relevant grantee, as the Board may in its absolute discretion sees fit and in a manner that complies with all applicable legal requirements for such cancellation.

(xxii) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of ten years commencing on the Adoption Date and shall expire at the close of business on the business day immediately preceding the tenth anniversary thereof unless terminated earlier by the Shareholders in general meeting.

(xxiii) Alteration to the Share Option Scheme

(aa) the Share Option Scheme may be altered in any respect by resolution of the Board except that alterations of the provisions of the Share Option Scheme which alters to the advantage of the grantees of the options relating to matters governed by Rule 17.03 of the Listing Rules shall not be made except with the prior approval of the Shareholders in general meeting.

(bb) Any amendment to any terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted, or any change to the authority of the Board in respect of alteration of the Share Option Scheme must be approved by Shareholders in general meeting except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

(cc) Any amendment to any terms of the Share Option Scheme or the options granted shall comply with the relevant requirements of Chapter 17 of the Listing Rules.

(xxiv) Termination to the Share Option Scheme

Our Company by resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but options granted prior to such termination shall continue to be valid and exercisable in accordance with provisions of the Share Option Scheme.

(xxv) Conditions of the Share Option Scheme

The Share Option Scheme is conditional upon the Listing Committee granting the Listing of, and permission to deal in our Shares may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(c) Present status of the Share Option Scheme

Application has been made to the Listing Committee for listing of and permission to deal in 40,000,000 Shares which fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme.

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

E. OTHER INFORMATION

1. Tax and other indemnities

Mr. Li and Ever Thrive (the "Indemnifiers") have, pursuant to the deed of indemnity referred to in item (x) of the paragraph headed "Summary of material contracts" of this Appendix (the "Deed"), given joint and several indemnities to our Company for itself and as trustee for our subsidiaries, among other things,

(a) any liability for Hong Kong estate duty which might be payable by any member of our Group under or by virtue of the provisions of Section 35 and Section 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or any similar laws and regulations of any relevant jurisdiction arising on the death of any person at any time by reason of any transfer of any property to any member of our Group on or before the date on which the Share Offer becomes unconditional;

(b) any taxation which might be payable by any member of our Group (i) in respect of any income, profits or gains earned, accrued, or received or deemed to have been earned, accrued or received on or before the date on which Share Offer becomes conditional; or (ii) in respect of or in consequence of any act, omission or event occurring or deemed to occur on or before the date on which the Share Offer becomes unconditional;

(c) any claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses and fines of whatever nature suffered or incurred by any member of our Group as a result of or in connection with the Non-Compliant Bill Arrangement and any legal proceedings instituted by or against any member of our Group in relation to events occurred on or before the date on which the Share Offer becomes unconditional;

The Indemnifiers will, however, not be liable under the Deed for taxation to the extent that, among others:

(i) specific provision, reserve or allowance has been made for such taxation liability in the audited accounts of our Group for the Track Record Period; or

(ii) the tax liability arises or is incurred as a result of a retrospective change in law, rules and regulations, or a retrospective increase in tax rates coming into force after the date on which the Share Offer becomes unconditional; or

(iii) the taxation liability arises in the ordinary course of business of our Group after 30 June 2013 up to and including the date on which the Share Offer becomes conditional.

Our Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands or the PRC is likely to fall on our Group.

2. Litigation

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to our Directors to be pending or threatened against any member of the Group.

3. Sole Sponsor

The Sole Sponsor has, on behalf of our Company, made an application to the Listing Committee for the Listing of, and permission to deal in, our Shares in issue and to be issued as mentioned herein and our Shares falling to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme and the exercise of the Over-allotment Option.

The Sole Sponsor has confirmed to the Stock Exchange that it satisfies the independence test as stipulated under Rule 3A.07 of the Listing Rules.

4. Preliminary expenses

The preliminary expenses of our Company are estimated to be approximately HK$38,000 and are payable by our Company.

5. Promoter

Our Company has no promoter for the purpose of the Listing Rules.

6. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualifications
Haitong International Capital Limited	A licenced corporation permitted to carry on type 6 (advising on corporate finance) regulated activity under the SFO
PricewaterhouseCoopers	Certified Public Accountants
DTZ Debenham Tie Leung Limited	Property valuers
Loong & Yeung	Legal advisers of our Company as to Hong Kong laws
Tian Yuan Law Firm	Registered law firm in the PRC
Appleby	Cayman Islands attorneys-at-law
DLA Piper Hong Kong	DLA Piper Hong Kong is an international law firm and part of DLA Piper, a global law firm. DLA Piper advised on the applicability of International Sanctions on the activities of the Company during the Track Record Period

7. Consents of experts

Each of Haitong International Capital Limited, PricewaterhouseCoopers, DTZ Debenham Tie Leung Limited, Loong & Yeung, Tian Yuan Law Firm, Appleby and DLA Piper Hong Kong has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its reports and/or letter and/or opinion and/or valuation certificate and/or summary thereof (as the case may be) and/or reference to its name included herein in the form and context in which it is respectively included.

8. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

9. Taxation of holders of Shares

(a) Hong Kong

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

(b) Cayman Islands

No stamp duty is payable in the Cayman Islands on transfer of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(c) Consultation with professional advisors

Intending holders of our Shares are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in our Shares. It is emphasized that none of our Company, our Directors or other parties involved in the Share Offer accepts responsibility for any tax effect on, or liabilities of holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

10. No material adverse change

Our Directors confirm that there has not been any material adverse change in the financial trading position or prospects of our Group since 30 June 2013 (being the date to which the latest audited consolidated financial statements of our Company were made up).

11. Miscellaneous

(a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:

(i) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration than cash;

(ii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of our Company or any of our subsidiaries and no commission has been paid or is payable in connection with the issue or sale of any capital of our Company or any of our subsidiaries;

(iii) no commission has been paid or is payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any of our Shares or shares of any of our subsidiaries; and

(iv) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.

(b) Save as disclosed in this prospectus, neither our Company nor any of our subsidiaries has issued or agreed to issue any founders shares, management shares, deferred shares or any debentures.

(c) Save in connection with the Underwriting Agreements, none of the parties listed in the paragraph headed "Consents of experts" in this Appendix:

(i) is interested legally or beneficially in any securities of our Company or any of our subsidiaries; or

(ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of our Company or any of our subsidiaries.

(d) The branch register of members of our Company will be maintained in Hong Kong by Tricor Investor Services Limited. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Company's share register in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to ensure our Shares to be admitted into CCASS for clearing and settlement.

(e) There has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this prospectus.

(f) No company within our Group is presently listed on any stock exchange or traded on any trading system.

(g) We had no outstanding convertible debt securities as at the Latest Practicable Date.

(h) Our Directors have been advised that, under the laws of the Cayman Islands, the use of a Chinese name pre-approved by the Registrar of Companies in the Cayman Islands by our Company in conjunction with our English name does not contravene the laws of the Cayman Islands.

(i) The English text of this prospectus shall prevail over the Chinese text.

12. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided in section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were: (a) copies of the **WHITE**, **YELLOW** and **GREEN** Application Forms; (b) the written consents referred to in the paragraph headed "Consents of experts" in Appendix VI to this prospectus; and (c) copies of each of the material contracts referred to in the paragraph headed "Summary of material contracts" in Appendix VI to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Loong & Yeung of Suites 2001-05, 20th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of this prospectus:

(1) the Memorandum and the Articles;

(2) the accountant's report on our Company issued by PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus;

(3) the report from PricewaterhouseCoopers in respect of the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;

(4) the audited financial statements of the companies now comprising our Group for the three years ended 31 December 2012 and the six months ended 30 June 2013;

(5) the letter, summary of valuations and valuation certificates relating to the property interests of our Group prepared by DTZ Debenham Tie Leung Limited, the texts of which are set out in Appendix III to this prospectus;

(6) the letter prepared by Appleby, summarising certain aspects of Companies Law referred to in Appendix IV to this prospectus;

(7) the Companies Law;

(8) the material contracts referred to in the paragraph headed "Summary of material contracts" of Appendix VI to this prospectus;

(9) the written consents referred to in the paragraph headed "Consents of experts" of Appendix VI to this prospectus;

(10) the legal opinions prepared by Tian Yuan Law Firm in respect of certain aspects of our Group and our property interests;

(11) the memorandum prepared by DLA Piper Hong Kong in respect of certain economic sanctions administered by the United States, the sanctions laws of other countries and under international law;

(12) the legal opinion prepared by Loong & Yeung in respect of the legality and validity of an acquisition of certain interest in Yongsheng Trading (HK); and

(13) the rules of the Share Option Scheme.

Yongsheng Advanced Materials Company Limited

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