



宏太控股有限公司 Wang Tai Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1400

Global Offering

Sole Sponsor



國泰君安國際
GUOTAI JUNAN INTERNATIONAL

Guotai Junan Capital Limited

Sole Global Coordinator, Bookrunner and Lead Manager



國泰君安國際
GUOTAI JUNAN INTERNATIONAL

Guotai Junan Securities (Hong Kong) Limited

IMPORTANT

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



Wang Tai Holdings Limited 宏太控股有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares : 250,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares : 25,000,000 Shares (subject to adjustment)
Number of International Placing Shares : 225,000,000 Shares (subject to adjustment and the Over-allotment Option)
Maximum Offer Price : HK\$0.82 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% (payable in full on application subject to refund on final pricing)
Nominal value : HK\$0.10 per Share
Stock code : 1400

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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 section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VI of this prospectus, has been registered with the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) 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 as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by agreement between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or around 15 April 2014, but in any event no later than 23 April 2014. The Offer Price will be not more than HK\$0.82 per Offer Share and is currently expected to be not less than HK\$0.62 per Offer Share unless otherwise announced. Investors applying for Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK\$0.82 per Offer Share, unless otherwise announced, together with brokerage of 1.0%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is lower than HK\$0.82. The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, with the consent of our Company, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offer. In such a case, a notice of the reduction in the number of Offer Shares being offered under the Global Offering and/or of the indicative Offer Price range will be published on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.texitm.com not later than the morning of the last day for lodging applications under the Hong Kong Public Offer. Further details are set forth in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" of this prospectus. If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before 23 April 2014, the Global Offering will not proceed and will lapse.

Prior to making an investment decision, prospective investors should consider carefully all of the information set forth in this prospectus and the related Application Forms, including the risk factors set forth in the section headed "Risk Factors" in this prospectus.

Pursuant to the termination provisions contained in the Underwriting Agreements in respect of the Offer Shares, the Sole Global Coordinator, for itself and on behalf of the Underwriters, has the right in certain circumstances, in its sole discretion, to terminate the obligations of the Underwriters pursuant to the Underwriting Agreements at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date (which is currently expected to be 25 April 2014). Further details of the terms of the termination provisions are set forth in the section headed "Underwriting - Grounds for termination" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in accordance with any applicable U.S. State securities laws.

10 April 2014

EXPECTED TIMETABLE⁽¹⁾

We will issue an announcement in Hong Kong to be published in The Standard (in English) and the Hong Kong Economic Journal (in Chinese) and on the Stock Exchange's website at www.hkexnews.hk and our website at www.texitm.com if there is any change in the following expected timetable of the Hong Kong Public Offer.

Latest time to complete electronic applications
under the **HK eIPO White Form** service through
the designated website www.hkeipo.hk⁽³⁾ 11:30 a.m. on Tuesday, 15 April 2014

Application lists open⁽²⁾ 11:45 a.m. on Tuesday, 15 April 2014

Latest time for lodging **White** and **Yellow**
Application Forms and giving **electronic**
application instructions to HKSCC⁽⁴⁾ 12:00 noon on Tuesday, 15 April 2014

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 Tuesday, 15 April 2014

Application lists close⁽²⁾ 12:00 noon on Tuesday, 15 April 2014

Expected Price Determination Date⁽⁵⁾ Tuesday, 15 April 2014

Announcement of the Offer Price, the indication of
the levels of interest in the International Placing,
the results of applications in respect of the Hong
Kong Public Offer and the results and basis of
allotment under the Hong Kong Public Offer to
be published in The Standard (in English) and
Hong Kong Economic Journal (in Chinese) and
on the Stock Exchange's website at
www.hkexnews.hk and our Company's website at
www.texitm.com from Thursday, 24 April 2014

Results of allocations in the Hong Kong Public
Offer (with successful applicants' identification
document numbers, where appropriate) to be
available through a variety of channels as
described in the paragraph headed "How to Apply
for Hong Kong Offer Shares — Publication of
results" from Thursday, 24 April 2014

Results of allocations in the Hong Kong
Public Offer will be available at
www.tricor.com.hk/ipo/results with a "search by
ID" function Thursday, 24 April 2014

EXPECTED TIMETABLE⁽¹⁾

Despatch of Share certificates in respect of wholly
or partially successful applications pursuant to
the Hong Kong Public Offer on or before⁽⁶⁾ Thursday, 24 April 2014

Despatch of **White Form** e-Auto Refund Payment
instructions/refund cheques in respect of wholly
successful (if applicable) or wholly or partially
unsuccessful applications pursuant to the Hong
Kong Public Offer on or before⁽⁷⁾ Thursday, 24 April 2014

Dealings in Shares on the Stock Exchange to
commence at 9:00 a.m. on Friday, 25 April 2014

Notes:-

- (1) All times refer to Hong Kong local time. Details of the structure of the Global Offering, including its conditions, are set forth in the section headed “Structure of the Global Offering” of this prospectus. If there is any change in this expected timetable, an announcement will be published in The Standard in English and the Hong Kong Economic Journal in Chinese and on the Stock Exchange website at www.hkexnews.hk and our website at www.texitm.com.
- (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 Tuesday, 15 April 2014, the application lists will not open and close on that day. Please refer to paragraph headed “How to Apply for Hong Kong Offer Shares — Effect of bad weather conditions on the opening of the application lists” of this prospectus. If the application lists do not open and close on Tuesday, 15 April 2014, the dates mentioned in this section headed “Expected Timetable” may be affected.
- (3) You will not be permitted to submit your application through the designated 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 a payment reference number from the designated website prior to 11:30 a.m., you 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 by giving **electronic application instructions** to the HKSCC should refer to the paragraph headed “How to Apply for Hong Kong Offer Shares — Applying by giving electronic application instructions to HKSCC via CCASS” of this prospectus.
- (5) The Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or about Tuesday, 15 April 2014 and, in any event, not later than Wednesday, 23 April 2014. If, for any reason, the Offer Price is not agreed by us and the Sole Global Coordinator (for itself and on behalf of the Underwriters), the Global Offering (including the Hong Kong Public Offer) will not proceed and will lapse.
- (6) Applicants who apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by their Application Forms may collect Share certificates (if applicable) and refund cheques (if applicable) in person may do so from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, 24 April 2014 or any other date notified by us in the newspapers as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques. Applicants being individuals who opt for personal collection must not authorise any other person to make their collection on their behalf. Applicants being corporations who opt for personal collection must attend by sending their authorised representatives each bearing a letter of authorisation from his corporation stamped with the corporation’s chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence

EXPECTED TIMETABLE⁽¹⁾

of identity acceptable to our Hong Kong Branch Share Registrar. Applicants who have applied on **Yellow** Application Forms may not elect to collect their Share certificates, which will be deposited into CCASS for the credit of their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. Uncollected Share certificates and refund cheques will be despatched by ordinary post to the addressees specified in the relevant applications at the applicants' own risk. Further information is set forth in the section headed "How to Apply for Hong Kong Offer Shares" of this prospectus.

- (7) e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications and also in respect of successful applications in the event that the Offer Price is less than the initial price per Hong Kong Offer Share payable on application. Part of your Hong Kong Identity Card number/passport number, or, if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party to facilitate your refund. Your banker may require verification of your Hong Kong Identity Card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to delay in encashment of your refund cheque or may invalidate your refund cheque. Further information is set forth in the section headed "How to Apply for Hong Kong Offer Shares" of this prospectus.

Share certificates will only become valid certificates of title provided that the Global Offering has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of their Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.

For further details in relation to the Hong Kong Public Offer, please refer to the sections headed "Underwriting", "How to Apply for Hong Kong Offer Shares" and "Structure of the Global Offering" of this prospectus.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by Wang Tai Holdings Limited solely in connection with the Hong Kong Public Offer and does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offer. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.

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 that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by us, the Sole Global Coordinator, the Sole Sponsor, any of the Underwriters, any of their respective directors, officers or representatives, or any other person or party involved in the Global Offering.

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SUMMARY

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 the information that may be important to you. You should read this prospectus in its entirety before you decide to invest in the Hong Kong Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Hong Kong Offer Shares are set forth in the section headed “Risk Factors” of this prospectus. You should read that section carefully before you decide to invest in the Hong Kong Offer Shares. Various expressions used in this section are defined or explained in the sections headed “Definitions” and “Glossary of Technical Terms” of this prospectus.

OVERVIEW

We principally engage in the production and sales of fabrics and yarns. All of our fabrics and yarns are tailor-made according to customers’ specifications. Prior to May 2012, we principally engaged in the production of fabrics. We commenced the production of yarns in May 2012 with a view to lowering the production cost of fabrics and to diversifying our business.

During the period from January 2011 to December 2011, we also engaged in the production and sales of apparel. However, as the financial performance of the apparel business did not meet our expectation, our management decided to discontinue the apparel business in December 2011. Please refer to the paragraph headed “Business — Apparel business” from pages 106 to 107 of this prospectus for detailed information of our discontinued apparel business.

The following table sets forth the breakdown of our revenue by business segments during the Track Record Period:-

	Year ended 31 December					
	2011		2012		2013	
	RMB'000	% to total revenue	RMB'000	% to total revenue	RMB'000	% to total revenue
Continuing business						
Fabrics	262,072	100.0	360,449	88.9	680,352	86.0
Yarns ^(Note 1)	—	—	44,837 ^(Note 3)	11.1	111,166 ^(Note 3)	14.0
Total	<u>262,072</u>	<u>100.0</u>	<u>405,286</u>	<u>100.0</u>	<u>791,518</u>	<u>100.0</u>
Discontinued business						
Apparel ^(Note 2)	<u>49,010</u>	<u>N/A</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

Notes:-

1. We commenced our yarns business in May 2012.
2. We carried out the apparel business from January 2011 to December 2011.
3. Intra-group sales of yarns we produced are excluded.

Save for a loss of approximately RMB24,000 arising from the disposal of the machinery and equipment, we did not incur any loss on inventories write-off, labour severance payment and other expenses in respect of the discontinuance of the apparel business.

Going forward, we will continue focusing on our two existing business segments, namely, fabrics and yarns, through continuing the construction of our Hubei Production Facilities. As at the Latest Practicable Date, we did not have any plan to commence other new business after Listing.

SUMMARY

Our Directors are of the view that the PRC textile industry is highly competitive and fragmented. We principally compete with small-to-medium sized domestic fabric manufacturers in Fujian Province. For detailed information on the competitive landscapes of the PRC textile industry, please refer to the paragraph headed “Industry Overview — Competitive landscapes” on page 73 of this prospectus.

OUR PRODUCTS

Fabrics

We currently offer five series of fabrics: (i) interwoven fabric with multi-fibres series; (ii) slub series; (iii) blended fabric series; (iv) stretch fabric series; and (v) pure cotton series. They are principally used in the manufacturing of apparel including casual wear and business trousers, shorts, shirts and outer suit jackets.

The following table sets forth the revenue breakdown by series of our fabrics during the Track Record Period:-

	Year ended 31 December					
	2011		2012		2013	
	% to total revenue attributable to the fabric segment		% to total revenue attributable to the fabric segment		% to total revenue attributable to the fabric segment	
	RMB'000		RMB'000		RMB'000	
Interwoven fabric with multi-fibres series	199,259	76.0	300,768	83.4	550,999	81.0
Slub series	22,809	8.7	21,524	6.0	43,106	6.3
Blended fabric series	32,256	12.3	17,427	4.8	33,331	4.9
Stretch fabric series	5,078	2.0	15,419	4.3	30,053	4.4
Pure cotton series	2,670	1.0	5,311	1.5	22,863	3.4
Total	262,072	100.0	360,449	100.0	680,352	100.0

The following table sets forth the average unit selling price by series of our fabrics during the Track Record Period:-

	Year ended 31 December		
	2011	2012	2013
	RMB/metre	RMB/metre	RMB/metre
Interwoven fabric with multi-fibres series	16.7	18.9	19.7
Slub series	17.7	17.9	18.9
Blended fabric series	18.4	19.4	18.5
Stretch fabric series	17.2	21.0	19.9
Pure cotton series	13.1	26.1	22.3

Note:-

The average unit selling price was calculated by dividing the sales revenue of the relevant series by the sales volume in the same series.

Yarns

The yarns we currently produce are cotton yarns. Where the yarns we produce are suitable for the production of our fabrics, we use our yarns in our fabrics production. For the years ended 31 December 2012 and 2013, approximately 33.9% and 14.6%, respectively, of the yarns we produced were used in the production of our fabrics.

SUMMARY

For the years ended 31 December 2012 and 2013, the external revenue attributable to our yarns business amounted to approximately RMB44.8 million and RMB111.2 million, respectively, representing approximately 11.1% and 14.0%, respectively, of our total revenue.

The average unit selling price of our cotton yarns for the years ended 31 December 2012 and 2013 was RMB20,230 per tonne and RMB19,725 per tonne, respectively.

SALES AND DISTRIBUTION

We sell our products directly to our customers all of whom are located in the PRC. Other than return of defective products, products sold to our customers are not subject to return or refund. We do not have any influence on our customers as to their distribution channel, pricing policy and end customers. All the risks and titles of our products passed to our customers upon delivery.

During the Track Record Period, we sold to customers located in Fujian, Zhejiang, Guangdong, Hubei, Jiangxi, Jiangsu, Shanghai and Guangxi. For the years ended 31 December 2011, 2012 and 2013, approximately 85.4%, 77.9% and 87.2%, respectively, of our sales were made to customers located in Fujian. We will continue to diversify our sales to customers in other provinces in the PRC. We expect that with the commencement of operation of the first phase of our Hubei Production Facilities, our sales to customers in Hubei and the provinces nearby will increase in the future.

Fabrics

Our fabrics customers are primarily trading companies and apparel manufacturers in the PRC.

Our trading company customers principally engage in trading business, including trading of fabrics, who would further sell our fabrics to their own customers including apparel manufacturers. The apparel manufacturers include branded apparel manufacturers in the PRC which, to the best knowledge and belief of our Directors, use our fabrics in the production of some of their apparel.

Yarns

Our yarns customers are fabrics weaving companies in the PRC. We understand that such fabrics weaving companies use our yarns as raw materials in their production.

Connected customers

During the Track Record Period, we sold to Hong Tai Industrial and Jia Lun Textile, who were our connected persons under the Listing Rules.

Hong Tai Industrial is a company established in the PRC and was controlled by Mr. Lin up to June 2012. Jia Lun Textile is a company established in the PRC and was controlled by the son of Mr. Lin up to July 2012.

We continue our sales to Hong Tai Industrial and Jia Lun Textile after their cessation to be our connected persons.

The following table sets forth our sales made to Hong Tai Industrial and Jia Lun Textile in approximate amount during the Track Record Period:

Sales to Hong Tai Industrial

	2011		Year ended 31 December 2012		2013	
	RMB'000	% to total revenue of our apparel business	RMB'000	% to total revenue	RMB'000	% to total revenue
Apparel	40,981	83.6	—	—	—	—
Fabrics	—	—	6,542	1.6	11,421	1.4

SUMMARY

Sales to Jia Lun Textile

	Year ended 31 December					
	2011		2012		2013	
	RMB'000	% to total revenue	RMB'000	% to total revenue	RMB'000	% to total revenue
Fabrics	16,901	6.4	22,789	5.6	37,989	4.8

For detailed information of our sales to connected customers, please refer to the paragraph headed “Business — Sales — Connected customers” from pages 139 to 141 of this prospectus.

PROCUREMENT AND SUPPLIERS

Our raw materials

The raw materials for our fabrics are mainly cotton yarns while the raw materials for our yarns are mainly raw cotton. We source all our raw materials from suppliers in the PRC. Since May 2012, after the commencement of our yarns production, we also use the yarns we produced for our fabrics production if they are suitable for the production of our fabrics.

Prepayments

During the Track Record Period, in order to secure supply of specific types of raw materials and enjoy a lower raw materials purchase cost, we made prepayments to some suppliers for purchase of raw materials. As at 31 December 2011, 2012 and 2013, the outstanding amount of prepayments to our suppliers was approximately RMB30.4 million, RMB44.4 million and RMB41.5 million, respectively. As at the Latest Practicable Date, approximately 92.3% of the prepayment for purchases of raw materials of approximately RMB41.5 million as at 31 December 2013 was subsequently realised to purchases. We will continue to make prepayments to our suppliers where necessary to secure raw materials supply and provide us the benefit of lower raw materials purchase cost. Please refer to pages 124 to 125 of this prospectus for detailed information of prepayments we made.

Non-Compliant Bill Financing

From March 2010 to April 2012, the total amount of some of the bank acceptance notes Hongtai (China) issued to two of our independent suppliers exceeded the amount of actual purchases from the relevant suppliers and these suppliers remitted to Hongtai (China) the balance between the face value of the bank acceptance notes and the actual amount of purchases. Hongtai (China) also issued bank acceptance notes to Hong Tai Industrial for an intended purchase of yarns which did not proceed and Hong Tai Industrial remitted to us the purchase price. Our PRC Legal Adviser is of the view that these transactions did not comply with the terms of the relevant credit agreements and the PRC Negotiable Instrument Law. As advised by our Directors, the principal reasons for these transactions were to obtain additional source of financing and to lower our overall finance costs.

For the years ended 31 December 2011, 2012 and 2013, the total amount of funds obtained from the Non-Compliant Bill Financing transactions was approximately RMB41.3 million, RMB25.3 million and nil, respectively. All the bank acceptance notes in relation to the Non-Compliant Bill Financing transactions were settled in October 2012.

Our Directors confirmed that no fraudulent, bribery or other illegal activities under the PRC Negotiable Instrument Law were involved in obtaining the Non-Compliant Bill Financing. The Shishi Branch of the PBOC confirmed that it would not impose any administrative penalty or take legal action against Hongtai (China), its shareholders, directors and senior management. The Shishi Office of Quanzhou Branch of CBRC was verbally consulted and it acknowledged that it has no objection if the relevant competent PBOC and commercial banks confirmed that they will not impose any administrative punishment on Hongtai (China), its shareholders, directors, senior management and/or relevant companies in relation to the Non-Compliant Bill Financing and it will not take further action against the aforesaid parties. All of the Endorsing Banks have confirmed that they will not take actions

SUMMARY

against Hongtai (China), its shareholders, directors and senior management in respect of the Non-Compliant Bill Financing. Our PRC Legal Adviser advised that there is no express provision in the PRC laws, rules and regulations which impose administrative or criminal liability for the Non-Compliant Bill Financing transactions.

We have not entered into any Non-Compliant Bill Financing transactions since May 2012. We have adopted a series of rectification measures in view of the Non-Compliant Bill Financing transactions. Our Directors believe that we have had sufficient working capital for our operation should such Non-Compliant Bill Financing transactions were not entered into.

Please refer to pages 126 to 135 of this prospectus for detailed information of the Non-Compliant Bill Financing transactions.

ENTITIES WHO ARE OUR CUSTOMERS AND ALSO OUR SUPPLIERS

During the Track Record Period, to the best knowledge and belief of our Directors, nine of our customers and/or their related group companies were also our suppliers. For the years ended 31 December 2011, 2012 and 2013, our sales to these nine customers accounted for approximately 11.1%, 4.8% and 7.5%, respectively, of our total revenue. During the same period, our purchase from such nine customers and/or their related companies accounted for approximately 7.0%, 4.7% and 4.2%, respectively, of our total purchase of raw materials.

These nine customers together with their related group companies principally engage in the manufacture of yarns, fabrics and apparel. We mainly purchased their yarns for our production of fabrics and we mainly sold our fabrics to them for their production of apparel.

Negotiations of the terms of our sales to and purchases from these nine customers and/or their related group companies were conducted on individual basis and the sales and purchases were neither inter-connected nor inter-conditional with each other. Please refer to the paragraph headed “Business — Entities who are our customers and also our suppliers” from pages 142 to 143 of this prospectus for detailed information of these transactions.

PRODUCTION

Our production facilities and expansion plan

We currently have two production facilities, namely, Shishi Production Facilities and Hubei Production Facilities. The number of production machinery, the designed annual production capacity, the actual production volume and the average utilisation rate of our Shishi Production Facilities and our Hubei Production Facilities, respectively, during the Track Record Period are set forth below:-

Shishi Production Facilities

	As at 31 December		
	2011	2012	2013
Number of air-jet looms (for fabrics production)	280	280	280
Number of production lines (for yarns production)	—	6	6
Designed annual production capacity ^(note 1)			
— <i>Fabrics (km)</i>	22,604	22,798	22,798
— <i>Yarns (spindles)</i> ^(note 2)	—	30,000	30,000
— <i>Yarns (tonnes)</i>	—	7,080	7,080
Actual production volume for the year			
— <i>Fabrics (km)</i>	18,320	19,750	21,557
— <i>Yarns (tonnes)</i>	—	3,890	6,406
Average utilisation rate for the year (%) ^(note 3)			
— <i>Fabrics</i>	81.0	86.6	94.6
— <i>Yarns</i>	—	84.6 ^(note 4)	90.5

SUMMARY

Notes:-

- (1) The designed annual production capacity is calculated based on (i) speed and efficiency of our equipment and machinery; and (ii) number of days worked for the year. For the purpose of this prospectus, it is assumed that all production facilities operate 24 hours per day for the number of days per year after deducting the respective scheduled or estimated downtime for maintenance and repair. In particular, for the calculation of designed annual production capacity of yarns, it is assumed that yarns of 25 counts are used as standardisation for all yarns.
- (2) For the purpose of this prospectus, the production speed of each spindle is 30 metres per minute. The actual number of rotors of our yarns is 3,000 with a production speed of 300 metres per minute and therefore equivalent to 30,000 spindles.
- (3) The average utilisation rate is determined based on the actual production volume divided by the designed annual production capacity, which is calculated based on the assumptions as disclosed in note (1) above.
- (4) Our yarns business commenced in May 2012. As such, the designed annual production capacity used to calculate the average utilisation rate for the year ended 31 December 2012 is based on a period of 230 days of operation.

Hubei Production Facilities

As at 31 December 2013

Number of air-jet looms (for fabrics production)	288
Designed annual production capacity for fabrics (km) <i>(note 1)</i>	23,449
Actual production volume of fabrics (km)	11,161
Average utilisation rate (%) <i>(note 2)</i>	92.9

Notes:-

- (1) The designed annual production capacity is calculated based on (i) speed and efficiency of our equipment and machinery; and (ii) number of days expected to work for the year. For the purpose of this prospectus, it is assumed that all production facilities operate 24 hours per day for the number of days per year after deducting the respective scheduled or estimated downtime for maintenance and repair.
- (2) The average utilisation rate is determined based on the actual production volume divided by the designed annual production capacity, which is calculated based on the assumptions as disclosed in note (1) above. The first phase of our Hubei Production Facilities commenced operation in June 2013, and the whole first phase of our Hubei Production Facilities was completed in July 2013. As such, the designed annual production capacity used to calculate the average utilisation rate for the year ended 31 December 2013 is based on the operation of 40 air-jet looms put in operation since June 2013 for a period of 196 days and the operation of 248 air-jet looms put in operation since July 2013 for a period of 179 days.

Our Hubei Production Facilities is our new production facilities. It will be implemented in three phases and its first phase commenced operation in June 2013. The construction of the whole first phase was completed in July 2013. We expect that additional investment, which will not be substantial, may be made for the purchase of ancillary facilities and equipment or final furnishing works and maintenance works of the first phase of our Hubei Production Facilities. As at 28 February 2014, it is estimated that the total gross investment amount for our Hubei Production Facilities is approximately RMB668.5 million, approximately RMB268.5 million of which was incurred and invested in the first phase of our Hubei Production Facilities and such amount was funded by our internal resources and borrowings. The remaining investment amount of approximately RMB400.0 million will be funded by our internal resources, borrowings and the net proceeds from the Global Offering.

As the construction of the first phase of our Hubei Production Facilities was substantially financed by borrowings, our Directors expect that the depreciation cost from our continuing business and finance cost for borrowings may increase significantly in the foreseeable future which may in turn have material adverse impact on our profitability, financial condition and operation results. For the years ended 31 December 2011, 2012 and 2013, the depreciation cost from our continuing business was approximately RMB12.0 million, RMB19.4 million and RMB32.1 million, respectively, and our finance cost was approximately RMB9.1 million, RMB15.7 million and RMB17.0 million, respectively.

SUMMARY

The following table sets forth detailed information of our Hubei Production Facilities:-

Phase of development	Estimated maximum annual production capacity	Products	Commencement date of construction	Commencement date/expected commencement date of operation	Estimated/actual gross investment amount and source of funding
First phase	23,449 km ^(Note 1)	Fabrics with reed width of up to 2.3 metres	October 2012	June 2013	RMB268.5 million actually incurred up to 28 February 2014 and funded mainly by internal resources and borrowings ^(Note 2)
Second phase	22,000 km	Fabrics with reed width of up to 2.3 metres	June 2015	June 2016	RMB158.0 million to be funded by the net proceeds from the Global Offering, internal resources and/or borrowings
Third phase	60,000 spindles ^(Note 3)	Yarns	June 2016	June 2017	RMB242.0 million to be funded by internal resources and/or borrowings

Notes:-

1. The estimated maximum annual production capacity of approximately 23,449 km is based on 288 air-jet looms upon the completion of the whole first phase of our Hubei Production Facilities in July 2013 and a period of 354 days of operation.
2. It represents the actual aggregate gross investment amount in the first phase of our Hubei Production Facilities up to 28 February 2014. We expect that additional investment, which will not be substantial, may be made for the purchase of ancillary facilities and equipment or for the final furnishing works and maintenance works.
3. Production volume converted into tonnes varies depending on a number of factors including speed and efficiency of our equipment and machinery, types of yarns and production techniques involved.

Subcontracting

All the production process of our products except the dyeing process are undertaken at our production facilities. The fabrics we offer include dyed and grey fabrics. During the Track Record Period, we subcontracted the dyeing process to independent subcontractors. We have not entered into any long-term agreements with our subcontractors and we placed orders with them on an order-by-order basis. We provide samples of the finished products and written technical requirements to the subcontractors and they are responsible for procuring the requisite raw materials. Our quality control staff attend the production facilities of the subcontractors to provide guidance and on-site inspection, if necessary. We also inspect the finished products on the production facilities of our subcontractors before the collection/delivery of our fabrics products by/to our customers.

During the Track Record Period, the fees paid to our subcontractors accounted for approximately 4.5%, 6.0% and 9.6%, respectively, of the total cost of production of our fabrics business. For detailed information of the subcontracting arrangements, please refer to the paragraph headed “Business — Production process of fabrics — Subcontracting of dyeing process” from pages 118 to 119 of this prospectus.

SUMMARY

PROPERTY VALUATION

According to the property valuation report prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, as contained in Appendix III to this prospectus, the value of the property interest owned and occupied by us as at 28 February 2014 was approximately RMB287.9 million and the value of the property interest held for future development as at the same date was approximately RMB11.5 million. For detailed information on the valuation of our property, including major assumptions for the valuation, please refer to pages III-1 to III-10 of this prospectus. For risks associated with the assumptions made in the valuation of our properties, please refer to the paragraph headed “Risk Factors — Risks relating to our business and industry — The appraised value of our properties may be different from their actual realisable value and are subject to change” on page 41 of this prospectus.

OUR COMPETITIVE STRENGTHS

Our Directors believe that we have the following competitive strengths:-

- Our strategic location in Shishi City, Fujian Province enables us to be better positioned to benefit from government policies under the Twelfth Five-year Plan of the textile industry in Fujian Province
- We have strong research and development capabilities
- Our production process is highly automated and enables us to produce products efficiently and cost-effectively
- We offer a wide range of fabric products of different features and applicability to our customers
- We integrate the production of yarns and fabrics
- We have an experienced and dedicated management team

OUR BUSINESS STRATEGIES

Our goal is to strengthen our position to become a leading brand name in the textile industry in Fujian Province and to continue to increase our market presence in the PRC. We intend to achieve this objective by implementing the following business strategies:-

- Expand our production capacity and increase our market presence in the PRC
- Enhance our brand recognition in the PRC
- Expand our sales network in the PRC
- Focus on research and development continuously

OUR FINANCIAL INFORMATION

The following table sets forth certain historical financial information for the periods indicated. This financial information was extracted from, and should be read in conjunction with our financial information set forth in the Accountant’s Report in Appendix I to this prospectus.

	Year ended 31 December		
	2011	2012	2013
Revenue — From continuing business (<i>RMB’000</i>)	262,072	405,286	791,518
Gross profit — From continuing business (<i>RMB’000</i>)	42,502	75,605	148,154
Gross profit margin — From continuing business	16.2%	18.7%	18.7%
Profit and total comprehensive income attributable to owners of our Company (<i>RMB’000</i>)			
- From continuing business	23,265	34,837	74,974
- From discontinued business	5,718	—	—
Net profit margin — From continuing business	8.9%	8.6%	9.5%

SUMMARY

Our revenue increased by 95.3% from approximately RMB405.3 million in 2012 to approximately RMB791.5 million in 2013. The significant increase in our revenue in 2013 was mainly due to our ability to meet customers' requirements and specifications, the commencement of operation of the first phase of our Hubei Production Facilities, the full year contribution from our yarns business which commenced operation in May 2012 and our success in widening our customer base. For detailed information, please refer to the paragraph headed "Financial Information — Period to period comparison of results of operations — Year ended 31 December 2013 compared to year ended 31 December 2012" from pages 212 to 214 of this prospectus.

Our strategy of focusing on providing tailor-made products to customers who look for high quality products, which generally enable us to charge a higher selling price, has resulted in higher gross profit margin of our products. For detailed information of the reasons for our Group having relatively high level of gross profit margin, please refer to pages 206 to 207 of this prospectus.

The following table sets forth our gross profits and gross profits margins by business segments during the Track Record Period:-

	Year ended 31 December					
	2011		2012		2013	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Continuing Business						
Fabrics						
Interwoven fabric with multi-fibres series	32,220	16.2	59,291	19.7	109,769	19.9
Slub series	4,142	18.2	4,166	19.4	8,118	18.8
Blended fabric series	4,891	15.2	2,781	16.0	5,701	17.1
Stretch fabric series	948	18.7	3,107	20.1	5,918	19.7
Pure cotton series	301	11.3	1,062	20.0	4,612	20.2
Sub-total	42,502	16.2	70,407	19.5	134,118	19.7
Yarns	—	—	5,198	11.6	14,036	12.6
Total	42,502	16.2	75,605	18.7	148,154	18.7
Discontinued business						
Apparel	8,068	16.5	—	—	—	—

The following table sets forth our assets/liabilities position as at 31 December 2011, 2012 and 2013:-

	As at 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Current assets	275,372	206,780	323,596
Current liabilities	305,933	317,759	428,036
Net current liabilities	(30,561)	(110,979)	(104,440)
Net assets	149,072	183,909	266,918

SUMMARY

The following table sets forth the selected consolidated statements of cash flows during the Track Record Period:-

	Year ended 31 December		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from operating activities	57,308	75,017	60,420
Net cash used in investing activities	(54,695)	(17,560)	(139,777)
Net cash (used in)/generated from financing activities	(7,080)	(50,677)	120,001

The following table sets forth our key financial ratios as at 31 December 2011, 2012 and 2013:-

	As at 31 December		
	2011	2012	2013
	<i>%</i>	<i>%</i>	<i>%</i>
Current ratio	90.0	65.1	75.6
Gearing ratio	109.1	88.3	103.5

NET CURRENT LIABILITIES AND WORKING CAPITAL SUFFICIENCY

As at 31 December 2011, 2012 and 2013 and 28 February 2014, we recorded net current liabilities of approximately RMB30.6 million, RMB111.0 million, RMB104.4 million and RMB53.8 million, respectively.

Our net current liabilities increased from approximately RMB30.6 million as at 31 December 2011 to approximately RMB111.0 million as at 31 December 2012. The increase in the net current liabilities was primarily due to (i) the payments for the capital expenditure in relation to the construction of our Hubei Production Facilities which commenced in October 2012; and (ii) the purchase of machinery for the yarns production lines at our Shishi Production Facilities which commenced operation in May 2012. The total gross investment amount of the first phase of our Hubei Production Facilities amounted to approximately RMB268.5 million comprising approximately RMB155.4 million for land and buildings and approximately RMB113.1 million for other property, plant and equipment up to 28 February 2014.

Our net current liabilities decreased from approximately RMB111.0 million as at 31 December 2012 to approximately RMB104.4 million as at 31 December 2013. The decrease in the net current liabilities was primarily due to (i) the improvement on the performance of our fabrics and yarns business and (ii) obtaining a long-term loan of RMB50.0 million from the local government in Hubei to finance our operation.

Based on our unaudited management accounts, our net current liabilities decreased to approximately RMB53.8 million as at 28 February 2014 from approximately RMB104.4 million as at 31 December 2013. The decrease was primarily due to (i) our draw-down in February 2014 of a long-term government loan in the amount of RMB50.0 million granted by the local finance bureau in Huangmei County in November 2013, the maturity date of which is 31 December 2016, to replenish our working capital; and (ii) the success of our fabric and yarns business as demonstrated by the sales volume of fabrics and yarns amounting to approximately 4,505.9 km and 574.2 tonnes, respectively, for the two months ended 28 February 2014.

Taking into account the financial resources available to us, including the internally generated funds, the available loan facilities and the net proceeds from the Global Offering, our Directors are of the view that we have available sufficient working capital for our present requirements for at least the next 12 months from the date of this prospectus.

SUMMARY

SHAREHOLDERS' INFORMATION

Immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares that may be allotted and issued upon exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme), (a) Merit Lead, Mr. Qiu and Mr. Cai will be directly interested in 26.70%, 13.50% and 11.25% respectively, of the issued share capital of our Company; and (b) pursuant to the Pre-IPO Agreements, Hong Kong Investments, Sun Prosperity, Ocean Fu, Fu Tak Investments, and Sea Dragon, being the Pre-IPO Investors and Independent Third Parties, will hold approximately 6.68%, 4.87%, 4.50%, 3.75% and 3.75%, respectively, of the issued share capital of our Company. Detailed information of the pre-IPO investments is set forth in the paragraph headed “History, Reorganisation and Group Structure — Pre-IPO investments” from pages 87 to 91 of this prospectus.

Our Directors are of the view that as at the Latest Practicable Date, none of our Controlling Shareholders or any of their respective associates had any interests in any business that competes or is likely to compete, directly or indirectly, with the business of our Group.

GLOBAL OFFERING STATISTICS

We have prepared the following offer statistics based on the indicative Offer Price range without taking into account the 1% brokerage fee, 0.003% SFC transaction levy and 0.005% Stock Exchange trading fee. We have also assumed no exercise of the Over-allotment Option.

	Based on Offer Price per Share of HK\$0.62	Based on Offer Price per Share of HK\$0.82
Market capitalisation of our Shares	HK\$620.0 million	HK\$820.0 million
Unaudited pro forma adjusted net tangible asset value per Share	RMB0.38 (equivalent to approximately HK\$0.47)	RMB0.42 (equivalent to approximately HK\$0.52)

The calculation of our market capitalisation upon completion of the Global Offering is based on the assumption that 1,000,000,000 Shares will be in issue immediately following the completion of the Global Offering. The unaudited pro forma adjusted net tangible asset value per Share is calculated after the adjustments referred to in the paragraph headed “Unaudited Pro Forma Financial Information — Unaudited pro forma statement of adjusted net tangible assets” set forth in Appendix II on pages II-1 to II-2 in this prospectus and on the basis of a total of 1,000,000,000 Shares in issue immediately following the Global Offering.

DIVIDEND POLICY

No dividends have been declared or paid by our Company since its incorporation. In view of our current financial position, the continuous net current liabilities during the Track Record Period and the capital expenditure plan for the expansion of our Hubei Production Facilities, our Directors do not anticipate that our Group will distribute any dividend in the foreseeable future unless there is substantial improvement on our financial position. For detailed information of our dividend policy, please refer to the factors set forth in the paragraph headed “Financial Information — Dividend and dividend policy” from pages 243 to 244 of this prospectus.

LISTING EXPENSES

The total expenses for the Listing are estimated to be approximately HK\$28.7 million (assuming an Offer Price of HK\$0.72 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$0.62 to HK\$0.82), of which approximately HK\$13.6 million is directly attributable to the issue of new Shares in the Global Offering and to be accounted for as a deduction from equity and approximately HK\$15.1 million is to be charged as administrative expenses to our profit and loss

SUMMARY

accounts in the period in which the expenses are incurred. The Listing expenses of approximately HK\$11.8 million were charged to our profit and loss account for the year ended 31 December 2013, and approximately HK\$3.3 million are expected to be charged to our profit and loss account after 31 December 2013, which will be reflected in our administrative expenses for the year ending 31 December 2014.

USE OF PROCEEDS

We estimate that the net proceeds from the Global Offering (after deduction of the underwriting fees and estimated expenses payable by us in relation to the Global Offering, and assuming an Offer Price of HK\$0.72 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$0.62 to HK\$0.82 and the Over-allotment Option is not exercised) are approximately HK\$163.0 million. Our Directors intend to apply the net proceeds from the Global Offering for the following purposes:-

Approximate amount of proceeds (%)	Intended use of proceeds
HK\$97.8 million (60%)	For the construction and building of production facilities, purchase of machinery and equipment for the second phase of our Hubei Production Facilities
HK\$24.5 million (15%)	For sales and marketing activities, expanding our sales network, establishing additional sales offices and recruiting additional sales and marketing staff
HK\$16.3 million (10%)	To enhance our research and development capabilities, develop new products and enhance existing products testing and research equipment and further our cooperation with accredited research institutions and universities
HK\$8.1 million (5%)	For promotion of our brand recognition and brand value through establishing fabrics promotion centres and participating in trade shows and industry exhibitions and advertising in industry magazines
HK\$16.3 million (10%)	For working capital and other general corporate purposes

Approximately 60% of our net proceeds may remain unused until 2015

As explained in the paragraph headed “Financial Information — Liquidity and capital resources — Net current liabilities and working capital — Measures to improve the net current liabilities position” from pages 220 to 221 of this prospectus. Approximately 60% of the aforesaid net proceeds allocated for the construction of the second and third phases of our Hubei Production Facilities may remain unused and be kept in interest-bearing bank accounts with licensed banks in Hong Kong or PRC until 2015 in view of the current scheduled time of construction of the second phase of our Hubei Production Facilities. In case we move into a financial position of net current assets (without taking into account of the net proceeds from the Global Offering) prior to 2015, we may use the allocated net proceeds for the construction of aforesaid production facilities prior to 2015 according to a revised time of construction.

Please refer to the paragraph headed “Future Plans and Proceeds — Future plans” on page 250 and “Business — Our business strategies” from pages 100 to 102 of this prospectus for detailed information of our future plans.

SUMMARY

RISK FACTORS

There are risks associated with our business and investment in the Global Offering, including (i) we incurred continuous net current liabilities as at 31 December 2011, 2012 and 2013 and had a high gearing ratio. We may be exposed to liquidity risks and our business, financial condition and operation results may be materially and adversely affected; (ii) we derive a significant part of our revenue from the sales of interwoven fabric with multi-fibres series and the sales in Fujian Province and as such, any decrease in the market demand for our interwoven fabric with multi-fibres series or adverse event or circumstance in Fujian Province would adversely affect our business; (iii) fluctuation of raw material prices may adversely affect our profitability; (iv) the quality of the dyeing services provided by our independent subcontractors may not be satisfactory and this may materially affect our business and reputation; and (v) our non-compliance with relevant social insurance and housing provident fund contribution laws and regulations in the PRC could lead to imposition of fines and penalties. You should read the entire “Risk Factors” section from page 27 of this prospectus carefully before you decide to invest in the Offer Shares.

RECENT DEVELOPMENT OF OUR GROUP SUBSEQUENT TO THE TRACK RECORD PERIOD

Sales volume of fabrics increased by approximately 21.6% from approximately 3,704.8 km for the two months ended 28 February 2013 to approximately 4,505.9 km for the two months ended 28 February 2014. Such increase was primarily due to the expansion of our production capacities through the commencement of operation of our Hubei Production Facilities in June 2013 so as to allow us to meet the increased sales volume of fabrics.

Sales volume of yarns decreased by approximately 22.0% from approximately 736.6 tonnes for the two months ended 28 February 2013 to approximately 574.2 tonnes for the two months ended 28 February 2014. Such decrease was primarily due to higher proportion of yarns, which were tailor-made according to the customer’s specification, to be delivered after February 2014 as a result of the earlier Chinese New Year holiday in 2014 despite that the confirmed sales orders increased by approximately 28.9% from 1,025.9 tonnes as at 28 February 2013 to 1,322.8 tonnes as at 28 February 2014. Earlier Chinese New Year holiday in 2014 (as compared to 2013) caused us to reschedule the production of certain yarns products to later time resulting in the postponement of the delivery of the yarns products.

Based on our unaudited management accounts, as at 28 February 2014, we had unutilised balance of loan facilities amounting to approximately RMB115.6 million. Subsequent to 31 December 2013 and up to the Latest Practicable Date, we did not experience any significant change of pricing policy for our products and there was no material change in the unit cost of our raw materials. As far as we are aware, there was no material change in the general economic and market conditions in the textile industry in the PRC that had materially and adversely affected our business operations or financial conditions. However, as the estimated expenses for the Listing of approximately HK\$3.3 million are expected to be charged to our profit and loss account for the year ending 31 December 2014, our financial results for the year ending 31 December 2014 would be adversely affected by such non-recurring expenses. In addition, as the construction of the first phase of our Hubei Production Facilities was substantially financed by borrowings, our Directors expect that the depreciation cost from our continuing business and the finance cost for borrowings may increase significantly in the foreseeable future which may in turn have material adverse impact on our profitability, financial condition and operation results. Our Directors confirm that save for the events disclosed in this paragraph, there have been no other material adverse changes in the financial or trading position or prospects of our Group subsequent to the Track Record Period and up to the date of this prospectus.

NON-COMPLIANCES

During the Track Record Period, we have not fully complied with the laws and regulations in respect of social insurance contributions and housing provident fund contribution. We have not obtained the construction works planning permits for certain building structures used for ancillary purposes. We commenced production before the completion of the environmental protection inspection and we also engaged in the Non-Compliant Bill Financing transactions. Please refer to the paragraph headed “Business — Government regulations, legal compliances and proceedings” from pages 156 to 162 of this prospectus for detailed information of these non-compliance incidents.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set forth below.

“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 Hong Kong Public Offer
“Articles of Association” or “Articles”	the articles of association of our Company, adopted on 27 March 2014 and as amended from time to time, a summary of which is set forth in the section headed “Summary of the Constitution of our Company and Cayman Islands Company Law” in Appendix IV to this prospectus
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	our board of Directors
“business day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for business
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“Capitalisation Issue”	the issue of 749,990,000 new Shares to be made upon capitalisation of the share premium account of our Company as referred to in the paragraph headed “Statutory and General Information — A. Further information about our Company and its Subsidiaries — 3. Resolutions in writing of all our Shareholders passed on 27 March 2014” in Appendix V to this prospectus
“CBRC”	China Banking Regulatory Commission (中國銀行業監督管理委員會)
“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 participant or a 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

DEFINITIONS

“CCASS Participant”	a CCASS Clearing Participant or a CCASS Custodian Participant or a CCASS Investor Participant
“CCID”	CCID Consulting Company Limited, an Independent Third Party, a PRC based professional market research and consulting firm listed on the Growth Enterprise Market of the Stock Exchange (Stock code: 8235)
“CCID Report”	the commissioned report on the market forecasts/estimates of the PRC textile market dated 2 April 2014 compiled by CCID
“China” or “PRC”	the People’s Republic of China and, except where the context otherwise requires and for the purpose of this prospectus only, does not include Hong Kong, Macau and Taiwan
“Chinese Government” or “PRC Government”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof or, where the context requires, any of them
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented and/or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented and/or otherwise modified from time to time
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholders”	has the meaning ascribed thereto under the Listing Rules, and in the context of our Company, means Mr. Lin, Merit Lead, Mr. Qiu and Mr. Cai
“Covenantors”	Merit Lead, Mr. Lin, Mr. Qiu and Mr. Cai
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the PRC national securities markets
“Director(s)”	the director(s) of our Company as at the date of this prospectus

DEFINITIONS

“Fu Tak Investments”	Fu Tak Investments Group Limited (富德投資集團有限公司), a company incorporated in the BVI on 16 September 2009 and wholly-owned by Huang Binbin, an Independent Third Party
“GDP”	gross domestic product
“GFA”	gross floor area
“Global Offering”	the Hong Kong Public Offer and the International Placing
“Green Application Form(s)”	the application form(s) to be completed by the HK eIPO White Form Service Provider designated by our Company
“HK\$” or “Hong Kong dollars” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“ HK eIPO White Form ”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of 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 of the HK eIPO White Form at www.hkeipo.hk
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Investments”	Hong Kong Investments Group Limited (香港投資集團有限公司), a company incorporated in the BVI on 3 January 2006 and wholly-owned by Cheung Chi Mang, an Independent Third Party
“Hong Kong Offer Shares”	25,000,000 Shares being initially offered by us for subscription pursuant to the Hong Kong Public Offer, subject to re-allocation as described in the section headed “Structure of the Global Offering” of this prospectus
“Hong Kong Public Offer”	the offer of the Hong Kong Offer Shares for subscription by the members of the public in Hong Kong for cash at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%), payable in full on application, and subject to the terms and conditions described in this prospectus and the Application Forms

DEFINITIONS

“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offer whose names are set forth in the paragraph headed “Underwriting — Hong Kong Underwriters” of this prospectus
“Hong Kong Underwriting Agreement”	the conditional underwriting agreement dated 9 April 2014 relating to the Hong Kong Public Offer entered into between, among others, our Company and the Hong Kong Underwriters, particulars of which are summarised in the section headed “Underwriting” of this prospectus
“Hongtai (China)”	Hongtai (China) Co., Ltd (宏太(中國)有限公司) (formerly known as Shishi Hongtai Textile Development Co., Ltd. (石獅市宏太紡織發展有限公司)), a wholly foreign-owned enterprise established in the PRC on 17 February 2004 and an indirect wholly-owned subsidiary of our Company
“Hongtai (Hong Kong)”	Hongtai Group (Int’l) Holding Limited (宏太集團(國際)股份有限公司), a company incorporated in Hong Kong on 22 June 2009 and an indirect wholly-owned subsidiary of our Company
“Hongtai (Hubei)”	Hongtai (Hubei) Sales Co., Ltd. (宏太(湖北)營銷有限公司), a limited liability company established in the PRC on 8 August 2013 and an indirect wholly-owned subsidiary of our Company
“Hong Tai Industrial”	Hong Tai (Fujian) Industrial Development Co., Ltd. (宏太(福建)實業發展有限公司), an enterprise established in the PRC on 24 June 2009 in which Mr. Lin owned 70% of the equity interests prior to June 2012
“Hongsheng (Hubei)”	Hongsheng (Hubei) Textile Co., Ltd (宏晟(湖北)紡織有限公司), a company established in the PRC on 24 May 2012 and an indirect wholly-owned subsidiary of our Company
“Hubei Production Facilities”	our new production facilities in Huangmei County, Huanggang City, Hubei Province, further information of which is set forth in the paragraph headed “Business — Production facilities — Hubei Production Facilities” of this prospectus
“IFRSs”	International Financial Reporting Standards

DEFINITIONS

“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the Listing Rules) any directors, chief executive or substantial shareholders of our Company, our subsidiaries or any of their respective associates
“International Placing”	the conditional placing by the International Underwriters of the International Placing Shares at the Offer Price to selected professional, institutional and private investors as set forth in the section headed “Structure of the Global Offering” of this prospectus
“International Placing Shares”	the 225,000,000 Shares being initially offered by us for subscription pursuant to the International Placing, subject to re-allocation and the Over-allotment Option as described in the section headed “Structure of the Global Offering” of this prospectus
“International Underwriters”	the underwriters of the International Placing, who are expected to enter into the International Underwriting Agreement to underwrite the International Placing
“International Underwriting Agreement”	the conditional underwriting and placing agreement relating to the International Placing expected to be entered into on or about the Price Determination Date by, among others, our Company, Sole Global Coordinator and the International Underwriters, particulars of which are summarised in the section headed “Underwriting” of this prospectus
“Issuing Mandate”	the unconditional mandate granted to our Directors to allot and issue Shares pursuant to the resolutions set forth in the paragraph headed “Resolutions in writing of all our Shareholders passed on 27 March 2014” in Appendix V to this prospectus
“Jia Lun Textile”	Shishi City Jia Lun Textile Trading Co., Ltd. (石獅市佳綸紡織商貿有限公司), an enterprise established in the PRC on 25 November 2009 and controlled by Mr. Lin Hong Peng, the son of Mr. Lin, prior to July 2012
“kg”	kilogramme(s)
“km”	kilometre(s)
“Latest Practicable Date”	2 April 2014, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information in this prospectus

DEFINITIONS

“Listing”	the listing of the Shares on the Main Board
“Listing Date”	the date expected to be on or about 25 April 2014, on which our Shares are listed and dealings in our Shares commence on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the stock exchange (excluding the option markets) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“Merit Lead”	Merit Lead Investments Limited (德利投資有限公司), a company incorporated in the BVI on 18 March 2013 and is wholly-owned by Mr. Lin
“Memorandum of Association”	the memorandum of association of the Company, adopted on 27 March 2014
“Ministry of Finance” or “MOF”	the PRC Ministry of Finance (中華人民共和國財政部)
“MOFCOM”	the PRC Ministry of Commerce (中華人民共和國商務部)
“Mr. Cai”	Cai Jinxu (蔡金旭), one of our Controlling Shareholders
“Mr. Lin”	Lin Qingxiong (林清雄), one of our Controlling Shareholders and an executive Director
“Mr. Qiu”	Qiu Zhiqiang (邱志強), one of our Controlling Shareholders and an executive Director
“NDRC”	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)
“Non-Compliant Bill Financing”	the bill financing transactions as described in the paragraph headed “Business — Non-compliant bill financing” of this prospectus
“NPC” or “National People’s Congress”	the National People’s Congress of the PRC (中華人民共和國全國人民代表大會) and its Standing Committee
“Ocean Fu”	Ocean Fu Enterprises Ltd. (海富企業有限公司), a company incorporated in the BVI on 2 January 2013 and wholly-owned by Yeung Chi Choi, an Independent Third Party

DEFINITIONS

“Offer Price”	the final price per Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.003% and the Stock Exchange trading fee of 0.005%) at which the Offer Shares are to be subscribed for and issued pursuant to the Global Offering, to be determined in the manner further described in the paragraph headed “Structure of the Global Offering — Determination of the offer price” of this prospectus
“Offer Shares”	the Hong Kong Offer Shares and the International Placing Shares, together, where relevant, with any additional Shares issued pursuant to the Over-allotment Option
“Over-allotment Option”	the option expected to be granted by our Company to the Sole Global Coordinator subject to the terms and conditions of the International Underwriting Agreement pursuant to which our Company may be required to allot and issue up to an aggregate of 37,500,000 additional Offer Shares (representing 15% of the initial number of Offer Shares) to cover, among other things, over-allocations in the International Placing, the particulars of which are set forth in the paragraph headed “Structure of the Global Offering — Over-allotment Option” of this prospectus
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“Potent Union”	Potent Union Holdings Limited (康匯控股有限公司), a company incorporated in the BVI on 18 March 2013 and a direct wholly-owned subsidiary of our Company
“PRC Company Law”	the Company Law of the PRC (《中華人民共和國公司法》), as enacted by the National People’s Congress on 29 December 1993 and effective on 1 July 1994, as amended, supplemented or otherwise modified from time to time
“PRC EIT Law”	the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》), as enacted by the National People’s Congress in March 2007 and effective on 1 January 2008 and its implementation rules
“PRC Legal Adviser”	Hills & Co., our legal adviser as to the PRC laws
“PRC Negotiable Instrument Law”	the PRC Negotiable Instrument Law (《中華人民共和國票據法》)

DEFINITIONS

“Pre-IPO Agreements”	being the agreements as referred to in the paragraph headed “History, Reorganisation and Group Structure — Pre-IPO investments” of this prospectus
“Pre-IPO Investors”	Fu Tak Investments, Huang Binbin, Hong Kong Investments, Cheung Chi Mang, Ocean Fu, Yeung Chi Choi, Sea Dragon, Wong Yan Kong, Sun Prosperity and Wu Kong King
“Price Determination Agreement”	the agreement expected to be entered into between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before the Price Determination Date to record the agreement on the final Offer Price
“Price Determination Date”	the date, expected to be on or around 15 April 2014 but no later than 23 April 2014, on which the final Offer Price is to be fixed for the purpose of the Global Offering
“Regulation S”	Regulations S under the U.S. Securities Act
“Reorganisation”	the reorganisation arrangements we have undergone in preparation for the listing of Shares on the Stock Exchange which are more particularly described in the section headed “History, Reorganisation and Group Structure” of this prospectus
“Repurchase Mandate”	the general unconditional mandate to repurchase Shares given to our Directors by our Shareholders, particulars of which are set forth in the paragraph headed “Resolutions in writing of all our Shareholders passed on 27 March 2014” in Appendix V to this prospectus
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“SAT”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“Sea Dragon”	Sea Dragon Investments Limited (海龍投資有限公司), a company incorporated in the BVI on 23 May 2006 and wholly-owned by Wong Yan Kong, an Independent Third Party
“SFC”	the Securities and Futures Commission of Hong Kong

DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) in the share capital of our Company with a nominal value of HK\$0.10 each
“Share Option Scheme”	the share option scheme our Company conditionally adopted on 27 March 2014, the principal terms of which are summarised in the paragraph headed “Statutory and General Information — D. Other information — 1. Share Option Scheme” in Appendix V to this prospectus
“Shareholder(s)”	holder(s) of Shares
“Shishi Production Facilities”	our existing production facilities in Shishi City, Fujian Province, further information of which is set forth in the paragraph headed “Business — Production facilities — Shishi Production Facilities” of this prospectus
“Sole Global Coordinator”, “Bookrunner” or “Lead Manager”	Guotai Junan Securities (Hong Kong) Limited, a corporation licensed to engage in type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO, the bookrunner and lead manager of the Global Offering
“Sole Sponsor” or “Guotai Junan Capital”	Guotai Junan Capital Limited, a corporation licensed to engage in type 6 (advising on corporate finance) regulated activity under the SFO, the sole sponsor of the Global Offering
“Stabilising Manager”	Guotai Junan Securities (Hong Kong) Limited
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules
“Sun Prosperity”	Sun Prosperity Enterprises Limited (日益企業有限公司), a company incorporated in the BVI on 3 January 2013 and wholly-owned by Wu Kong King, an Independent Third Party
“tonnes”	metric tonne(s); one tonne is equal to 1,000 kg
“Track Record Period”	the period comprising the three financial years ended 31 December 2013
“Underwriters”	the Hong Kong Underwriters and the International Underwriters

DEFINITIONS

“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “U.S.”	the United States of America
“U.S. dollars” or “US\$”	United States dollars, the lawful currency of the United States
“U.S. Securities Act”	the United States Securities Act of 1933
“we”, “us”, “our”, “our Company”, and “our Group”	Wang Tai Holdings Limited 宏太控股有限公司 (formerly known as Hongtai Holdings Limited and Great Huge Holdings Limited), an exempted company with limited liability incorporated in the Cayman Islands on 29 April 2013 and, unless the context otherwise requires, all of its subsidiaries, or where the context refers to any time prior to its incorporation, the business in which the predecessors of its present subsidiaries were engaged and which were subsequently assumed by such subsidiaries pursuant to the Reorganisation
“ White Application Form(s)”	the application form(s) to be completed in accordance with the instructions in the paragraph headed “How to Apply for Hong Kong Offer Shares — Applying for Hong Kong Offer Shares” of this prospectus
“ Yellow Application Form(s)”	the application form(s) to be completed in accordance with the instructions in the paragraph headed “How to Apply for Hong Kong Offer Shares — Applying for Hong Kong Offer Shares” of this prospectus
“%”	per cent.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Unless otherwise stated, all the numerical figures are rounded to one decimal place. Any discrepancy in any table between totals and sums of individual amounts listed in any table are due to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

Unless expressly stated or the context otherwise requires, all data in this prospectus is as at the date of this prospectus.

Unless otherwise specified, all relevant information in this prospectus assumes no exercise of the Over-allotment Option.

If there is any inconsistency between the official Chinese name of the PRC laws or regulations or the PRC Government authorities or the PRC entities mentioned in this prospectus and their English translation, the Chinese version shall prevail. English translations of official Chinese names are for identification purposes only.

GLOSSARY OF TECHNICAL TERMS

This glossary contains an explanation of certain technical terms used in this prospectus in connection with our Group and its business. Such terminology and meanings may not correspond to standard industry meanings or usages of those terms.

“CC Index 328”	China Cotton Index of raw material category 328, established and administered by the China Cotton Association (中國棉花協會)
“CVC yarns”	chief value cotton yarns, a blend of cotton and polyester in the yarns used to knit or weave fabrics, and more than 50% is cotton
“dyed fabrics”	fabrics that are dyed with colours
“grey fabrics”	fabrics before they are dyed or printed
“ISO”	the International Organisation for Standardisation, a non-government organisation based in Geneva, Switzerland, for assessing the quality system of business organisations
“ISO 9000”	a family of standards set by ISO for quality management systems where an organisation needs to demonstrate its ability to provide products that fulfil customers and applicable regulatory requirements and aim to enhance customer satisfaction. ISO 9001 is a member of that family and ISO 9001:2008 is the current version of ISO 9001
“ISO 14000”	a family of environmental management standards set by ISO for assisting a company to continually improve its ability to efficiently identify, minimise, prevent and manage environmental impacts. ISO 14001 is a member of that family and ISO 14001:2004 is the current version of ISO 14001
“loom”	a device used to weave cloth. A loom holds the warp threads under tension to facilitate the interweaving of the weft threads
“PVA”	polyvinyl alcohol, a water-soluble synthetic polymer. It has excellent film forming, emulsifying and adhesive properties
“reed”	a reed is part of a loom and resembles a comb, it is used to push the yarns securely into place as it is woven, separates the threads and keeps them in their position, keeping them untangled and guides the shuttles as it moves across the loom. A reed determines the maximum width of the warp
“spindles”	a unit of measurement for production capacity of yarns

GLOSSARY OF TECHNICAL TERMS

“warp”	the warp is the set of lengthwise yarns that are held in tension on a loom
“weft”	the yarn that is inserted over-and-under the warp

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements, including, without limitation, words and expressions such as “expect”, “believe”, “plan”, “intend”, “estimate”, “project”, “potential”, “anticipate”, “seek”, “may”, “will”, “would”, “should” and “could” or similar words or statements, in particular, in the sections headed “Summary”, “Business”, “Financial Information” and “Future Plans and Proceeds” of this prospectus in relation to future events, our future financial, business or other performance and development, the future development of our industry and the future development of the general economy of our key markets.

These statements are based on numerous assumptions regarding our present and future business strategy and the environment in which we will operate in the future. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus, and the following:-

- our business and operating strategies and our various measures to implement such strategies;
- our dividend distribution plans;
- our capital commitment plans;
- the expansion plans of our production facilities and capacity;
- our operations, business and financial prospects, including development plans for our existing and new business and future cashflows;
- the future competitive environment and development for the textile industry in the PRC;
- the regulatory environment as well as the general industry outlook for the textile industry in the PRC;
- the general economic trend of China;
- exchange rate fluctuations and restrictions; and
- factors beyond our control such as catastrophic losses from fires, floods, windstorms, earthquakes, diseases or other adverse weather conditions or natural disasters.

We caution you that, subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements 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, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set forth in this section and should not be taken as representations by us that our plans and objectives will be achieved.

In this prospectus, statements of or references to the intentions of our Company or any of our Directors are made as at the date of this prospectus. Any such intentions may potentially change in light of future developments.

RISK FACTORS

You should carefully consider all of the information in this prospectus including the risks and uncertainties described below before making an investment in our Shares. You should pay particular attention to the fact that we conduct our operations in the PRC, the legal and regulatory environment of which may differ in some respects from that which prevails in other countries. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks and uncertainties. The trading price of our Shares could decline due to any of these risks, and you may lose all or part of your investment. For more information concerning the PRC and certain related matters discussed below, please see the section headed “Summary of Applicable Laws and Regulations” of this prospectus.

RISKS RELATED TO OUR BUSINESS AND INDUSTRY

We incurred continuous net current liabilities as at 31 December 2011, 2012 and 2013 and had a high gearing ratio. We may be exposed to liquidity risks and our business, financial condition and operation results may be materially and adversely affected

During the Track Record Period, we financed our capital expenditure and business expansion plans through significant amount of short-term borrowings. Our outstanding balance of borrowings from banks and other financial institutions, finance lease liabilities, other borrowings and loans from government as at 31 December 2011, 2012 and 2013 were approximately RMB146.8 million, RMB151.9 million and RMB268.1 million, respectively. Our gearing ratio was 109.1%, 88.3% and 103.5%, respectively, as at 31 December 2011, 2012 and 2013. High gearing ratio will negatively affect our performance and financial position, including but not limited to:-

- (i) increase in the finance costs which will reduce our net profit;
- (ii) increase in the cash outflow for the repayment on the principal and interest of the borrowings;
- (iii) reduce the cash available for the use of our operation, business planning and capital expenditures;
- (iv) increase our business risk if there is any adverse change in economy or industry conditions; and
- (v) increase our exposure to interest rate risk.

We had net current liabilities of approximately RMB30.6 million, RMB111.0 million and RMB104.4 million, respectively, as at 31 December 2011, 2012 and 2013.

Our significant net current liabilities incurred during the Track Record Period was primarily due to financing our capital expenditure including the construction of the first phase of our Hubei Production Facilities and the purchase of production machinery for our fabric business by using short-term borrowings. In view of our heavy reliance on the short-term borrowings during the Track Record Period, we have tried to secure long-term loan facilities from financial institutions and local government or negotiate with relevant financial institutions to revise the granted short-term loan

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facilities to long-term loan facilities. However, there is no assurance that we are able to obtain long-term loan facilities or we can be successful in obtaining the consents from relevant financial institutions to revise the granted short-term loan facilities in the future. As at 28 February 2014, we had unutilised loan facilities of approximately RMB115.6 million, all of which were on short-term basis.

There can be no assurance that the cash flow generated from our business activities will be sufficient to cover our debts and interest cost repayment obligations. Our future liquidity, the payment of trade and other payables and the repayment of our outstanding borrowings will depend primarily on our ability to maintain adequate cash inflows from operating activities, cash and cash equivalents, and our access to future financial resources to fulfil our short-term obligations, which will be affected by our future operating performance, prevailing economic conditions, and financial, business and other factors, many of which are beyond our control. If our current liabilities become due and payable and if we do not have sufficient short-term financial resources to fully repay them, our financial condition could be adversely affected. Furthermore, in the event that the financial institutions which have been providing existing loan facilities to us do not continue to extend similar or more favourable facilities to us and we fail to obtain alternative loan facilities, our business, financial condition and operation results could be materially and adversely affected.

We derive a significant part of our revenue from the sales of interwoven fabric with multi-fibres series and the sales in Fujian Province and as such, any decrease in the market demand for our interwoven fabric with multi-fibres series or adverse event or circumstance in Fujian Province would adversely affect our business

For the years ended 31 December 2011, 2012, and 2013, revenue from our interwoven fabric with multi-fibres series amounted to 76.0%, 83.4%, and 81.0%, respectively, of our total revenue attributable to the fabrics segment. If there is a reduction in the market demand for our interwoven fabric with multi-fibres series, or if the market demand for the other series of our fabrics do not increase, or if we fail to direct our efforts to relevant product development projects, our business, financial condition, and operation results may be adversely affected.

Our business operations are principally based in Fujian Province during the Track Record Period. Our revenue derived from sales to our customers situated in Fujian Province accounted for 85.4%, 77.9% and 87.2%, respectively, of our total revenue for the years ended 31 December 2011, 2012, and 2013. Due to such revenue concentration, our business may be affected significantly by natural, economic or social events and circumstances in Fujian Province. If events of circumstances arise in Fujian Province that cause detrimental effect to us, our business, financial condition, operation results and growth prospects may be materially and adversely affected.

RISK FACTORS

Fluctuation of raw material prices may adversely affect our profitability

The raw materials we used in our production process primarily consist of cotton yarns and raw cotton. All of our raw materials are sourced from suppliers based in the PRC. The consumption of raw materials accounted for approximately 81.4%, 80.1% and 79.1%, respectively, of our total cost of production of fabrics for the years ended 31 December 2011, 2012 and 2013. Our average unit purchase price for cotton yarns, being major raw materials for our production of fabrics, was approximately RMB30,507 per tonne, RMB31,875 per tonne and RMB28,900 per tonne for the years ended 31 December 2011, 2012 and 2013, respectively. Fluctuations in prices of raw materials are subject to factors beyond our control, including government policies and economic conditions in the PRC. For detailed information on the average unit purchase price of raw materials and certain hypothetical illustrations during the Track Record Period, please refer to the paragraph headed “Financial Information — Factors affecting our financial condition and results of operations — Cost of raw materials” of this prospectus.

As at the Latest Practicable Date, we did not have any hedging arrangements against fluctuations in prices of raw materials. If we cannot pass on the increase in the costs of raw materials to our customers, our business, financial condition and operation results may be materially and adversely affected.

The quality of the dyeing services provided by our independent subcontractors may not be satisfactory and this may materially affect our business and reputation

We engage independent dyeing factories which are close to our production facilities for the dyeing of our fabrics. We review the performance, standard of services provided, financial status and pricing offered of our sub-contractors on a regular basis. Also, our quality control staff attends the production facilities of our subcontractors to conduct on-site inspection on the quality of works. We have not received any material claims or complaints by our customers in respect of the quality of our products during the Track Record Period. However, there is no assurance that these independent subcontractors will comply with our requirements or the quality of their services will be satisfactory. There is also no assurance that these independent subcontractors will be able to deliver the finished goods on time. In the event that the performance of any of these independent subcontractors is not to our satisfaction, our business, reputation, financial condition and operation results would be materially and adversely affected.

We may not be able to sustain our growth in our revenue and profitability at the current rate or at all

Revenue from our continuing business amounted to approximately RMB262.1 million, RMB405.3 million and RMB791.5 million, respectively, for the years ended 31 December 2011, 2012 and 2013, representing a CAGR of 73.8%. Profit from our continuing business amounted to approximately RMB23.3 million, RMB34.8 million and RMB75.0 million, respectively, for the years ended 31 December 2011, 2012 and 2013, representing a CAGR of 79.4%. Our Directors attribute such increase in revenue and profitability in part to our ability to maintain our sales volume and sales network, enhance our customer base, meet customers’ requirements and specifications, maintain our product quality, expand our production capacity and hence reduce our production costs.

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Nonetheless, we may not be able to sustain such growth rates. Even if we maintain such growth rates, we may not be able to manage the growth in an efficient and effective manner. In the event we are unable to maintain or manage our business growth, or otherwise experience pricing pressure or loss of market presence, we may experience stagnant or negative growth, thereby materially and adversely impairing our business, financial condition and operation results.

Furthermore, as the construction of the first phase of our Hubei Production Facilities was substantially financed by borrowings, our Directors expect that depreciation cost from our continuing business and finance cost for borrowings may increase significantly in the foreseeable future which may in turn have material adverse impact on our profitability, financial condition and operation results.

Our non-compliance with relevant social insurance and housing provident fund contribution laws and regulations in the PRC could lead to imposition of fines and penalties

Social insurance fund

During the Track Record Period, Hongtai (China) and Hongsheng (Hubei) made contributions to the social insurance fund for some of its employees only. For the years ended 31 December 2011, 2012 and 2013, the amount of outstanding social insurance contributions was approximately RMB2.1 million, RMB1.9 million and RMB4.2 million, respectively. Our Group made corresponding provisions for the outstanding social insurance contributions for the years ended 31 December 2011, 2012, and 2013. As advised by our PRC Legal Adviser, Hongtai (China) and Hongsheng (Hubei) have breached the Provisional Regulations on Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》) and the Social Insurance Law of the PRC (《中華人民共和國社會保險法》).

On 31 May 2013, Hongtai (China) obtained from Human Resources and Social Security Bureau of Shishi City (石獅市人力資源和社會保障局), being the competent and responsible authority for administering the social insurance fund related affairs in Shishi City, a written confirmation in respect of the unpaid contributions of social insurance fund from the date of incorporation of Hongtai (China) to 31 May 2013. According to such written confirmation, no administrative penalties were and will be imposed on Hongtai (China) for the unpaid contributions to the social insurance fund. Hongtai (China) has made contributions to the social insurance fund for all of its employees since September 2013. According to the confirmation dated 10 February 2014 issued by Human Resources and Social Securities Bureau of Shishi City (石獅市人力資源和社會保障局), Hongtai (China) is not in breach of the relevant labour law or delay in making contributions to the social insurance.

Hongsheng (Hubei) had not made contributions to the social insurance fund for all of its employees before September 2013. Hongsheng (Hubei) has made contributions to social insurance fund for all of its employees since September 2013. According to the confirmation dated 11 February 2014 obtained from Huangmei County Human Resources and Social Security Bureau (黃梅縣人力資源和社會保障局), being the competent and responsible authority for administering the social insurance fund related affairs in Huangmei County, no administrative penalties were and will be imposed on Hongsheng (Hubei) for the unpaid contributions to the social insurance fund.

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Prior to the implementation of the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), which came into force on 1 July 2011, under the PRC laws, a fine ranging from RMB1,000 to RMB5,000 or in case of material breach, a fine ranging from RMB5,000 to RMB10,000, will be imposed on the management and other persons with direct responsibilities of the employer for non-compliances happened prior to 1 July 2011. The social insurance authorities are also entitled to order the employer to pay the outstanding social insurance within or without a time limit and impose a late charge of 0.05% and a fine ranging from one to three times of the outstanding amount for basic pension insurance and work-related injury insurance and the late charge of 0.2% for the other three types of social insurance if the employer fails to rectify the breach of social insurance contribution. Since 1 July 2011, for non-compliances occurred after 1 July 2011, according to Social Insurance Law of the PRC, the social insurance authorities are entitled to order the employer to pay the outstanding social insurance (including pension, medical, work injury, unemployment and maternity insurance), and impose a late charge of 0.05% and a fine ranging from one to three times of the outstanding social insurance.

Housing provident fund

We did not register in time with the relevant housing provident fund authority and make housing contributions for all of our employees. Since March 2013, Hongtai (China) has registered with the relevant authority in respect of the housing provident fund for its employees. For the years ended 31 December 2011, 2012, and 2013, the amount of outstanding housing provident fund contribution was approximately RMB0.5 million, RMB0.5 million and RMB0.3 million, respectively. Our Group made corresponding provisions for the outstanding housing provident fund contribution for the years ended 31 December 2011, 2012 and 2013. As advised by our PRC Legal Adviser, Hongtai (China) has breached the Regulations on Management of Housing Provident Fund (《住房公積金管理條例》).

On 10 February 2014, Hongtai (China) obtained from Shishi City Administration Department of Quanzhou City Housing Provident Fund Administration Centre (泉州市住房公積金管理中心石獅市管理部), being the competent and responsible authority for administering the housing provident fund related affairs in Shishi City, a written confirmation in respect of the unpaid contributions of housing provident fund. According to such confirmation, no administrative penalties were and will be imposed on Hongtai (China) for the unpaid contributions to the housing provident fund. Hongtai (China) has made contribution to the housing provident fund for all of its employees since September 2013.

Hongsheng (Hubei) had not paid housing contributions for all of its employees before September 2013. Hongsheng (Hubei) has made contributions to the housing provident fund for all of our employees of Hongsheng (Hubei) since September 2013. According to the confirmation dated 12 February 2014 obtained from Huangmei Office of Huanggang Housing Provident Fund Administration Centre (黃岡住房公積金管理中心黃梅辦事處), being the competent and responsible authority for administering the housing provident fund related affairs in Huangmei County, no administrative penalties were and will be imposed on Hongsheng (Hubei) for the unpaid contributions to the housing provident fund.

According to the Regulations on Management of Housing Provident Fund (《住房公積金管理條例》), if an employer fails to register and establish an account for housing provident fund contribution for its employees, the relevant housing provident fund authority is entitled to order the employer to

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do so within a prescribed time limit. If the employer fails to do so within such prescribed time limit, a fine in the range of RMB10,000 to RMB50,000 will be imposed. The housing provident fund authority may also order the employer to pay the outstanding housing fund within a prescribed time limit. If it fails to do so within such prescribed time limit, the housing fund authority may sought an order for payment from the relevant PRC court.

There is no assurance that the confirmations from the relevant authorities will not be invalidated in the future. In such event, we may be ordered to pay the outstanding social insurance fund and make housing provident fund contribution, our financial condition and results of operation would be adversely affected.

We were previously involved in bill financing transactions that were not fully in compliance with the PRC Negotiable Instrument Law and we may be subject to penalties

From March 2010 to April 2012, Hongtai (China), together with two of our suppliers and Hong Tai Industrial, entered into certain Non-Compliant Bill Financing arrangements with three PRC commercial banks that involved the issuance of bank acceptance notes for non-trade related purposes. For detailed information, please refer to the paragraph headed “Business — Non-Compliant Bill Financing” of this prospectus.

We have not entered into any further non-compliant bill financing transactions since May 2012. We have settled all related Non-Compliant Bill Financing bank acceptance notes in October 2012 and implemented certain measures to strengthen our internal controls as at the Latest Practicable Date. However, there is no assurance that these non-compliance incidents will not affect the credibility of our Group in the PRC commercial banks, nor future approvals of financing activities by these banks. We also cannot assure you that the relevant regulatory authorities will not impose penalties and/or fines on Hongtai (China) retrospectively for the previous Non-Compliant Bill Financing transactions. Any such penalties and/or fines may adversely affect our business, financial condition and results of operations.

We may be subject to penalties in respect of certain loan advancing activities with Hong Tai Industrial and independent third parties in the PRC

During the Track Record Period, Hongtai (China) was involved in certain loan advancing activities with Hong Tai Industrial and independent third parties in the PRC. The independent third parties include six corporations and two individuals, two of those corporations are our suppliers, one corporation is our customer, one corporation is our customer and also our supplier and two corporations are companies established by Mr. Lin’s acquaintances. The two individuals to which we have advanced loans, to the best knowledge and belief of our Directors, are also conducting business in the textile industry and Mr. Lin acquainted with them through business gatherings and these individuals have good network in the textile industry and credibility. Our Directors confirmed that such loans were not interest-bearing. As advised by our PRC Legal Adviser, such loan advancing activities made by/to Hongtai (China) did not comply with the Lending General Provisions (《貸款通則》) formulated by the PBOC in 1996, pursuant to which unlicensed enterprises engaged in lending could be subject to a penalty between one to five times of the income generated from such activities. Since the loans between Hongtai (China) and the relevant parties were non-interest bearing,

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our PRC Legal Adviser advised that no fines will be imposed on Hongtai (China) according to the foregoing provision. As at the Latest Practicable Date, such loans made by/to Hongtai (China) had been fully repaid and Hongtai (China) has not been fined or penalised by the relevant authorities in relation to such loan advancing activities.

However, there is no assurance that the relevant authorities will not impose penalty in respect of such loan advancing activities. In such event, our results of operation and financial positions would be adversely affected.

Certain structures that we built in our Shishi Production Facilities in the PRC may be subject to legal irregularities

Pursuant to the Urban and Rural Planning Law of the PRC (《中華人民共和國城鄉規劃法》), if a construction project proceeds without obtaining the construction works planning permit (建設工程規劃許可證), the relevant planning authorities shall order the construction entity to stop construction. If it is still possible for the construction entity to take measures to eliminate the impact on the implementation of the planning, the relevant planning authorities shall order the construction entity to correct within a certain time limit and impose a fine ranging from above 5% to below 10% of the construction cost; if it is impossible to take measures to eliminate the impact, the relevant planning authorities shall order the construction entity to complete the demolitions of the building or structure within a certain time limit and confiscate the real objects or the illegal gain when the demolitions are not available, and may also impose a fine not more than 10% of the construction cost.

Pursuant to the Construction Law of the PRC (《中華人民共和國建築法》) which was promulgated on 1 November 1997, implemented on 1 March 1998 and amended on 22 April 2011, a construction entity shall apply to the relevant construction authorities for the construction works commencement permit (建築工程施工許可證) before the commencement of the construction of the project. The construction entity which starts construction without the relevant construction works commencement permit shall be ordered to remedy the situation. According to the Regulation on the Quality Management of Construction Projects (《建設工程質量管理條例》) which was promulgated and implemented on 30 January 2000, the construction entity which starts construction without the relevant construction works commencement permit shall be ordered to stop construction and remedy the situation within a prescribed time limit and shall be imposed a fine ranging from above 1% to below 2% of the construction cost.

We had not obtained the construction works planning permit and the construction works commencement permit for certain building structures used for ancillary purposes such as switch board room, air compressor room we built in our Shishi Production Facilities.

Our PRC Legal Adviser is of the view that we have been in breach of the relevant PRC laws set forth above. Our failure to obtain both the construction works planning permit and the construction works commencement permit may result in such structures being considered as illegal and we may be ordered to demolish the structures and be imposed a fine up to RMB0.44 million by the relevant and competent authorities.

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Pursuant to a written confirmation from the Department of Housing and Urban-Rural Development of the Shishi City (石獅市住房和城鄉規劃建設局) dated 13 September 2013, the Department of Housing and Urban-Rural Development of the Shishi City (石獅市住房和城鄉規劃建設局) confirmed that no penalty was and will be imposed on Hongtai (China) in respect of the construction works of these structures. There is no assurance that the confirmation from the relevant authorities will not be invalidated in the future. In such event, we may be requested by the relevant authorities to demolish all these structures even though they do not form part of our major production facilities.

Our Shishi Production Facilities commenced production before passing the completion inspection of environmental protection for its extension construction project and there is a risk that the relevant authority may impose retrospective penalties on us

Hongtai (China) commenced production prior to passing the completion inspection of environmental protection for its extension construction project, which forms part of our Shishi Production Facilities. According to the Regulations on the Administration of Construction Project Environmental Protection (《建設項目環境保護管理條例》) and the Regulations on the Administration of Construction Project Completion Inspection of Environmental Protection (《建設項目竣工環境保護驗收管理辦法》), the relevant environmental protection administrator may order us to stop the production or use of the relevant production facilities and impose a fine not exceeding RMB100,000. On 2 August 2013, we obtained the Acceptance Opinion for the Completion Inspection of Environmental Protection for the extension construction project. Pursuant to a written confirmation from the Environmental Protection Bureau of Shishi dated 10 February 2014, the Environmental Protection Bureau of Shishi confirmed that no penalty was and will be imposed on Hongtai (China) in respect of the production prior to passing the completion inspection of environmental protection for the extension construction project. If the confirmation is invalidated or the relevant authorities impose any retrospective penalties on us, our operations and financial condition may be adversely affected.

We may not be able to implement our business plans successfully

Our business plans set forth in the paragraph headed “Business — Our business strategies” and the section headed “Future Plans and Proceeds” of this prospectus are based on assumptions of future events which may entail certain risks and are inherently subject to uncertainties, such as changes in the industry, availability of funds, sufficiency of manpower, competition, government policies and political and economic developments in the PRC. These assumptions may not be correct, which could affect the commercial viability of our business plans. As such, there can be no assurance that our business plans will be implemented successfully as scheduled (in terms of, for instance, time and costs) or at all. If we fail to effectively and efficiently implement our business plans, we may not be successful in achieving desirable and profitable results. Even if we effectively and efficiently implement our business plans, there may be other unexpected events or factors that prevent us from achieving the desirable and profitable results from the implementation of our business plans. Our sales may not grow at the same rate as the increase in our production capacity, which may result in excess production capacity in our production facilities. Our financial condition, operation results and growth prospects may be materially and adversely affected if our future business plans fail to achieve positive results.

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If we are unable to maintain high utilisation rates at our production facilities, our margins and profitability may be materially and adversely affected

Higher utilisation rates of our production facilities allow us to allocate fixed costs over a greater number of products produced, thus increasing our profit margins. Historically, our Shishi Production Facilities achieved average production utilisation rates of approximately 81.0%, 86.6% and 94.6%, respectively, for the years ended 31 December 2011, 2012 and 2013 for our fabric products. Our Hubei Production Facilities achieved an average production utilisation rate of approximately 92.9% for the years ended 31 December 2013 for our fabric products. The average production utilisation rate for our yarns products in our Shishi Production Facilities was approximately 84.6% and 90.5%, respectively, for the years ended 31 December 2012 and 2013. The utilisation rates of our production facilities depend primarily on the demand for our products. The utilisation rates may also be affected by various other factors, such as skills of our employees, adverse weather conditions, natural disasters and breakdown of our production equipment. There is no assurance that we will be able to maintain a comparable level of output and utilisation rates for our Shishi Production Facilities and Hubei Production Facilities in the future. In the event we are unable to achieve high utilisation rates for any or all of our production facilities, our business, financial condition and operation results may be materially and adversely affected.

Risk relating to the financial results of our Group for the year ending 31 December 2014 due to non-recurring expenses

Due to the non-recurring expenses in connection with the Listing, there would be a negative impact on our financial results, including our net profit for the year ending 31 December 2014. The total expenses for the Listing are estimated to be approximately HK\$28.7 million (assuming an Offer Price of HK\$0.72 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$0.62 and HK\$0.82), of which approximately HK\$3.3 million will be charged to our profit and loss account after 31 December 2013. As such, the profit for the year ending 31 December 2014 will be reduced by the listing expenses of approximately HK\$3.3 million. Our Directors would like to emphasise that the total expenses for the Listing are current estimate for reference only and the final amount to be recognised to our profit and loss account for the year ending 31 December 2014 is subject to adjustments based on audit and the then changes in variables and assumptions.

There is seasonal fluctuation in our sales and hence our operation results for the peak seasons of each calendar year or between any interim periods may not indicate our performance for the entire calendar year

There is seasonal fluctuation in our sales. Generally, demand for our products is relatively higher in the fourth quarter due to the higher demand by our customers during the period before the Chinese New Year holiday whereas our sales around the Chinese New Year holiday are usually lower. In addition, there are other factors relevant to seasonality which may affect our sales, such as weather conditions, the timing of launch of new products and the timing of delivery of products. Hence, our operation results for the peak seasons of each calendar year or between any interim periods may not indicate our performance for the entire calendar year. Prospective investors should be aware of this seasonal fluctuation when making any comparison of our operation results.

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We do not enter into long-term sales contracts with our customers and our financial results and condition may be materially affected if we fail to secure customers' purchase orders

We do not enter into long-term sales contracts with our customers obligating them to place orders with us which would secure future revenue for us. Instead, we sell our products based on individual orders placed by them from time to time. If for any reason any of our major customers reduces the amount of purchase orders placed with us or ceases to purchase from us, our business, financial condition and operation results may be materially and adversely affected.

We do not enter into long-term supply contracts with our suppliers and our production cost and schedule may be adversely affected if we fail to secure supply

We do not enter into any long-term supply contracts with our suppliers. There is no assurance that our suppliers will be able to supply the required raw materials to us in a timely manner or that they will not significantly increase the prices at the time of our purchase. In addition, in order to secure supply of raw materials for our production, in particular, specific yarns for production of fabrics, and to minimise the risk of shortage of supply of raw materials, we made prepayment to certain suppliers which have good historical relationship and record with us. However, there is no assurance that our suppliers would be able to deliver to us the raw materials up to our required standard. In either case, our production schedule and business could be materially and adversely affected. In addition, we may not be able to secure alternative supplies of raw materials of similar quality from other suppliers at prices and terms acceptable to us. In such event, our business, financial condition and operation results may be materially and adversely affected.

Any unexpected disruption in our manufacturing facilities could materially and adversely affect our business, financial condition and operation results

Our production process relies on a constant and sufficient supply of utilities (water, electricity and steam). We do not maintain our own power station and water supply plant. Although we have not experienced any material disruption in our production due to power and water supply failure during the Track Record Period, in the event of an earthquake, fire, drought, flood or other natural disaster, political instability, riot or civil unrest, extended outage of critical utilities or transportation systems, terrorist attack or other events that limit or disrupt our ability to operate our manufacturing facilities, we may experience substantial losses, including loss of revenue from disrupted production, exceeding our insurance coverage. We may also need to incur substantial additional expenses to repair or replace any damaged equipment or facility. In addition, our ability to manufacture and supply products and our ability to meet our delivery obligations to our customers would be significantly disrupted and our relationships with our customers could be damaged, which could have a material and adverse effect on our business, financial condition and operation results.

We operate in a highly competitive environment and we may not be able to sustain our current market position and our failure to respond to timely respond to market preference and trend may adversely affect our financial condition and operations

We are operating in a highly competitive industry facing competition from domestic and international competitors. Some of our competitors have greater access to capital and substantially

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greater production, intellectual property, marketing and other resources than we do. Some of these competitors may purchase the highly automated equipment as ours to produce fabrics and yarns which have comparable product attributes and qualities as ours. Our ability to compete successfully in the textile and clothing industry depends on various factors, including consistency in quality control, timely delivery of products to meet customers' schedules, our ability to develop products to meet customers' requirements and to meet the fashion trend of the market, effective cost control and factors that are beyond our control, such as industry and general economic conditions. We cannot assure you that our strategies will remain competitive or that they will continue to be successful in the future. Increased competition and our failure to respond in time to the market preference and fashion trend may result in loss of our market presence, which may have a material adverse effect on our business, prospects, financial condition and operation results.

Any labour shortages, increased labour cost or other factors affecting our labour force may adversely affect our business, profitability and reputation

For the years ended 31 December 2011, 2012 and 2013, our total direct labour staff cost for our continuing business in the cost of sales amounted to approximately RMB10.3 million, RMB11.5 million and RMB17.1 million, respectively. To sustain the growth of our business, we will need to increase our workforce of experienced management, skilled labour and other employees to implement our expansion plans and enhance the operating efficiency of our existing production facilities. In the event of labour shortages, we may have difficulties in recruiting or retaining employees or may face increasing labour costs.

Given the recent economic growth in the PRC, competition for qualified personnel is substantial and labour costs have been increasing generally, and we cannot assure you that we can retain and attract sufficient qualified employees on commercially reasonable terms, or at all. Any failure to attract qualified personnel at reasonable cost and in a timely manner could reduce our competitive advantages relative to our competitors, undermining our ability to expand our growth in revenues and profits. In addition, certain companies in the PRC have experienced labour unrest and strikes in recent years. We cannot assure you that labour disputes, work stoppages or strikes will not arise in the future. Increases in our labour costs and future disputes with our workers could adversely affect our business, financial condition or operation results.

We may not be able to retain members of our senior management team and any loss of key personnel may adversely affect our business, financial condition and operations

Our management team has extensive operational expertise and in-depth market knowledge of the PRC textile and clothing industry. Our future performance and success depend to a large extent on our ability to retain and motivate our senior management team, including Mr. Lin and Mr. Qiu and other key personnel, such as research and development personnel. In particular, Mr. Lin has over 10 years of experience in the textile and clothing industry in the PRC. Mr. Qiu has about 24 years of experience in the textile and clothing industry. Mr. Zhang Wenwang and Ms. Liu Xuemin, who act as the department head of our production department and our research and development department, respectively, had been dedicated to the textile industry in the PRC for over 29 years. Further information on our Directors and senior management is set forth in the section headed "Directors and Senior Management" of this prospectus. There is no assurance that we will be able to retain members

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of our senior management team and other key personnel or recruit additional competent personnel for our future development. Any loss of senior management members or key personnel without immediate and adequate replacement may limit our competitiveness, affect our production planning and implementation, reduce our manufacturing quality or cause customer dissatisfaction. In addition, if any member of our senior management team joins our competitor or forms a competing company, we may lose customers, suppliers, production know-how and key staff and members. As a result, our business, financial condition and operation results may be materially and adversely affected.

Any failure to maintain an effective quality control system at our production facilities could harm our business

The quality of our products is critical to the success of our business. This significantly depends on the effectiveness of our quality control system, which in turn depends on a number of factors, including the design of the system, the quality control 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 system could result in the production of defective or substandard products, delays in the delivery of our products, the need to replace defective or substandard products and damage to our reputation. If our products do not meet the specifications and requirements agreed with or requested by our customers, or if any of our products are defective, or result in our customers suffering losses as a result of product liability claims, we may be subject to product liability claims and litigations, claims for indemnity by our customers and other claims for compensation. We may also incur significant legal costs regardless of the outcome of any claim of alleged defect. Product failures or defects, and any complaints or negative publicity resulting therefrom, could result in decreased sales of these or other products, or claims or litigation against us regarding the quality of our products. As a result, our business, financial condition and operation results could be materially and adversely affected.

We may face potential product liability claims or suffer losses due to product defects or recalls

We may be subject to product liability claims in the event that any of our products are alleged or found to be defective. We have not obtained insurance coverage for product liability or implemented any other protection scheme. If our products prove to be defective and result in losses to our customers, we may be subject to product liability claims under the laws of the PRC. As a result, we may have to incur significant legal costs and divert our administrative resources regardless of the outcome of the claims. In addition, any such claims could damage our customer relationships and business and result in negative publicity. In the event of allegations that any of our products are defective, we and/or our customers may also undergo product recalls, which could result in substantial and unexpected expenditure and could materially reduce our operating profit and cash flows. A product recall may also require significant management attention, affect the value of our brand image, lead to decreased demand for our products and may also lead to increased scrutiny by regulatory agencies over our business operations. We may also have to defend the lawsuits and, if unsuccessful, to pay a substantial amount of damages. There can be no assurance that we may be able to recover part of the damages by claiming against our suppliers when a product defect is attributable to raw materials or services provided by our suppliers.

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We may not have adequate insurance coverage and payments for any uninsured liabilities and loss may adversely affect our financial condition, etc.

We only maintain limited insurance coverage. As a result, we may have to pay for any uninsured financial or other losses, damages and liabilities, litigation or business disruption pay out of our own resources. The occurrence of certain incidents, including earthquake, fire, severe weather, war, floods, power outages, terrorist attacks or other disruptive events and the consequences, damages and disruptions resulting from such events may not be fully covered by our insurance policies. If our business operations were disrupted or interrupted for a substantial period of time, we could incur costs and losses that could materially and adversely affect our business, financial condition and operation results.

We may face market confusion regarding the sales of apparel and fabrics products in the PRC by Hong Tai Industrial

During the years ended 31 December 2011, 2012 and 2013, we sold apparel or fabrics to Hong Tai Industrial. Hong Tai Industrial was an enterprise established in the PRC and was owned as to 70.0% by Mr. Lin until June 2012 and its business included trading and distribution of apparel and fabrics in the PRC. Hong Tai Industrial further resold our products to its customers. After the disposal of Hong Tai Industrial to an Independent Third Party by Mr. Lin in June 2012, to the best knowledge of our Directors, Hong Tai Industrial still carries on business including trading and distribution of textile products in the PRC under the Chinese name of “宏太(福建)實業發展有限公司”. We currently do not have any legal cause of action against Hong Tai Industrial as a result of the use of its current name because as advised by our PRC Legal Adviser, the use of “宏太” in the Chinese name of “宏太(福建)實業發展有限公司” neither infringes our right regarding enterprise name nor infringes our intellectual property rights. For detailed information, please refer to the paragraph headed “Business — Sales — Connected customers — Hong Tai Industrial” of this prospectus. After the above disposal, our Directors have tried their best efforts to negotiate with the current owner of Hong Tai Industrial regarding the change of its company name. As Hong Tai Industrial is now controlled by an Independent Third Party, despite Mr. Lin’s requests, to the best knowledge of Mr. Lin and our Directors, it has not proceeded to change the Chinese name of Hong Tai Industrial as at the Latest Practicable Date.

Since Hong Tai Industrial is still carrying on business including trading and distribution of textile products in the PRC under the Chinese name of “宏太(福建)實業發展有限公司”, the public may have an association or misunderstanding that their textile products were produced and provided by us. Any quality issue on the textile products sold by Hong Tai Industrial may adversely affect our brand image. In such event, our business, financial position and operation results may be materially and adversely affected.

We may not be able to adequately protect our intellectual property rights and any infringement may weaken our competitive position and have a material adverse effect on our business operations

Our patents, trademarks, know-how, trade secrets and other intellectual property rights are important to our business. To protect our intellectual property rights, we have registered and applied

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for PRC patents, registered trademarks and included confidentiality provisions in the employment contracts of our senior management and employees involved in research and development. However, we cannot assure you that these measures will be sufficient to prevent any misappropriation of our intellectual property. Furthermore, existing laws in the PRC are still developing and may not protect intellectual property rights to the same extent as similar laws of other developed countries do. Any significant leakage of our confidential information or infringement of the proprietary technologies and processes used in our business could weaken our competitive position and have a material and adverse effect on our business and operation results.

In addition, claims may be brought against us by, or we may assert claims against, other parties involving disputes in relation to intellectual property rights. If we are unable to resolve such claims through negotiations, we may face costly legal proceedings, which may divert the resources and efforts of our management away from our daily business operations and thereby materially and adversely affect our business, financial condition and operation results. Furthermore, if we are not successful in these proceedings, we could lose our proprietary rights and may be subject to substantial liabilities or even disruption to our business operations.

The global financial crisis, economic downturn and uncertainty may have a material and adverse effect on our business, financial condition and operation results

Our business operations and performance may be adversely impacted by deterioration of global economic conditions. The economic conditions in North America, Europe and other regions deteriorated significantly in late 2008 and 2009. The current economic environment continues to be uncertain, and the economic conditions in Europe have worsened as a result of the pending European debt crisis. These conditions may make it difficult for our customers to accurately plan future business activities and could cause our customers to terminate their relationships with us. Furthermore, during challenging economic times, our customers may not have timely access to sufficient credit, which could reduce the number of purchase orders they place with us. In particular, since 2010, the PRC Government has tightened its credit policy to control inflation rate and has raised the RMB benchmark deposit and loan interest rates several times. As a result, we and our customers and suppliers may be affected by the PRC Government's tightened credit policy to various degrees. We cannot predict the timing, magnitude or duration of any current or future economic slowdown or subsequent economic recovery, globally, in the PRC or in our industry. These and other economic factors could have a material and adverse effect on our business, financial condition and operation results.

Any catastrophe, including outbreaks of health pandemics and other extraordinary events, could severely disrupt our business operations

Our operations are vulnerable to interruption and damage from natural and other types of catastrophes, including earthquakes, tsunami, fire, floods, hail, windstorms, severe winter weather (including snow, freezing water, ice storms and blizzards), health pandemics, environmental accidents, power loss, communications failures, explosions, man-made events such as terrorist attacks, and similar events. Due to their nature, we cannot predict the incidence, timing and severity of catastrophes. In addition, changing climate conditions, primarily rising global temperatures, may be

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increasing, or may in the future increase, the frequency and severity of natural catastrophes. If any such catastrophe or extraordinary event were to occur in the future, our ability to operate our business could be seriously impaired. Such events could make it difficult or impossible for us to deliver our products to our customers and could decrease demand for our products.

Since 2003, there have been several outbreaks of avian influenza, or the bird flu, beginning in the PRC and, eventually, spreading to certain parts of Africa and Europe. More recently, there was outbreak in the PRC of the H7N9 virus. Any occurrence of these pandemic diseases or other adverse public health developments could severely disrupt our staffing and otherwise reduce the activity levels of our work force, causing a material and adverse effect on our business operations.

The appraised value of our properties may be different from their actual realisable value and are subject to change

The appraised value of our properties as contained in the property valuation report are based on multiple assumptions that include elements of subjectivity and uncertainty. The assumptions, on which the appraised value of our properties are based, include:

- the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect to the value of the property interests;
- the properties are free from encumbrances, restrictions and outgoings or an onerous nature, which could affect their values.

Some assumptions used by Jones Lang LaSalle Corporate Appraisal and Advisory Limited in reaching the appraised value of our properties may prove inaccurate. Therefore, the appraised value of our properties should not be taken as their actual realisable value or a forecast of their realisable value. Unforeseeable changes to the development of our property projects as well as national and local economic conditions may affect the value of the properties we hold. You should not rely on such estimated value attributed to us by Jones Lang LaSalle Corporate Appraisal and Advisory Limited.

RISKS RELATED TO DOING BUSINESS IN THE PRC

Changes in PRC economies, political and social conditions, as well as government policies, could affect our business and prospects

Our assets are located in the PRC, and our revenue is derived from operations in the PRC. Accordingly, our business, financial condition, results of operations and prospects are, to a larger extent, subject to the economic, political, social conditions and government policies in the PRC. The PRC economy differs from the economies of most developed countries in many aspects, including without limitation:-

- the amount and degree of the PRC Government's involvement;
- the growth rate and degree of development;

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- the uniformity in implementation and enforcement of laws;
- the content of and control over capital investment;
- control of foreign exchange; and
- allocation of resources.

The PRC economy has been transitioning from a centrally planned economy to a more market-oriented economy. For almost 30 years, the PRC Government has implemented economic reform measures to utilise market forces in the development of the PRC economy. The PRC economy has grown significantly in recent decades, but we cannot assure you that this growth will continue or continue at the same pace. In addition, the PRC Government continues to play a significant role in regulating industries and the economy through policy measures. We cannot predict whether changes in PRC economic, political or social conditions and in PRC laws, regulations and policies will have any adverse effect on our current or future business, financial condition or results of operations.

In addition, many of the economic reforms carried out by the PRC Government are unprecedented or experimental and we expect them to be changed over time. Other political, economic and social factors may also lead to further adjustments of the PRC Government's reform measures. Changes in the PRC's economic reforms may not necessarily have a positive effect on our operations and business development. Our business, prospects and results of operations may be materially and adversely affected by the policies of the PRC Government, such as measures to control inflation and to tighten its monetary policies, changes in the rates or methods of taxation and imposition of additional restrictions on currency conversation. These actions, as well as future actions and policies of the PRC Government, could cause a decrease in the overall level of economic activity, and in turn have a material and adverse effect on our business and financial condition.

It may be difficult to effect service of process upon us or our executive Directors or executive officers who reside in the PRC or to enforce against them in the PRC any judgements obtained from non-PRC courts

All of our executive Directors and almost all of our executive officers reside within the PRC, and our assets and the assets of those persons are located within the PRC. Therefore, it may be difficult for investors to effect service of process upon us or those persons inside the PRC or to enforce against us or them in the PRC any judgements obtained from non-PRC courts.

China does not have treaties providing for the reciprocal recognition and enforcement of judgements of courts with the Cayman Islands and many other countries and regions. Therefore, recognition and enforcement in China of judgements of a court in any of these non-PRC jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

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Uncertainties with respect to the PRC legal system may make it difficult for us to predict the outcome of any disputes in which we may be involved

Our principal operating subsidiaries are located in the PRC and are subject to PRC laws and regulations. The PRC legal system is a civil law system based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Additionally, such written statutes can often be principle-oriented and require detailed interpretation by the enforcement bodies to further apply and enforce such laws. The PRC Government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade, including laws that are relevant to our business in the textile industry. However, because the PRC Government is still in the process of developing its legal system, and because of the limited volume of precedents on the interpretation, implementation and enforcement of PRC laws and regulations and the non-binding nature of prior court decisions, interpretation of PRC laws and regulations involves a degree of uncertainty.

Further, it may be difficult to obtain swift enforcement of PRC laws, or to obtain enforcement of a judgement by a court of another jurisdiction in the PRC. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of resources and management attention. The introduction of new PRC laws and regulations and the interpretation of existing ones may also be subject to policy changes reflecting domestic political or social changes. As the PRC legal system develops, the promulgations of new laws, changes to existing laws and the pre-emption of local regulations by national laws may have a material adverse effect on our business, financial condition, results of operations and prospects.

Changes in the laws, rules and regulations in the PRC may have a significant impact on our business

Currently, since we conduct a significant proportion of our business activities in the PRC, we are required to procure permits, licenses and certificates from the relevant government authorities. From time to time, changes in the rules and regulations in the PRC or the implementation thereof may require us to obtain additional approvals and licenses from the PRC authorities for our operations in the PRC. In such event, we may need to incur additional expenses in order to comply with such requirements. This will in turn affect our financial performance, as our business cost will increase. Furthermore, we also cannot assure you that such approvals or licenses will be granted to us promptly, or at all. If we experience delays or are unable to obtain such required approvals or licenses, our operations and business in the PRC, and hence our financial performance will be adversely affected. Alternatively, the requirements set forth by laws, rules and regulation in the PRC may be relaxed. In such event, the market entry barrier may be lowered resulting in more intense competition.

Our receipt and use of revenue is subject to PRC laws and regulations governing currency exchange

We receive our revenue in Renminbi, which is not a freely convertible currency. The PRC Government imposes control on the convertibility of the Renminbi into foreign currencies and, in

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certain cases, the remittance of currency out of China. Restrictions on currency conversion imposed by the PRC Government may limit our ability to use revenue generated in Renminbi to fund our expenditures denominated in foreign currencies or our business activities outside China or to make dividend payments to our Shareholders in foreign currencies, including Hong Kong dollars.

The principal regulation governing foreign currency exchange in the PRC is the Regulation on Foreign Exchange Control (《中華人民共和國外匯管理條例》), as amended from time to time. Renminbi may be freely converted into foreign currency for payments relating to current account transactions, which include, among other things, dividend payments and payments for the import of goods and services, by complying with certain procedural requirements. Our PRC subsidiaries may also retain foreign currency in their respective current account bank accounts for use in payment of international current account transactions. Although the PRC Government regulations now allow greater convertibility of the Renminbi for current account transactions, significant restrictions remain when the Renminbi is converted into foreign currencies and remitted out of the PRC for capital account transactions, such as the repatriation of equity investments in the PRC and the repayment of the principal of loans or other foreign exchange for capital expenditures. We cannot assure you that the PRC government will not impose more stringent restrictions on the convertibility of the Renminbi, especially with respect to capital account transactions.

Dividends payable by us to our foreign investors and gain on the sale of our Shares may become subject to withholding taxes under PRC tax laws

Under the PRC EIT Law and its implementation regulations issued by the State Council, to the extent such dividends for earnings derived since 1 January, 2008 are sourced within the PRC and we are considered a “resident enterprise” for PRC tax law purposes, then PRC income tax at the rate of 10% is applicable to dividends payable by us to investors that are “non-resident enterprises” so long as any such “non-resident enterprise” investor does not have an establishment or place of business in the PRC or, despite the existence of such establishment or place of business in the PRC, the relevant income is not effectively connected with such establishment or place of business in the PRC. A lower withholding tax rate may apply if such “non-resident enterprise” is incorporated in a jurisdiction that has entered into an income tax treaty or agreement with China that allows a lower withholding tax rate. Similarly, any gain realised on the transfer of the Shares by such “non-resident enterprise” investors is also subject to a 10% PRC income tax if such gain is regarded as income derived from sources within the PRC and we are considered a “resident enterprise” in the PRC. If we are required under the relevant tax law to withhold PRC income tax on our dividends payable to our foreign Shareholders who are “non-resident enterprises”, or if you are required to pay PRC income tax on the transfer of our Shares, the value of your investment in our Shares may be materially and adversely affected. It is unclear whether, if we are considered a PRC “resident enterprise”, holders of our Shares might be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or regions.

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Dividends paid to our Hong Kong subsidiary might not qualify for the reduced PRC withholding tax rate under the special arrangement between Hong Kong and the PRC

Under the PRC EIT Law, profit of a foreign-invested enterprise that are distributed to its immediate holding company outside the PRC are subject to a withholding tax rate of 10%. Pursuant to a special arrangement between Hong Kong and the PRC, this rate is lowered to 5% if a Hong Kong resident enterprise owns more than 25% of a PRC company distributing the dividends. However, according to the Circular of the State Administration of Taxation on Printing and Issuing the Administrative Measures for Non-resident Individuals and Enterprises Regarding Favourable Treatment Under Taxation Treaties (for Trial Implementation) (國家稅務總局關於印發《非居民享受稅收協議待遇管理辦法(試行)》的通知), which was issued by the SAT and became effective on 1 October 2009, the 5% withholding tax rate does not automatically apply and approvals from competent local tax authorities are required before an enterprise can enjoy any benefits under the relevant taxation agreements or treaties. Moreover, according to the Notice of the State Administration of Taxation on the Issues Concerning the Application of the Dividend Clauses of Tax Agreements (國家稅務總局關於執行稅收協定股息條款有關問題的通知) issued by the SAT in February 2009, if the main purpose of an offshore arrangement is to obtain preferential tax treatment, the PRC tax authorities have the discretion to adjust the preferential tax rate for which an offshore entity would otherwise be eligible. There is no assurance that the PRC tax authorities will grant approvals on the 5% withholding tax rate on dividends paid by our PRC subsidiaries and received by our subsidiaries in Hong Kong.

Fluctuations in the value of the Renminbi may adversely affect our business and the value of distributions by our PRC subsidiaries

The value of the Renminbi depends, to a larger extent, on domestic and international economic, financial and political developments and the PRC Government's policies, as well as supply and demand in local and international markets. From 1999 to 2005, the conversion of the Renminbi into foreign currencies, including the U.S. dollar and the Hong Kong dollar, was based on exchange rates set and published daily by the PBOC in light of the previous day's inter-bank foreign exchange market rates in China and the then current exchange rates on the global financial markets. The official exchange for the conversion of the Renminbi into the U.S. dollar was largely stable until July 2005. On 21 July, 2005, the PBOC revalued the Renminbi by reference to a basket of foreign currencies, including the U.S. dollar. As a result, the value of the Renminbi appreciated by more than 2% on that day. Since then, the PBOC has allowed the official Renminbi exchange rate to float against a basket of foreign currencies. Furthermore, from 18 May 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on 19 May 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. On 19 June 2010, the PBOC announced its intention to proceed with the reform of the Renminbi exchange rate regime to increase the Chinese currency's exchange rate flexibility. These changes in currency policy resulted in the Renminbi appreciating significantly against the U.S. dollar from 21 July 2005 to the Latest Practicable Date. The Renminbi exchange rate may fluctuate more widely against the U.S. dollar or any other foreign currency in the future. As all of our income and

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profit are denominated in Renminbi, any appreciation of the Renminbi will increase the value of dividends and other distributions payable by our PRC subsidiaries in foreign currency terms. Conversely, any depreciation of the Renminbi will decrease the value of dividends and other contributions payable by our PRC subsidiaries in foreign currency terms.

RISKS RELATED TO THE GLOBAL OFFERING

There has been no prior public market for our Shares, and the liquidity, market price and trading volume of our Shares may be volatile

Prior to the completion of the Global Offering, there was no public market for our Shares. The Offer Price for our Offer Shares will be determined by us and the Sole Global Coordinator (for itself and on behalf of the Underwriters) and may differ significantly from the market price for our Shares following the Global Offering. We have applied for the listing of and permission to deal in our Shares on the Stock Exchange. However, even if approved, being listed on the Stock Exchange does not guarantee that an active trading market for our Shares will develop following the Global Offering or that our Shares will always be listed and traded on the Stock Exchange. We cannot assure you that an active trading market will develop or be maintained following the completion of the Global Offering, or that the market price of our Shares will not decline below the final Offer Price.

The price and trading volume of our Shares may be highly volatile. Factors such as variations in our revenue, earnings and cash flows, and announcements of new investments, strategic alliances and/or acquisitions, fluctuations in market prices for our products and services or fluctuations in market prices for comparable companies could cause the market price of our Shares to change substantially. Any such developments may result in large and sudden changes in the volume and price at which our Shares will trade.

In addition, the Stock Exchange has experienced substantial price and volume fluctuations from time to time that are not related to the operating performance of any particular company. These fluctuations may also materially and adversely affect the market price of our Shares.

Investors for our Shares may face difficulties in protecting your interests under Cayman Islands law

Our corporate affairs are governed by, among other things, the Articles of Association, the Companies Law and the common law of the Cayman Islands. The rights of Shareholders to take action against our Directors, actions by minority shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands and the Articles of Association. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as that from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in Hong Kong and other jurisdictions. Such many

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differences mean that the remedies available to our minority Shareholders may be different from those they would have under the laws of Hong Kong or other jurisdictions. For detailed information, please refer to the section headed “Summary of the Constitution of our Company and Cayman Islands Company Law” in Appendix IV to this prospectus.

Investors for our Shares may experience dilution if we issue additional Shares in the future

If we issue additional Shares in the future, purchasers of our Shares in the Global Offering may experience dilution in their ownership percentage.

We may need to raise additional funds in the future to finance expansion of or new developments relating to our existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro-rata basis to the existing Shareholders, the percentage ownership of such Shareholders in our Company may be reduced or such new securities may confer rights and privileges that take priority over those conferred by our Offer Shares.

Future offerings or sales could materially and adversely affect the prevailing market price of our Shares

Future offerings or sales of our Shares by us or other Shareholders in the public market, or the perception that such offerings or sales could occur, may cause the market price of our Shares to decline. Please refer to the section headed “Underwriting” of this prospectus for details of restrictions that may apply to future sales of our Shares. Following the expiration of their respective lock-up periods, the market price of our Shares may decline as a result of future sales of substantial amounts of our Shares or other securities relating to our Shares (including the issuance of new Shares pursuant to the exercise of share options granted by us) or the perception that such sales or issuances may occur. This could also have a material adverse effect on our ability to raise capital in the future at a time and at a price deemed appropriate. In addition, if we issue additional Shares or share options in the future, you may experience further dilution.

There are risks associated with forward-looking statements

This prospectus contains certain statements and information that are “forward-looking” and uses forward-looking terminology such as “expect”, “believe”, “plan to”, “intend”, “could”, “anticipate”, “estimate”, “should” and “will” or similar words or statements. Those statements include, among other things, the discussion of our growth strategy and expectations concerning our future business, operations, liquidity and capital resources. Purchasers of our Shares are cautioned that any forward-looking statements are subject to uncertainties and that, although we believe the assumptions on which the forward-looking statements are based are reasonable, any or all of these assumptions could also be incorrect. The uncertainties in this regard include, but are not limited to, those identified in this “Risk Factors” section, many of which are not within our control. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded

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as representations by us that our plans or objectives will be achieved, and investors should not place undue reliance on such forward-looking statements. We do not undertake any obligation to update publicly or release any revisions of any forward-looking statements in this prospectus, whether as a results of new information, future events or otherwise.

Certain industry statistics contained in this prospectus are derived from various publicly available government or official sources and the CCID Report and may not be accurate or reliable

Certain facts and statistics in this prospectus related to the PRC, its economy and the industry in which we operate within the PRC are derived from official government publications and the CCID Report generally believed to be reliable. We believe that the sources of these facts and statistics 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 in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. These facts and statistics have not been independently verified by us, the Sole Global Coordinator, the Sole Sponsor, the Underwriters or any of our or their respective directors, officers or representatives or any other person involved in the Global Offering and therefore we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC and may not be complete or up-to-date. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable from period to period or to statistics produced for other economies and should not be unduly relied upon. Further, we cannot assure you that they are stated with the same degree of accuracy as may exist elsewhere. In all cases, investors should give consideration as to how much weight or importance they should place on all such facts and statistics.

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

For the purpose of the Listing, we have sought a waiver from the Stock Exchange in relation to strict compliance with Rule 8.12 of the Listing Rules.

Rule 8.12 of the Listing Rules requires that a new applicant for a primary listing on the Stock Exchange to have a sufficient management presence in Hong Kong, which normally means that at least two of the new applicant's executive directors must be ordinarily resident in Hong Kong.

Our headquarters is in Fujian Province, the PRC and our operations are all managed and conducted in the PRC. We do not have two executive Directors who are ordinarily residents in Hong Kong and our executive Directors are based at our headquarters in Fujian Province, the PRC, to oversee our business and operation. Given that our headquarters is in Fujian Province, the PRC, it would be practically difficult and commercially unfeasible for our Company to comply with the requirements of Rule 8.12 of the Listing Rules.

We have applied to the Stock Exchange for a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules and have been granted a waiver subject to the following conditions:-

- (a) our Company will appoint two authorised representatives, namely Mr. Qiu, an executive Director, and Mr. Siu Kai Chun, our company secretary, to act as our principal channel of communication with the Stock Exchange and will ensure our full compliance with the Listing Rules at all times. Each of the authorised representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable time-frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and e-mail. Each of the authorised representatives is authorised to communicate on behalf of our Company with the Stock Exchange;
- (b) in compliance with Rule 3A.19 of the Listing Rules, we will appoint a compliance adviser acceptable by the Stock Exchange for a period commencing on the Listing Date and ending on the date on which we distribute the annual report for the first full financial year commencing after the Listing Date in accordance with Rule 13.46 of the Listing Rules. The compliance adviser will provide us with advice on the obligation in compliance with the Listing Rules, all other applicable laws, rules, codes and guidelines and will act as an additional channel of communication with the Stock Exchange;
- (c) the two authorised representatives have means of contacting all of our Directors (including our independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact our Directors on any matters. To enhance communication with the Stock Exchange, we will implement a policy whereby:-
 - (i) each Director will have to provide their respective mobile phone numbers, office phone numbers, fax numbers and e-mail addresses to our authorised representatives;

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

- (ii) in the event that a Director expects to travel and be out of office, he will provide to our authorised representatives the phone number of the place of his accommodation or other means of communication; and
- (iii) all of our Directors will provide their respective mobile phone numbers, office phone numbers, fax numbers and email addresses to the Stock Exchange; and
- (d) all of our Directors (including our independent non-executive Directors) who are not ordinarily resident in Hong Kong possess or can apply for valid travel documents to visit Hong Kong and all of our Directors and authorised representatives can meet with the Stock Exchange within a reasonable time.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (subsidiary legislation 571V of the SFO) and the Listing Rules for the purpose of giving information with regard to our Company. Our Directors, having made all reasonable enquiries, confirmed that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respect and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

THE HONG KONG PUBLIC OFFER AND THIS PROSPECTUS

This prospectus is published solely in connection with the Hong Kong Public Offer which forms part of the Global Offering. For applicants under the Hong Kong Public Offer, this prospectus and the Application Forms contain all the terms and conditions of the Hong Kong Public Offer. Hong Kong Offer Shares are offered solely on the basis of the information contained and the representations made in this prospectus. No person is authorised in connection with the Hong Kong Public Offer to give any information or to make any representation not contained in this prospectus. Any information or representation not contained in this prospectus must not be relied upon as having been authorised by our Company, the Sole Global Coordinator, the Sole Sponsor, any of the Underwriters, any of their respective directors or any other person involved in the Global Offering.

Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information in it is correct as at any subsequent time.

UNDERWRITING

The Global Offering comprises the Hong Kong Public Offer of initially 25,000,000 Shares and the International Placing of initially 225,000,000 Shares subject, in each case, to re-allocation on the basis described in the section headed "Structure of the Global Offering" of this prospectus and, in case of the International Placing, to any exercise of the Over-allotment Option.

The listing of the Shares on the Stock Exchange is sponsored by the Sole Sponsor. The Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement on a conditional basis. One of the conditions is that we and the Sole Global Coordinator (for itself and on behalf of the Underwriters) have agreed on the final Offer Price. For applicants under the Hong Kong Public Offer, this prospectus and the Application Forms set forth the terms and conditions of the Hong Kong Public Offer. The International Placing will be fully underwritten by the International Underwriters under the terms of the International Underwriting Agreement. The Global Offering is managed by the Sole Global Coordinator.

The final Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around 15 April 2014 and, in any event, not later than 23

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

April 2014. If, for any reason, the final Offer Price is not agreed between us and the Sole Global Coordinator (on behalf of the Underwriters) the Global Offering will not proceed. For full information about the Underwriters and the underwriting arrangements, please refer to the section headed “Underwriting” of this prospectus.

RESTRICTIONS ON OFFER AND SALE OF OFFER SHARES

We offer the Hong Kong Offer Shares solely on the basis of the information contained and representations made in this prospectus and the related Application Forms and on the terms and subject to the conditions contained in this prospectus and the Application Forms.

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offer will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus.

No action has been taken to permit an offering of the Hong Kong Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, 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 distribution of this prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee of the Stock Exchange for the approval for the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Global Offering and the Capitalisation Issue (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option) and any Shares which may be issued upon the exercise of any options granted under the Share Option Scheme. None of our Shares or loan capital of our Company is listed on or dealt in on any other stock exchange. At present, our Company is not seeking or proposing to seek such listing or permission to deal in our Shares on any other stock exchanges.

OUR SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, our Shares on the Stock Exchange and we comply with the stock admission requirements of HKSCC, our 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 as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second trading day after a trading transaction. You should seek advice from your stockbroker or other professional advisers for details of such settlement arrangements as such arrangements will affect your rights and interests.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, 25 April 2014, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, 25 April 2014.

The Shares will be traded in board lots of 5,000 Shares each.

The stock code of the Shares will be 1400.

PROFESSIONAL TAX ADVICE RECOMMENDED

You should consult your professional advisers if you are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, and dealing in, our Shares (or exercising rights attaching to them) under the laws of Hong Kong and the place of your operations, domicile, residence, citizenship or incorporation. We emphasise that none of the Sole Global Coordinator, the Sole Sponsor, the Underwriters, us, any of our or their respective directors or any other person or party involved in the Global Offering accepts responsibility for your tax effects or liabilities resulting from your subscription for, purchasing, holding or disposing of, or dealing in, our Shares or your exercise of any rights attaching to our Shares.

HONG KONG REGISTER OF MEMBERS AND STAMP DUTY

All Shares issued by us pursuant to applications made in the Hong Kong Public Offer will be registered on our register of members to be maintained in Hong Kong. Our Company's principal register of members will be maintained in our company's principal share registrar in the Cayman Islands. Our register of members will be maintained by the Hong Kong Branch Share Registrar.

Dealings in the Shares registered in our Company's register of members of our Company maintained in Hong Kong will be subject to Hong Kong stamp duty. Only Shares registered on our Hong Kong register of members may be traded on the Stock Exchange.

PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedure for applying for Hong Kong Offer Shares is set forth in the section headed "How to Apply for Hong Kong Offer Shares" of this prospectus and on the relevant Application Forms.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Hong Kong Public Offer, the International Placing and the Global Offering, including its conditions, are set forth in the section headed “Structure of the Global Offering” of this prospectus.

EXCHANGE RATE CONVERSION

For the purpose of illustration only and unless otherwise specified in this prospectus, the translations of the Renminbi into the Hong Kong dollars, of the Hong Kong dollars into the U.S. dollars and of the Hong Kong dollars into U.S. dollars have been made at the rates of RMB0.80 to HK\$1.00, HK\$7.80 to US\$1.00, RMB6.24 to US\$1.00, respectively. No representation is made that (i) Renminbi amounts could have been, or could be, converted into the U.S. dollars; (ii) Hong Kong dollars could have been, or could be, converted into the U.S. dollars; or (iii) Renminbi amounts could have been, or could be, converted into the Hong Kong dollars at such rates or at any other rate on such date or on any other date.

ROUNDING

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Residential address	Nationality
<i>Executive Directors</i>		
Lin Qingxiong (林清雄) (also known as Lin Shiti 林詩體)	Flat 1605, Unit 2 Block 8, Phase 2 Shi Cheng Di Yuan Shishi City Fujian China	Chinese
Qiu Zhiqiang (邱志強)	Flat 2803, 28 th Floor Block 5B Hao Jiang International Bao Dao Road Shishi City Fujian China	Chinese
Deng Qinghui (鄧慶輝)	Flat 705, Block A Jiu Chang Tao Fang Quan An Zhong Road North Xia Xing Village Qing Yang Town Jinjiang City Fujian China	Chinese
<i>Independent non-executive Directors</i>		
Yu Yubin (俞毓斌)	Room 707, Hualong Building 6 Hubindong Road Xiamen City Fujian China	Chinese
Ma Chongqi (馬崇啟)	Room 602, Block 1 No. 2 Yipinjiayuan Weiguodao Hedong District Tianjin China	Chinese
Chan Sui Wa (陳瑞華)	Flat E, 46th Floor Tower 3A Tierra Verde Tsing Yi New Territories Hong Kong	Chinese

For detailed information of our Directors, please refer to the section headed “Directors and Senior Management” of this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor	Guotai Junan Capital Limited 27th Floor, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Sole Global Coordinator, Bookrunner and Lead Manager	Guotai Junan Securities (Hong Kong) Limited 27th Floor, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Auditor and reporting accountant	PricewaterhouseCoopers <i>Certified Public Accountants</i> 22nd Floor, Prince's Building Central Hong Kong
Legal advisers to our Company	<i>as to Hong Kong law:</i> Squire Sanders 29th Floor Edinburgh Tower The Landmark 15 Queen's Road Central Hong Kong <i>as to PRC law:</i> Hills & Co. 11th Floor Central Business Building No. 88 Fu Hua First Road Fu Tian Central Business District Shenzhen China <i>as to Cayman Islands law:</i> Conyers Dill & Pearman (Cayman) Limited Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

**Legal advisers to the Sole Sponsor
and the Underwriters**

as to Hong Kong law:

Eversheds
21st Floor
Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

as to PRC law:

Deheng Law Offices (Shenzhen)
11/F, Key B, Anlian Plaza
4018 Jintian Rd,
Futian District
Shenzhen
China

Property valuer

Jones Lang LaSalle Corporate Appraisal and
Advisory Limited
6th Floor
Three Pacific Place
1 Queen's Road East
Hong Kong

Receiving banker

Wing Lung Bank Limited
45 Des Voeux Road Central
Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Headquarters in China	Wubao Science and Technology Park Hongshan Town Shishi City Fujian China
Place of business in Hong Kong	Unit 02, 15th Floor Convention Plaza Office Tower 1 Harbour Road Wanchai Hong Kong
Company's website	www.texitm.com (<i>information contained in this website does not form part of this prospectus</i>)
Company secretary	Mr. Siu Kai Chun (<i>FCCA, FCCA, ACA</i>) Flat E, 39th Floor Tower 3 The Grandiose 9 Tong Chun Street Tseung Kwan O New Territories Hong Kong
Authorised representatives	Mr. Qiu Zhiqiang Flat 2803, 28 th Floor Block 5B Hao Jiang International Bao Dao Road Shishi City Fujian China Mr. Siu Kai Chun Flat E, 39th Floor Tower 3 The Grandiose 9 Tong Chun Street Tseung Kwan O New Territories Hong Kong
Audit committee	Mr. Chan Sui Wa (<i>Chairman</i>) Mr. Yu Yubin Mr. Ma Chongqi

CORPORATE INFORMATION

Remuneration committee	Mr. Ma Chongqi (<i>Chairman</i>) Mr. Chan Sui Wa Mr. Yu Yubin
Nomination committee	Mr. Yu Yubin (<i>Chairman</i>) Mr. Ma Chongqi Mr. Chan Sui Wa
Regulatory compliance committee	Mr. Qiu Zhiqiang (<i>Chairman</i>) Mr. Deng Qinghui Mr. Siu Kai Chun
Compliance adviser	Guotai Junan Capital Limited
Principal share registrar	Codan Trust Company (Cayman) Limited Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Hong Kong share register	Tricor Investor Services Limited Level 22 Hopewell Centre 183 Queen's Road East Hong Kong
Principal bankers	<p>Rural Commercial Bank of Shishi Nanyang Road Branch No.88-90, Yuanyang Chi Road Shishi City Fujian China</p> <p>China Merchants Bank Quanzhou Shishi Branch 1st Floor Haofu Plaza Baqi Road Shishi City Fujian China</p> <p>Bank of Quanzhou Fengli Branch No. 1689-1699 Baqi Road Shishi City Fujian China</p>

INDUSTRY OVERVIEW

We have extracted and derived the information and statistics in the section below, in part, from various official government publications that are publicly available and the CCID Report. We believe that the sources of the information and statistics in this section are appropriate sources for such information and statistics and have taken reasonable care in the extraction and reproduction of such information and statistics. We have no reason to believe that such information and statistics is false or misleading or that any fact has been omitted that would render such information and statistics false or misleading. None of our Company, the Sole Global Coordinator, the Sole Sponsor, any of the Underwriters, any of our or their respective affiliates, directors or advisers or any other persons or parties involved in the Global Offering have independently verified such information and statistics directly or indirectly derived from official government publications, or make any representation as to the accuracy of such information or statistics, which may not be consistent with other information and statistics compiled within or outside China. Accordingly, the official and non-official sources contained herein may not be accurate and should not be unduly relied upon.

SOURCES OF INFORMATION

The China Statistical Yearbook 2012 (《中國統計年鑒2012》) and the China Statistical Yearbook 2013 (《中國統計年鑒2013》) are official publications issued by the National Bureau of Statistics of China (中華人民共和國國家統計局), a department within the PRC Government. Information and statistics derived from the China Statistical Yearbook 2012 and the China Statistical Yearbook 2013 constitute official public information.

The China National Textile and Apparel Council (中國紡織工業聯合會), formerly known as the China National Textile and Apparel Council (中國紡織工業協會), is a national industry organisation.

The China Textile Economic Information (CTEI.GOV.CN) (中國紡織經濟信息網) is the official website of China National Textile and Apparel Council.

The China Cotton Association (中國棉花協會) is a non-profit organisation under the supervision and management of All China Federation Supply and Marketing Cooperatives (中華全國供銷合作總社) and Ministry of Civil Affairs of the PRC (中華人民共和國民政部).

CottonChina.org (中國棉花信息網) was jointly founded by the Cotton and Jute Bureau of All China Federation of Supply and Marketing Cooperatives (全國供銷合作總社棉花局) and China National Cotton Exchange (全國棉花交易市場), both of which were established with the approval of the State Council.

The China Cotton Textile Association (中國棉紡織行業協會) is a registered nation-wide cooperative organisation in the PRC approved by the Ministry of Civil Affairs of the PRC.

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CCID Report and the assumption for growth and forecasts

We have commissioned CCID, an independent market research institution based in the PRC, to analyse and report on the forecast statistics of the textile market in the PRC. The fee payable to CCID for the preparation and use of the CCID Report is RMB60,000. Market estimates or forecasts in this section represent CCID's view on the future development of the PRC textile market based on key drivers of market demand. CCID developed its estimates or forecasts on the following bases and assumptions:-

- That the social, economic and political environment in China being examined remain stable during the forecast period and the economic growth rate remain stable with a slight decline;
- That the Chinese textile market is expected to grow in line with China's overall economic growth; and
- CCID has considered related industry key drivers as including macro economic development in China, macro economic policy in China, policies related to the textile industry in China, and market condition of the international textile industry.

The market forecasts may be affected by the accuracy of these assumptions and the choice of these parameters.

OVERVIEW OF THE PRC ECONOMY

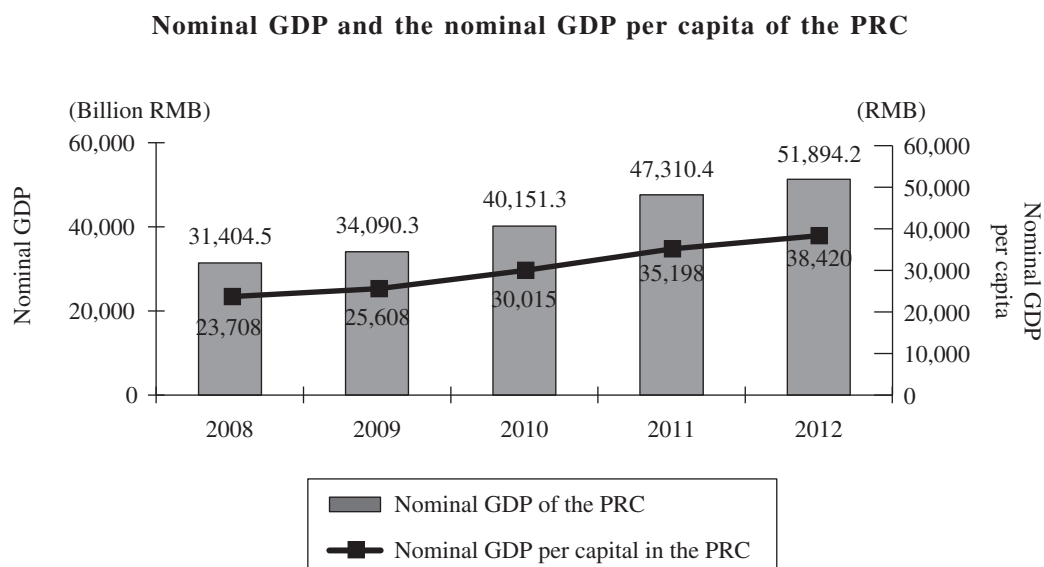
Rapid growth of the PRC economy

Since the implementation of economic reform and opening-policy in the 1980s, China has been experiencing significant economic growth. According to the National Bureau of Statistics of China, China's nominal GDP increased from RMB31,404.5 billion in 2008 to RMB51,894.2 billion in 2012, representing a CAGR of approximately 13.4% during the period.

Along with the economic development, China's nominal GDP per capita also increased from RMB23,708 in 2008 to RMB38,420 in 2012, representing a CAGR of approximately 12.8% during the period.

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The following chart sets forth the nominal GDP and the nominal GDP per capita of the PRC from 2008 to 2012:-



Source: *China Statistical Yearbook 2013* (《中國統計年鑒2013》) issued by National Bureau of Statistics of China in September 2013

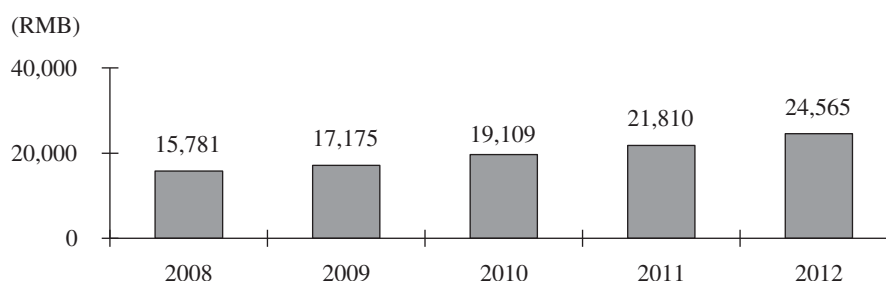
Rising disposable income in the PRC

As a result of the rapid economic development, per capita annual disposable income of both urban and rural residents in the PRC has increased significantly over the past few years. The per capita annual disposable income of urban residents in the PRC increased from RMB15,781 in 2008 to RMB24,565 in 2012, representing a CAGR of approximately 11.7% during the period. The per capita annual disposable income of rural residents in the PRC increased from RMB4,761 in 2008 to RMB7,917 in 2012, representing a CAGR of approximately 13.6% during the period.

INDUSTRY OVERVIEW

The following chart sets forth the per capita annual disposable income of urban residents in the PRC from 2008 to 2012:-

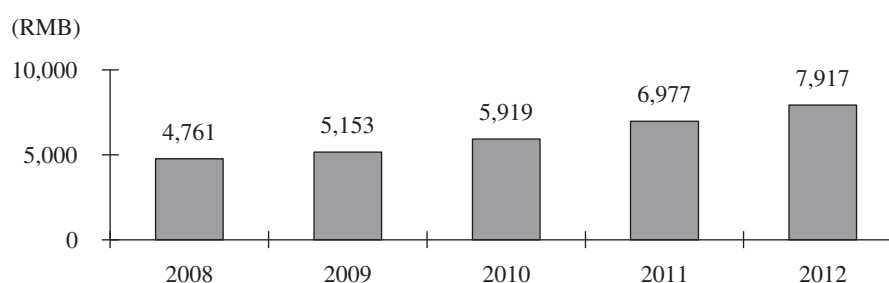
Per capita annual disposable income of the urban residents in the PRC



Source: Statistical Communiqué on the 2012 National Economic and Social Development (《中華人民共和國2012年國民經濟和社會發展統計公報》) issued by National Bureau of Statistics of China in February 2013 for 2008 to 2009 figures and the China Statistical Yearbook 2013 (《中國統計年鑑2013》) issued by National Bureau of Statistics of China in September 2013 for 2010 to 2012 figures

The following chart sets forth the per capita annual disposable income of rural residents in the PRC from 2008 to 2012:-

Per capita annual disposable income of the rural residents in the PRC



Source: Statistical Communiqué on the 2012 National Economic and Social Development (《中華人民共和國2012年國民經濟和社會發展統計公報》) issued by National Bureau of Statistics of China in February 2013 for 2008 to 2009 figures and the China Statistical Yearbook 2013 (《中國統計年鑑2013》) issued by National Bureau of Statistics of China in September 2013 for 2010 to 2012 figures

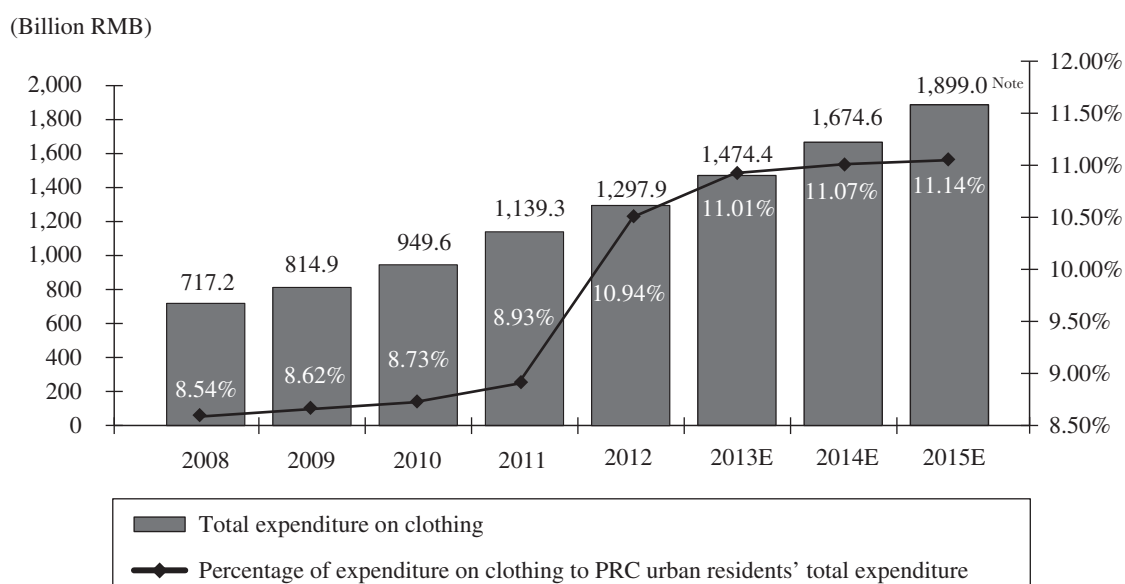
INDUSTRY OVERVIEW

Growth of the clothing market in the PRC

Along with the strong economic growth and growth in the per capita annual disposal income in the PRC, the total expenditure on clothing of the urban and rural residents has been recording continuous growth from 2008 to 2012.

The following chart sets forth the actual and forecast PRC urban residents' total expenditure on clothing and the respective percentage to the PRC urban residents' total expenditure from 2008 to 2015:-

**PRC urban residents' total expenditure on clothing and
the respective percentage to the total expenditure**



Source: China Statistical Yearbook 2012 (《中國統計年鑒2012》) and China Statistical Yearbook 2013 (《中國統計年鑒2013》) issued by National Bureau of Statistics of China in September 2012 and September 2013, respectively, for 2008 to 2012 figures and CCID for 2013 to 2015 figures

Note:

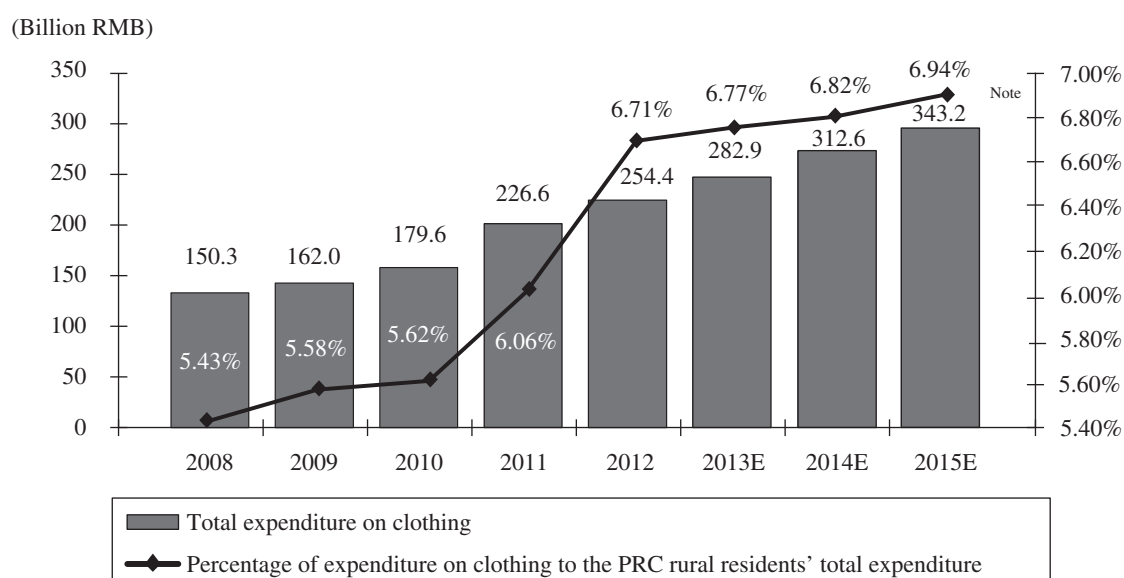
The 2012 figure is calculated based on the annual per capita cash expenditure on clothing of urban resident multiplied by the total urban population according to China Statistical Yearbook 2013 (《中國統計年鑒2013》) issued by National Bureau of Statistics of China.

PRC urban residents' total expenditure on clothing increased from RMB717.2 billion in 2008 to RMB1,297.9 billion in 2012, at a CAGR of approximately 16.0% during the same period. CCID forecasts that the urban residents' total expenditure on clothing will increase to RMB1,899.0 billion in 2015, with a CAGR of approximately 13.5% from 2013 to 2015.

INDUSTRY OVERVIEW

The following chart sets forth the actual and forecast PRC rural residents' total expenditure on clothing and the respective percentage to the PRC rural residents' total expenditure from 2008 to 2015:-

PRC rural residents' total expenditure on clothing and the respective percentage to the total expenditure



Source: China Statistical Yearbook 2012 (《中國統計年鑒2012》) and China Statistical Yearbook 2013 (《中國統計年鑒2013》) issued by National Bureau of Statistics of China in September 2012 and September 2013, respectively, for 2008 to 2012 figures and CCID for 2013 to 2015 figures

Note:

The 2012 figure is calculated based on the annual per capita expenditure on clothing of rural resident multiplied by the total rural population according to China Statistical Yearbook 2013 (《中國統計年鑒2013》) issued by National Bureau of Statistics of China.

PRC rural residents' total expenditure on clothing increased from RMB150.3 billion in 2008 to RMB254.4 billion in 2012, at a CAGR of approximately 14.1% during the same period. CCID expects that the rural residents' total expenditure on clothing will reach RMB343.2 billion in 2015, representing a CAGR of approximately 10.1% from 2013 to 2015.

TEXTILE MARKET IN THE PRC

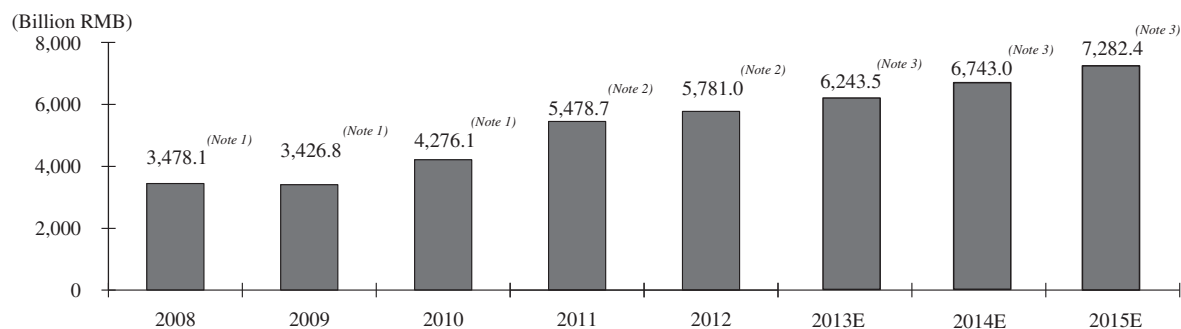
Production value of the textile market in the PRC

The production value of the textile market in the PRC increased from approximately RMB3,478.1 billion in 2008 to approximately RMB5,781.0 billion in 2012, representing a CAGR of approximately 13.5% during the period.

INDUSTRY OVERVIEW

The following chart sets forth the actual and forecast production value of the textile market in the PRC from 2008 to 2015:-

Production value of the textile market in the PRC



Source: Annual Reports of China Textile Industry Development Report (《中國紡織工業發展報告》) issued by China National Textile And Apparel Council (中國紡織工業聯合會) for 2008 to 2012 figures; Twelfth Five-year Development Plan of Textile Industry (《紡織工業“十二五”發展規劃》) issued by the Ministry of Industry and Information Technology of the PRC for 2013 to 2015 figures

Notes:-

1. Only enterprises with annual revenue of RMB5 million generated from the main business were taken into account.
2. Only enterprises with annual revenue of RMB20 million generated from the main business were taken into account.
3. According to the Twelfth Five-year Development Plan of Textile Industry (《紡織工業“十二五”發展規劃》) issued by the Ministry of Industry and Information Technology of the PRC, the annual growth rate of the industry for the period between 2010 and 2015 is estimated to be 8%.

Prospective development of the textile market in the PRC

According to the Outline of Development of Textile Industry (2011-2020) (《建設紡織強國綱要(2011-2020)》) issued by the China National Textile and Apparel Council, the annual growth rate in the production value of the textile market in the PRC is expected to reach 12.5% for the period between 2011 to 2020. By 2020, the production value of the textile market in the PRC is expected to be twice as that of 2010 and the percentage of expenditure on clothing to the total expenditures by PRC residents is expected to reach approximately 14.5%.

Breakdown of the PRC textile industry by geographical regions in 2012

Fujian Province ranks the sixth and the fourth among different provinces and regions in the PRC in terms of production volume of fabrics and yarns, respectively, in 2012 whereas it ranks the seventh and the fifth, respectively, in the same ranking in 2010. Hubei Province ranks the fourth and the third among different provinces and regions in the PRC in terms of production volume of fabrics and yarns, respectively, in 2012 whereas it ranks the fifth in terms of production volume of fabrics in the same ranking in 2010.

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The following table sets forth the breakdown of fabrics production volume of the fabrics industry in the PRC in 2012 by geographical region:-

Ranking	Province/region	Percentage of the total production volume of the fabrics industry in the PRC (%)
1	Shandong	21.7
2	Zhejiang	21.7
3	Jiangsu	12.2
4	Hubei	10.5
5	Hebei	10.0
6	Fujian	7.3
7	Others	16.6

Source: 2012 Development Research Report (《2012年度發展研究報告》) issued by China Cotton Textile Association (中國棉紡織行業協會) in March 2013

The following table sets forth the breakdown of yarns production volume of the yarns industry in the PRC in 2012 by geographical region:-

Ranking	Province/region	Percentage of the total production volume of the yarns industry in the PRC (%)
1	Shandong	27.9
2	Jiangsu	15.1
3	Hubei	9.3
4	Fujian	9.1
5	Zhejiang	7.7
6	Others	30.9

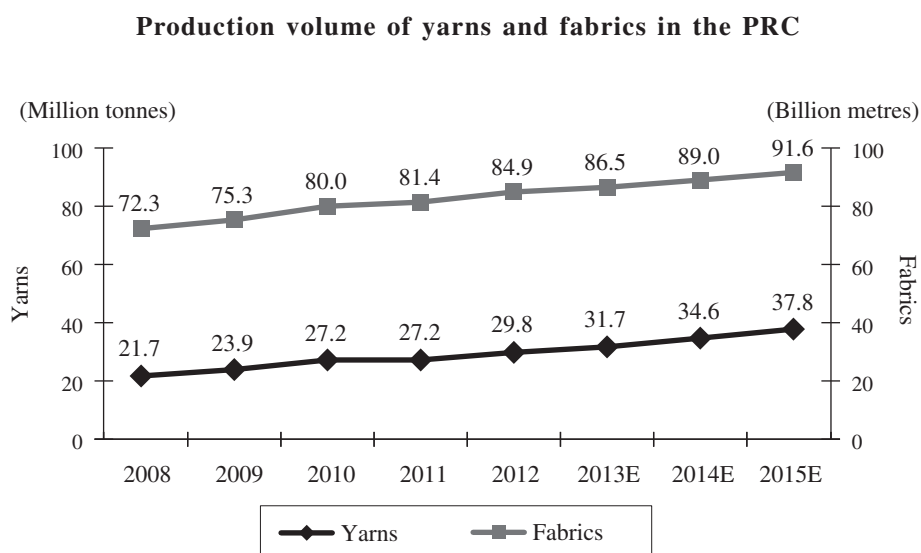
Source: 2012 Development Research Report (《2012年度發展研究報告》) issued by China Cotton Textile Association (中國棉紡織行業協會) in March 2013

INDUSTRY OVERVIEW

Growth of yarns and fabrics production in the PRC

Yarns and fabrics are two major products in the textile market in the PRC. Along with the continuing growth of the textile market in the PRC, the production volume of each of yarns and fabrics maintained high growth rate in the past few years. The production volume of yarns increased from approximately 21.7 million tonnes in 2008 to approximately 29.8 million tonnes in 2012, representing a CAGR of approximately 8.3% during the period whereas the production volume of fabrics increased from approximately 72.3 billion metres in 2008 to approximately 84.9 billion metres in 2012, representing a CAGR of approximately 4.1% during the period. CCID forecasts the production volume of yarns will increase from 31.7 million tonnes in 2013 to 37.8 million tonnes in 2015, representing a CAGR of approximately 9.2%. As for the production volume of fabrics, it is expected that the volume will increase from 86.5 billion metres in 2013 to 91.6 billion metres in 2015, representing a CAGR of approximately 2.9%.

The following chart sets forth the actual and forecast production volume of each of yarns and fabrics in the PRC from 2008 to 2015:-



Source: China Statistical Yearbook 2012 (《中國統計年鑒2012》) and China Statistical Yearbook 2013 (《中國統計年鑒2013》) issued by National Bureau of Statistics of China in September 2012 and September 2013, respectively, for 2008 to 2012 figures and CCID for 2013 to 2015 figures

INDUSTRY OVERVIEW

COTTON TEXTILE MARKET IN THE PRC

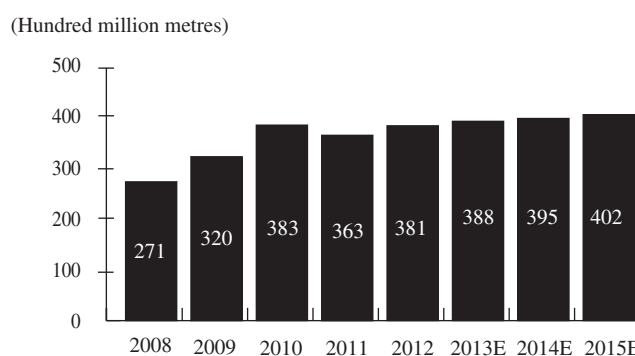
Cotton textile industry is a fast growing industry in the PRC. The production value of the cotton textile industry increased from approximately RMB1,059.5 billion in 2008 to approximately RMB1,958.5 billion in 2012, representing a CAGR of 16.6% during the period. According to China National Textile and Apparel Council (中國紡織工業聯合會), the production value of the cotton textile industry represents 33.6% of the textile industry in the PRC in 2012. According to China National Textile and Apparel Council (中國紡織工業聯合會), cotton textile industry is the largest among different textile industries in the PRC in terms of revenue.

Cotton fabrics

Cotton fabrics production

The following chart sets forth the actual and forecast production volume of cotton fabrics in the PRC from 2008 to 2015:-

Production volume of cotton fabrics in the PRC



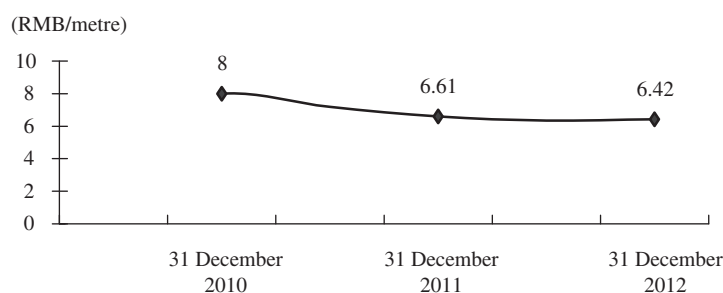
Sources: Annual reports of China Textile Industry Development Report (《中國紡織工業發展報告》) issued by China National Textile and Apparel Council (中國紡織工業聯合會) for 2008 to 2012 figures and CCID for 2013 to 2015 figures

INDUSTRY OVERVIEW

Prices of cotton fabrics

The following table sets forth the prices of the 32 counts cotton twill fabrics^(Note) in the PRC from 2010 to 2012:-

**Prices and the price trend of the
32 counts cotton twill fabrics manufactured by manufacturers in the PRC**



Sources: China Textile Economic Information (CTEI.GOV.CN) (中國紡織經濟信息網)

Note:

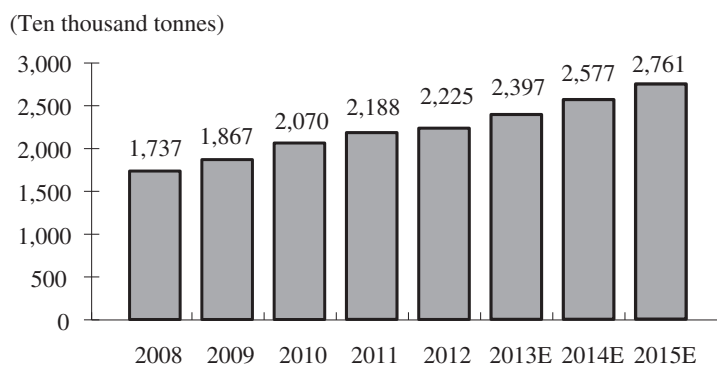
To the best knowledge and belief of our Directors, 32 counts cotton twill fabrics is a type of cotton fabrics commonly produced by fabrics manufacturers in the PRC.

Cotton yarns

Cotton yarns production

The following chart sets forth the actual and forecast production volume of cotton yarns in the PRC from 2008 to 2015:-

Production volume of cotton yarns in the PRC



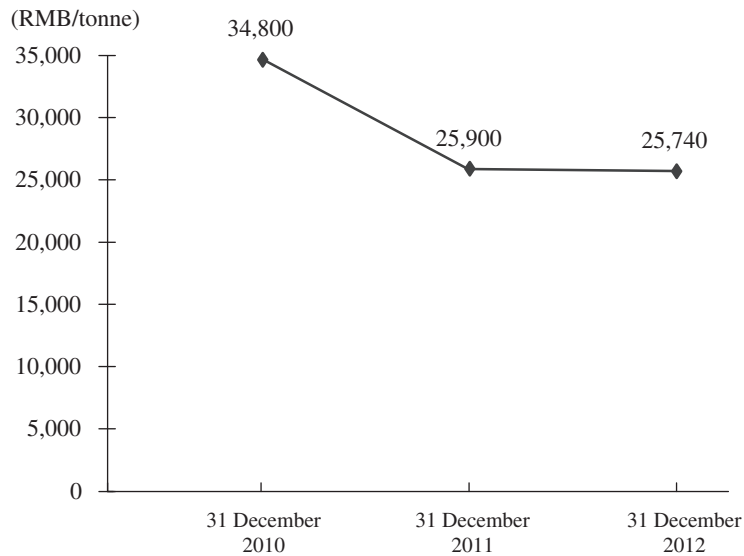
Source: Annual reports of China Textile Industry Development Report (《中國紡織工業發展報告》) issued by China National Textile and Apparel Council (中國紡織工業協會) for 2008 to 2011 figures; National Bureau of Statistics of China for 2012 figure and CCID for 2013 to 2015 figures

INDUSTRY OVERVIEW

Prices of cotton yarns

The following table sets forth the prices of the 32 counts cotton yarns^(Note) in the PRC from 2010 to 2012:-

Price of the 32 counts cotton yarns in the PRC



Sources: China Textile Economic Information (CTEI.GOV.CN) (中國紡織經濟信息網)

Note:

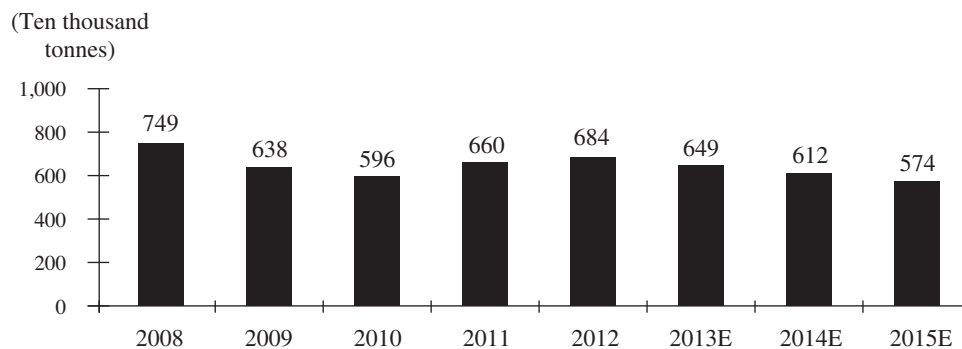
To the best knowledge and belief of our Directors, 32 counts cotton yarns is a type of cotton yarns commonly used by fabrics manufacturers in the PRC.

Production and prices of cotton

Cotton is the primary raw material involved in the production of cotton yarns.

The following chart sets forth the actual and forecast production volume of cotton in the PRC from 2008 to 2015:-

Production volume of cotton in the PRC

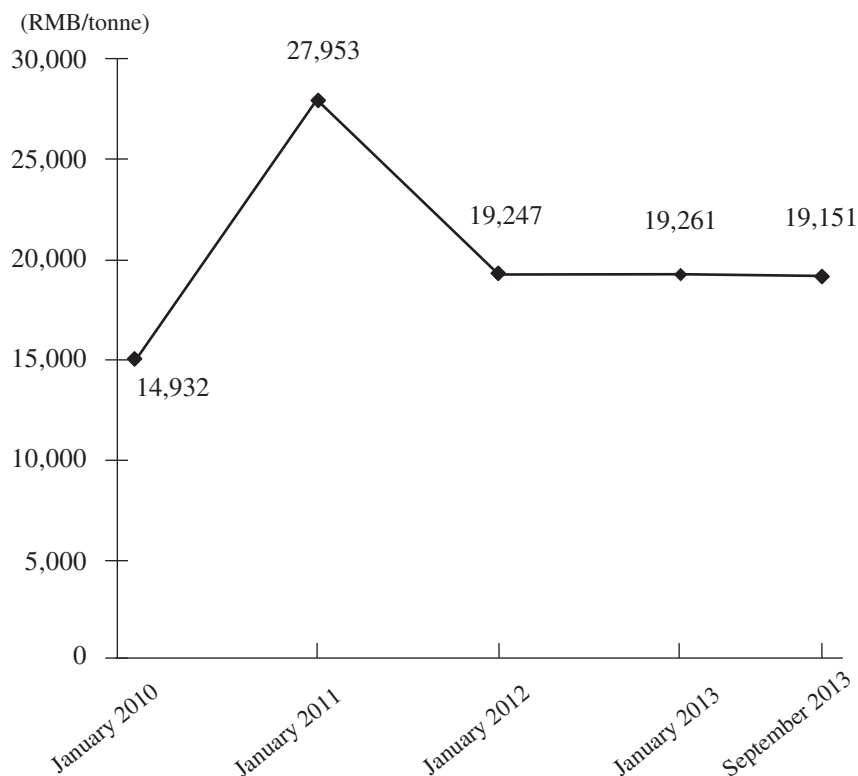


Source: China Statistical Yearbook 2013 (《中國統計年鑑2013》) issued by National Bureau of Statistics of China in September 2013 for 2008 to 2012 figures and CCID for 2013 to 2015 figures

INDUSTRY OVERVIEW

All of the raw cotton we purchased for the production of yarns are sourced from suppliers in the PRC. CC Index 328 is a constituent of the CN Cotton Indices (國家棉花價格指數) that is prepared on the basis of massive price samples collected from domestic market. Hence, our Directors believe that the CC Index 328 is relevant for illustrating the purchase price of the raw cotton in the PRC. The following chart sets forth the average prices of cotton produced in the PRC from January 2010 to September 2013 (the latest publicly available data) based on the CC Index 328:-

Price of cotton (CC Index 328) in the PRC



Source: The CottonChina.org (中國棉花信息網)

Cotton reserve policy by the PRC Government

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 average price of cotton rise based on CC Index 328 from approximately RMB12,804 per tonne in 2009 to approximately RMB19,374 per tonne in 2010. In order to stabilise the severe market price fluctuation of cotton in China, the PRC Government promulgated the Temporary Plan for Cotton Reservation 2011 (2011年度棉花臨時收儲預案) (the “**Temporary Plan**”), whereby the PRC Government purchases cotton from the domestic cotton farmers at a fixed price for government reserve in order to stabilise the price of cotton. This policy also aims to protect the interests of the domestic cotton farmers.

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Since the implementation of the Temporary Plan, the price of cotton in the PRC maintained at a stable level. On the contrary, the international price trend of cotton was different from the price trend in China. According to the National Cotton Council of America, the average price of the lowest five quotations from a selection of cottons traded internationally (the “A” Index) increased by approximately 5.36% from approximately RMB11,675 per tonne in January 2013 to approximately RMB12,300 per tonne in September 2013. It is expected that with the Temporary Plan in implementation, the price of cotton in the PRC will be generally higher than that in the international market.

For detailed information in relation to the cotton reserve policy on our financial and operation positions and the mitigation measures adopted by us in response, please refer to the paragraph headed “Business — Procurement and suppliers — Measures taken to manage the price risk of raw materials” of this prospectus.

COMPETITIVE LANDSCAPES

Our Directors are of the view that the PRC textile industry is highly competitive and fragmented. It is characterised by a large number of small-to-medium sized market players. According to the 2012-2013 China Textile Industry Development Report (《2012-2013中國紡織工業發展報告》) issued by the China National Textile and Apparel Council, there was a total of approximately 37,406 textile manufacturers in the PRC in 2012. According to the 2012-2013 China Textile Industry Development Report (《2012-2013中國紡織工業發展報告》) issued by the China National Textile and Apparel Council in June 2013, there was a total of 2,041 textile manufacturers above designated size in Fujian in 2012. As such, market share of our Group in the textile industry in the PRC is considered minimal.

Our Directors considered that we principally compete with small-to-medium sized domestic fabric manufacturers in Fujian Province on the following bases, namely, technology standard, production techniques and skills, and the ability to offer a variety of fabrics with different features and specifications.

We believe that substantial capital commitment is normally required to remain competitive in the textile industry. We compete in aspects of production efficiency, production capacity and advanced production facilities to achieve production volumes and better profit margins.

OPPORTUNITIES AND CHALLENGES FACED BY THE TEXTILE INDUSTRY IN THE PRC

As part of the Twelfth Five-year Plan of the textile industry in Fujian Province, the government of Fujian Province formulates certain policies to promote the textile industry in the Shishi region. Shishi City is targeted to be developed as a world-class textile fabric and clothing trading and distribution centre. The government of Fujian Province will support the participation of domestic and overseas textile manufacturers in textile trading activities such as Fujian (Shishi) Textile Clothing Fair (福建(石獅)紡織服裝博覽會). Under the Twelfth Five-year Plan, it is expected that significant investment will be made to build a textile production base in Shishi City. Investments will be made to enhance the research and development, production, logistic arrangement of textile in the production

INDUSTRY OVERVIEW

base. Resources will also be put into the training of textile industry related professionals. In particular, a large-scale textile clothing industrial park will be constructed in Shishi City. Infrastructure such as production facilities, public facilities, commercial facilities, and other supporting facilities will be built in connection with the industrial park.

According to the Twelfth Five-year Plan of the textile industry in Hubei Province, the government of Hubei Province intends to promote the cotton textile industry and develop Hubei Province into a national cotton textile production base. Enterprises are encouraged to collaborate with universities and colleges to set up research and development and design centres. More training programmes will be organised by technical institutes and vocational training schools of textiles to provide the market with skilled technical and management personnel. To further enhance the position of Hubei Province as the cotton production base, the Twelfth Five-year Plan promulgated policy to improve the quality of cotton through genetic engineering programmes.

One of the major challenges faced by the PRC textile manufacturers is the high price of cotton during the recent years. If the cotton reserve policy of the PRC Government to protect the interests of PRC cotton farmers by procuring cotton from them remains effective, the purchase price of cotton in the PRC is expected to continue to be higher than the international cotton price, which will in turn impair the competitive edge of the PRC textile industry in the global market.

ENTRY BARRIERS TO THE TEXTILE MARKET

High capital requirement

Traditionally, the business entry barrier to the textile industry in the PRC is low as cotton yarns and fabrics are basic textile products which do not require a high level of technology to produce. A larger scale of operation can enhance production cost efficiency and reduce the impact of fluctuations of price of raw materials. Large-scale operation imposes a higher capital requirement due to the heavier investments in machines and also poses barrier to entry for new manufacturers.

Importance of customer relationships

Given the highly competitive nature of the textile industry, maintaining stable and long term relationships with customers is a key to success in the textile industry. This poses a significant barrier to entry for new manufacturers.

Increasing technical requirements

There is an increasing demand for a wider variety of fabrics in the market. The ability to manufacture various kinds of fabrics involves higher level of technology, which in turns requires higher capital commitment. The ability to meet the increasing technical requirements of customers also depends on the ability to recruit appropriate technical personnel.

SUMMARY OF APPLICABLE LAWS AND REGULATIONS

Incorporation, Operation and Management of Wholly-Foreign Owned Enterprise

The incorporation, operation and management of a company in the PRC shall be subject to the Company Law of the PRC (《中華人民共和國公司法》) (the “**Company Law**”) which was promulgated by the Standing Committee of the National People’s Congress (the “**SCNPC**”) on 29 December 1993 and became effective on 1 July 1994 and was afterwards amended on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013, respectively. The Company Law has mainly stipulated two kinds of corporations i.e. limited liability company and joint stock limited company. Foreign investment company is also subject to the Company Law, unless it is otherwise provided by the foreign investment laws.

The establishment procedures, approval procedures, registered capital requirements, foreign exchange control, accounting, tax, employment and all other relevant matters of a wholly foreign-owned enterprise shall be subject to the PRC Laws on Wholly Foreign Owned Enterprises (《中華人民共和國外資企業法》) promulgated by the SCNPC on 12 April 1986 (which was amended on 31 October 2000) and the Implementation Rules of the PRC Law on Wholly Foreign Owned Enterprises (《中華人民共和國外資企業法實施細則》) promulgated by the State Council on 12 December 1990 and revised on 12 April 2001 and 19 February 2014.

Any investments conducted by the foreign investors and foreign enterprises in the PRC shall be subject to the Guidance Catalogue of Industries for the Foreign Investment (《外商投資產業指導目錄》) (the “**Guidance Catalogue**”), the latest version of which was promulgated by the MOFCOM and the NDRC on 24 December 2011 and came into effect since 30 January 2012. The Guidance Catalogue was divided into the Encouraged Foreign Investment Industries, the Restricted Foreign Investment Industries and the Prohibited Foreign Investment Industries, and the industries which are not listed in the Guidance Catalogue shall be classified as the Permitted Foreign Investment Industries.

Product Quality and Consumer Rights

The products in the PRC shall be subject to the Product Quality Law of the PRC (《中華人民共和國產品質量法》) (the “**Product Quality Law**”), which was promulgated by the SCNPC on 22 February 1993 and amended on 8 July 2000. According to the Product Quality Law, manufacturers shall be responsible to compensate the damages of the person or property caused by the defect of products, unless the manufacturer is able to prove that: (i) the products have not been put into circulation; (ii) the defects are non-existent when the products are put into circulation; and (iii) the defects cannot be found at the time of circulation due to scientific and technological reasons. Defects mentioned above refer to the irrational dangers existing in the products that threaten the safety of person or property, or the products that fall short of the national standards or industrial standards for the protection on body health and safety of person (if any).

SUMMARY OF APPLICABLE LAWS AND REGULATIONS

The PRC Law on Protection of the Rights and Interests of Consumers (《中華人民共和國消費者權益保護法》) was promulgated by the SCNPC on 31 October 1993 and became effective since 1 January 1994 and was subsequently amended on 27 August 2009 and 25 October 2013. According to the PRC Law on Protection of the Rights and Interests of Consumers, unless otherwise provided by this law, a business operator that provides commodities or services shall, in any of the following circumstances, bear civil liability in accordance with the Product Quality Law and other relevant laws and regulations: (i) where a defect exists in a commodity; (ii) where a commodity does not possess functions it is supposed to possess, and it is not declared when the commodity is sold; (iii) where the commodity standards indicated on a commodity or on the package of such commodity are not met; (iv) where the quality condition indicated by way of commodity description or physical sample, etc. is not met; (v) where commodities pronounced obsolete by formal State decrees are produced or have expired or deteriorated commodities are sold; (vi) where a sold commodity is not adequate in quantity; (vii) where the service items and charges are in violation of an agreement; (viii) where demands by a consumer for repair, redoing, replacement, return, making up the quantity of a commodity, refund of a commodity purchase price or service fee or claims for compensation have been delayed deliberately or rejected without reason; or (ix) in other circumstances whereby the rights and interests of consumers, as provided by laws and regulations, are harmed.

The Tort Law of the PRC (《中華人民共和國侵權責任法》) was promulgated by SCNPC on 26 December 2009 and came into force on 1 July 2010 to clarify the tort liability and prevent and punish tortious conduct. Under this law, in the event of damage arising from a defective product, the infringer may seek compensation from either the manufacturer or seller of such product, and where such product with any defect caused by the fault of the seller, the manufacturer shall be entitled to seek reimbursement from the seller upon compensation.

Production Safety

The Production Safety Law of the PRC (《中華人民共和國安全生產法》), which is the principal law governing the supervision and administration of production safety in the PRC, took effect from 1 November 2002 and was amended on 27 August 2009. The law provides that production entity shall meet the relevant requirements such as providing its staff with proper training, handbooks concerning production safety, and safe working conditions as set out in the relevant laws, rules and regulations. Any production entity that fails to provide the required safe working conditions shall not be engaged in production activities. Violation of the Production Safety Law of the PRC may result in being imposed of fines, penalties, suspension of operations, order to cease operations, or even criminal liability for severe cases.

Employment

Enterprises in the PRC are subject to the PRC Labour Law (《中華人民共和國勞動法》) (the “**PRC Labour Law**”), the PRC Labour Contract Law (《中華人民共和國勞動合同法》) (the “**Labour Contract Law**”) and the Implementations Regulations of the PRC Labour Contract Law (《中華人民共和國勞動合同法實施條例》), as well as other related regulations, rules and provisions issued by the relevant governmental authorities from time to time. The Labour Contract Law which became effective on 1 January 2008, and amended on 28 December 2012 with the amendment taking effect on

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1 July 2013, calls for stricter requirements in human resources management in terms of signing labour contracts with employees, stipulating probation and violation penalties, dissolving labour contracts, paying remuneration and economic compensation, use of labour despatch, as well as social security premiums.

According to the PRC Labour Law and the Labour Contract Law, enterprises must enter into labour contracts if they are to establish labour relationships with the employees. Enterprises must provide wages, which are not lower than the local minimum wage standards, to such employees and are required to establish labour safety and sanitation systems, strictly abide by PRC rules and standards and provide relevant training to the employees.

Social Insurance Regulations and Housing Provident Fund Regulations

The social insurance are mainly governed by the Social Insurance Law of the People's Republic of China (the "**Social Insurance Law**") (《中華人民共和國社會保險法》), the Provisional Regulations on the Collection of Social Insurance Fees (《社會保險費徵繳暫行條例》), the Provisional Measures on the Administration of Social Insurance Registration (《社會保險登記管理暫行辦法》) and the Regulations on Work-Related Injury Insurance (《工傷保險條例》). The Social Insurance Law was promulgated by the SCNPC on 28 October 2010 and came into effect on 1 July 2011. The Provisional Regulations on the Collection of Social Insurance Fees was promulgated by the State Council and came into effect on 22 January 1999. The Provisional Measures on the Administration of Social Insurance Registration was promulgated by the Ministry of Labour and Social Security and came into effect on 19 March 1999. The Regulations on Work-Related Injury Insurance was promulgated by the State Council on 27 April 2003 and came into effect on 1 January 2004, and was amended on 20 December 2010. According to aforesaid laws and regulations, employers in the PRC shall conduct registration of social insurance with the competent authorities, and make contributions to the basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance for their employees.

According to the Administrative Regulations on Housing Provident Funds (《住房公積金管理條例》) which was promulgated by State Council and came into effect on 3 April 1999 and was afterwards amended on 24 March 2002, a unit (including a foreign investment enterprise) shall undertake the registration with the administrative centre of housing provident funds and pay the funds for their staff. Where an employer, in violation of the aforesaid regulations, fails to undertake registration or to open the housing provident funds account for its employees, the administrative centre of housing provident funds is entitled to impose an order for completion within a prescribed time limit; where the employer fails to process within the aforesaid time limit, a fine ranging from RMB10,000 to RMB50,000 will be imposed. Where a unit, in violation of the aforesaid regulations, fails to pay or to fully pay the housing provident funds, the administrative centre of housing provident funds is entitled to impose an order for payment within a prescribed time limit; where the employer fails to make payment within the aforesaid time limit, the centre shall have the right to apply for compulsory enforcement in court.

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Foreign exchange

The foreign exchange control in the PRC is mainly regulated by the Foreign Exchange Control Regulations of the PRC (《中華人民共和國外匯管理條例》), which was promulgated by the State Council on 29 January 1996, came into effect on 1 April 1996 and was amended on 14 January 1997 and 5 August 2008, respectively. According to the aforesaid regulations, the RMB paying under current accounts (such as the foreign exchange transactions in relation to trading and service and the dividends payment) can be exchanged into foreign currency at liberty, but the exchange under capital accounts (such as direct investment, loan or stock investment outside the PRC) shall firstly obtain the approval from the foreign exchange administration.

Taxation

Enterprise Income Tax

According to the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) promulgated on 16 March 2007 and implemented as at 1 January 2008, the income tax rate for both domestic and foreign-invested enterprises is 25%, and the existing tax exemptions, reductions and preferential treatment which had been enjoyed by foreign-invested enterprises were abolished unless otherwise specified.

Pursuant to the PRC Enterprise Income Tax Law, enterprises established outside the PRC whose “de facto management bodies” are located in the PRC are considered as “resident enterprises” and subject to the uniform 25% enterprise income tax rate for their global income.

Value Added Tax

According to the Provisional 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 on 13 December 1993, implemented as at 1 January 1994, and amended on 10 November 2008, and became effective on 1 January 2009:

- (A) All units and individuals engaged in the sales of goods, provision of processing, repairs and replacement services, and the importation of goods within the territory of PRC are taxpayers of value-added tax, and shall pay value-added tax in accordance with these regulations.
- (B) Except as stipulated in these regulations, for taxpayers engaged in the sales of goods or the provision of taxable services (hereinafter referred to as “**selling goods or taxable services**”), the tax payable shall be the balance of output tax for the period after deducting the input tax for the period. The formula for computing the tax payable is as follows: Tax payable = Output tax payable for the period – Input tax for the period.
- (C) For taxpayers selling goods or taxable services, the output tax shall be the value-added tax payable calculated based on the sales amounts and the tax rates prescribed in these regulations and collected from the purchasers. The formula for computing the output tax is as follows: Output tax = Sales amount x Tax rate.

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- (D) Value-added tax rates: For taxpayers selling or importing goods, other than those stipulated, the tax rate shall be 17%. For taxpayers exporting goods, the tax rate shall be 0%, except as otherwise stipulated by the State Council. For taxpayer providing processing, repairs and replacement services, the tax rate shall be 17%.

Withholding Tax on Dividends

According to the PRC Enterprise Income Tax Law and the Implementation Rules of PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法實施條例》), non-resident enterprises which have not set up institutions or premises in the PRC, or where the institutions or premises are set up but the income has no actual relationship with such institutions or premises shall be subject to the withholding tax of 10% to its income derived from the after-taxed profit of its PRC subsidiary. According to the Mainland of China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and 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避免雙重徵稅和防止偷漏稅的安排》), the profit derived by a foreign investor residing in Hong Kong from its wholly owned PRC enterprise is subject to the tax rate of 5% after obtaining the approval from the relevant tax bureau.

Pursuant to the Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in the Tax Agreements (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》), which was promulgated by the SAT and became effective on 20 February 2009, all of the following requirements shall be satisfied where a fiscal resident of the other party to a tax agreement needs to be entitled to such tax agreement treatment as being taxed at a tax rate specified in the tax agreement for the dividends paid to it by a Chinese resident company: (i) such a fiscal resident who obtains dividends should be a company as provided in the tax agreements; (ii) owner's equity interests and voting shares of the Chinese resident company directly owned by such a fiscal resident reaches a specified percentage; and (iii) the equity interests of the Chinese resident company directly owned by such a fiscal resident, at any time during the twelve months prior to the obtainment of the dividends, reach a percentage specified in the tax agreements.

According to the Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (Trial) (《非居民享受稅收協定待遇管理辦法(試行)》) (the “**Administrative Measures**”), which came into effect on 1 October 2009, where a non-resident enterprise (as defined under the PRC tax laws) that receives dividends from a PRC resident enterprise wishes to enjoy the favourable tax benefits under the tax arrangements, it shall submit an application for approval to the competent tax authority. Without being approved, the non-resident enterprise may not enjoy the favourable tax treatments provided in the tax agreements.

Environmental Protection

In accordance with the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) promulgated by the SCNPC on 26 December 1989, the Administration Supervisory Department of Environmental Protection of the State Council sets the national guidelines for the discharge of pollutants. The people's governments of provinces, autonomous regions and municipalities directly under the central government may also set their own guidelines for the discharge of pollutants within their own provinces or districts in the event that the national guidelines are inadequate. On 29

SUMMARY OF APPLICABLE LAWS AND REGULATIONS

November 1998, the State Council of the PRC promulgated the Administrative Regulations on Environmental Protection for Construction Project (《建設項目環境保護管理條例》) and on 28 October 2002, the SCNPC promulgated the Environmental Impact Assessment Law of the People's Republic of China (《中華人民共和國環境影響評價法》).

A company or enterprise which causes environmental pollution and discharges other materials which endanger the public should implement environmental protection methods and procedures into their business operations. This may be achieved by setting up a system of accountability within the company's business structure for environmental protection, adopting effective procedures to prevent environmental hazards such as waste gases, water and residues, dust powder, radioactive materials and noise arising from production, construction and other activities from polluting and endangering the environment. Installations for the prevention and control of pollution in construction projects must be designed, built and commissioned together with the principal part of the project. Permission to commence production at or utilise any construction project shall not be granted until its installations for the prevention and control of pollution have been examined and confirmed to meet applicable standards by the competent administrative department of environmental protection that examined and approved the environmental impact statement. Any company or enterprise which discharges environmental pollutants should report to and register with the Administration Supervisory Department of Environmental Protection. A fee may also be imposed on the company for the cost of any work required to restore the environment to its original state. Companies which have caused severe pollution to the environment are required to restore the environment or remedy the effects of the pollution within a prescribed time limit.

If a company fails to report and/or register the environmental pollution caused by it, it will receive a warning or be penalised. Companies which fail to restore the environment or remedy the effects of the pollution within the prescribed time limit will be penalised or have their production and operations ceased. Companies or enterprises which have polluted and endangered the environment must bear the responsibility for remedying the danger and effects of the pollution, as well as compensate for any losses or damages suffered as a result of such environmental pollution.

Intellectual Property

The products in the PRC shall be subject to intellectual property laws, which mainly include the Copyright Law of the PRC (《中華人民共和國著作權法》), the Patent Law of the PRC (《中華人民共和國專利法》) (the “**Patent Law**”) and the Trademark Law of the PRC (《中華人民共和國商標法》) (the “**Trademark Law**”).

According to the Trademark Law, which was promulgated by the SCNPC on 23 August 1982 and amended on 22 February 1993, 27 October 2001 and 30 August 2013, respectively, any of the following acts shall be an infringement upon the right to exclusive use of a registered trademark: (i) using a trademark which is identical with or similar to the registered trademark on the same kind of commodities or similar commodities without a license from the registrant of that trademark; (ii) selling the commodities that infringe upon the right to exclusive use of a registered trademark; (iii) forging, manufacturing without authorisation the marks of a registered trademark of others, or selling

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the marks of a registered trademark forged or manufactured without authorisation; (iv) changing a registered trademark and putting the commodities with the changed trademark into the market without the consent of the registrant of that trademark; and (v) causing other damages to the right to exclusive use of a registered trademark of another person.

The Patent Law was promulgated by the SCNPC on 12 March 1984 and became effective on 1 April 1985 and was afterwards amended on 4 September 1992, 25 August 2000 and 27 December 2008, respectively. According to the Patent Law, any exploitation of the patent without the authorisation of the patentee constitutes an infringing act.

Regulations on Domain Names

The Measures for the Administration of Domain Names for the Chinese Internet 《中國互聯網絡域名管理辦法》 were promulgated by the Ministry of Information Industry on 5 November 2004 and became effective on 20 December 2004. The aforementioned measures regulate the registration of domain names in Chinese with the Internet country code of “.cn”. The Measures on Domain Names Dispute Resolution 《中國互聯網絡信息中心域名爭議解決辦法(2012年修訂)》 were promulgated by the Chinese Internet Network Infrastructure Centre on 28 May 2012 and became effective on 28 June 2012. The aforementioned measures require domain name disputes to be submitted to institutions authorised by the Chinese Internet Network Information Centre for resolution.

M&A Rules

On 8 August 2006, the MOFCOM, CSRC, SAFE and other three PRC authorities promulgated Rules on the Mergers and Acquisitions of Domestic Enterprise by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the “**M&A Rules**”), which came into effect on 8 September 2006 and were revised on 22 June 2009.

Foreign investors should comply with the M&A Rules when they purchase shareholding equities of a domestic non-foreign-funded enterprise or subscribe for the increased capital of a domestic company, and thus changing the nature of the domestic company into a foreign investment enterprise; or when the foreign investors establish a foreign investment enterprise (the “**FIE**”) in the PRC and obtain the assets of a domestic company through purchase agreement and operate the assets, or purchase the assets of a domestic company and establish a FIE by using and operating the assets. According to the M&A Rules, a special-purpose vehicle (the “**SPV**”) shall mean an offshore company directly or indirectly controlled by a domestic company or individuals for the purpose of listing overseas with the equity interests of a domestic company actually owned by such company or individuals, and the overseas listing of a SPV shall be subject to approval from CSRC.

Foreign Exchange Registration

On 21 October 2005, SAFE promulgated the Notice of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investment via Overseas Special Purpose Companies (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) (the “**SAFE Circular No. 75**”). According to the SAFE Circular No.75, if a domestic resident wants to use an overseas SPV (i.e.

SUMMARY OF APPLICABLE LAWS AND REGULATIONS

the overseas enterprise directly established or indirectly controlled by the domestic resident for the purpose of overseas stock financing for the assets or interests held by him in the domestic enterprise) to conduct return investment in the PRC, i.e. direct investment in the PRC, the domestic resident shall bring the prescriptive materials to the local branch of SAFE to apply for going through the procedures for foreign exchange registration of overseas investments.

Afterwards, SAFE issued a series of guidance to its local branches with respect to the operational process for SAFE registration, including without limitation the Notice of SAFE on Printing and Distributing the Rules and the Relevant Attachments for the Administration of Foreign Exchange on Foreign Investors Investing in the PRC directly (國家外匯管理局關於印發《外國投資者境內直接投資外匯管理規定》及配套文件的通知) (the “**SAFE Notice No. 21**”), which came into effect as at 13 May 2013. The guidance standardised more specific and stringent supervision on the registration required by the SAFE Circular No. 75. For example, the guidance imposes obligations on onshore subsidiaries of an offshore entity to make true and accurate statements to the local SAFE authorities in case there is any shareholder or beneficial owner of the offshore entity who is a PRC citizen or resident.

HISTORY, REORGANISATION AND GROUP STRUCTURE

BUSINESS HISTORY

Introduction

The history of our Group can be traced back to February 2004 when Hongtai (China) was established in the PRC.

Business milestones

The following table summarises various key milestones in the development of our business:-

Time	Event
February 2004	Hongtai (China) was established and the construction of our Shishi Production Facilities commenced
June 2006	Production of fabrics at our Shishi Production Facilities commenced
February 2009	Hongtai (China) was awarded Shishi City Science and Technology Award — Science Technology Business Plan Award (石獅市科學技術獎 — 科技創業獎) by People's Government of Shishi City (石獅市人民政府)
February 2010	Hongtai (China) was granted ISO 9001:2008 certification and ISO 14001:2004 certification by AFNOR Certification
November 2010	Our  trademark was awarded as Renowned Trademark of Quanzhou City (泉州市知名商標) by Administration for Industry and Commerce of Quanzhou City (泉州市工商行政管理局)
October 2011	Accredited as the famous technological brand enterprise of Fujian Province (福建科技品牌知名企業) by Science and Technology Technological Brand Patent Department of Fujian and China Press Council for the Promotion of Brands and Market Strategies (福建科技報社科技品牌專利部及中國名牌與市場戰略促進委員會)
December 2011	Our  trademark was awarded as Renowned Trademark of Fujian Province (福建省著名商標) by Administration for Industry and Commerce of Fujian Province (福建省工商行政管理局)
May 2012	Our yarns business commenced
September 2012	Casual Wear Cotton Fabrics Research and Development Centre (棉休閒面料研發中心) was established jointly by Hongtai (China) and the Textile College of Tianjin Polytechnic University (天津工業大學紡織學院)

HISTORY, REORGANISATION AND GROUP STRUCTURE

Time	Event
October 2012	Became Top 500 Competitive Companies of China's Textile and Apparel Industry 2011-2012 (2011-2012年度中國紡織服裝企業競爭力500強) by China National Textile and Apparel Council (中國紡織工業聯合會) Construction of the first phase of our Hubei Production Facilities commenced
April 2013	Our research and development centre was recognised by the People's Government of Quanzhou City as a City-level Corporate Technology Centre (市級企業技術中心)
June 2013	Production of fabrics at the first phase of our Hubei Production Facilities commenced
October 2013	Our sizing technology for filament yarns and short-staple yarns (長絲/短纖紗線共漿生產技術) was awarded the Science Technology Advancement Award (Third Rank) (科學技術進步獎三等) by China National Textile and Apparel Council (中國紡織工業聯合會)

CORPORATE HISTORY

Our Company

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on 29 April 2013. Please refer to the paragraph headed "Statutory and General Information — A. Further information about our Company and its subsidiaries — 2. Changes in share capital of our Company" in Appendix V to this prospectus for details of changes in the share capital of our Company. As a result of the Reorganisation, our Company became the holding company of our Group.

Potent Union

Potent Union is a company with limited liability incorporated in the BVI on 18 March 2013 with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. The principal business of Potent Union is investment holding.

On 23 May 2013, Potent Union allotted and issued 100 shares to our Company for cash at par.

As a result of the Reorganisation, Potent Union became a direct wholly-owned subsidiary of our Company.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Hongtai (Hong Kong)

Hongtai (Hong Kong) is a company with limited liability incorporated in Hong Kong on 22 June 2009 with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each, all of which were allotted and issued as to 4,000 shares to Mr. Lin, as to 3,300 shares to Mr. Qiu and as to 2,700 shares to Mr. Cai upon incorporation. The principal business of Hongtai (Hong Kong) is investment holding.

As a result of the Reorganisation, Hongtai (Hong Kong) became an indirect wholly-owned subsidiary of our Company.

Hongtai (China)

Hongtai (China) is a wholly foreign-owned enterprise established in the PRC on 17 February 2004 with an initial registered capital of HK\$50 million of which Mr. Lin would contribute HK\$17 million (representing 34% of the registered capital), Mr. Qiu would contribute HK\$16.5 million (representing 33% of the registered capital) and Mr. Zeng Pei Bi (曾培碧), an Independent Third Party, would contribute HK\$16.5 million (representing 33% of the registered capital). Both Mr. Lin and Mr. Qiu financed the establishment of Hongtai (China) by their own funds.

At the time of the establishment of Hongtai (China) in 2004, Mr. Lin, Mr. Qiu and Mr. Zeng Pei Bi were PRC nationals residing overseas (Mr. Lin and Mr. Qiu residing in the Republic of Philippines and Mr. Zeng Pei Bi in Macau). As advised by our PRC Legal Adviser, according to Article 82 of the Rules for the Implementation of the Law of the PRC on Foreign-funded Enterprises (《中華人民共和國外資企業法實施細則》) (the “Rule”), the establishment of wholly foreign-owned enterprises in the PRC by, inter alia, companies incorporated in Hong Kong, Macau, Hong Kong individuals, Macau individuals or PRC nationals residing overseas shall follow the Rule. Our PRC Legal Adviser further advised that according to the Regulations on Encouragement of Investments from Overseas Chinese and Hong Kong and Macao Compatriots (《國務院關於鼓勵華僑和香港澳門同胞投資的規定》), the wholly-owned enterprises in the PRC established by overseas Chinese (華僑) and Hong Kong and Macau compatriots (港澳同胞) shall follow the relevant laws and regulations concerning foreign economic affairs (which our PRC Legal Adviser is of the view include the Rule) and such enterprises shall enjoy the “wholly foreign-owned enterprises” treatment, except the regulations provide otherwise.

The Law of the People’s Republic of China on the Protection of the Rights and Interests of Returned Overseas Chinese and the Family Members of Overseas Chinese (《中華人民共和國歸僑僑眷權益保護法》) effective in January 1991 and amended in October 2000 further provides, “overseas Chinese (華僑)” refers to PRC nationals residing overseas, and according to Notice of the Overseas Chinese Affairs Office of the State Council on Issuing the Explanation on the Identities of Overseas Chinese, Returned Overseas Chinese, Overseas Chinese Students, Returned Overseas Chinese Students and the Family Members of Overseas Chinese etc. (for Trial Implementation) (《國務院僑務辦公室印發〈關於華僑、歸僑、華僑學生、歸僑學生、僑眷等身份解釋(試行)的通知〉》) promulgated in 1984, “residing (定居)” refers to PRC nationals having the right to reside in the overseas country where they stay or actually reside in the country where they stay for a living.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Our PRC Legal Adviser advised us that after its due investigation and review of the documents provided by us, when Hongtai (China) was established in 2004, Mr. Zeng Pei Bi held Macau identity card for permanent residents (which showed he was a Macao compatriot) and Mr. Lin and Mr. Qiu obtained their rights to reside in the Republic of the Philippines (which showed they were overseas Chinese). Therefore, Mr. Lin, Mr. Qiu and Mr. Zeng Pei Bi could rely on the aforesaid provisions of the Rule and relevant regulations to set up Hongtai (China) as a wholly foreign-owned enterprise in the PRC. The legal adviser to the Sole Sponsor as to PRC law, Deheng Law Offices (Shenzhen), also concurred with the above views of our PRC Legal Adviser.

On 3 November 2005, Mr. Zeng Pei Bi transferred his 33% equity interests in Hongtai (China) to Mr. Hou Shi Qing (侯世清), an Independent Third Party at nil consideration. As Mr. Zeng Pei Bi had not contributed to any of the registered capital and Mr. Hou Shi Qing agreed to contribute to the unpaid registered capital, the consideration for the transfer was nil. As a result of the transfer, Hongtai (China) was owned as to 34% by Mr. Lin, 33% by Mr. Qiu and 33% by Mr. Hou Shi Qing.

On 3 November 2005, the registered capital of Hongtai (China) was increased to HK\$60 million of which Mr. Lin, Mr. Qiu and Mr. Hou Shi Qing would each contribute HK\$20.4 million (representing 34% of the registered capital), HK\$19.8 million (representing 33% of the registered capital) and HK\$19.8 million (representing 33% of the registered capital), respectively.

On 28 November 2007, the registered capital of Hongtai (China) was increased to HK\$120 million of which Mr. Lin, Mr. Qiu and Mr. Hou Shi Qing would each contribute HK\$40.8 million (representing 34% of the registered capital), HK\$39.6 million (representing 33% of the registered capital) and HK\$39.6 million (representing 33% of the registered capital), respectively.

On 17 June 2009, Mr. Hou Shi Qing transferred 6% equity interest in Hongtai (China) to Mr. Lin at a consideration of RMB7.2 million and 27% equity interest in Hongtai (China) to Mr. Cai at a consideration of RMB32.4 million. The considerations were determined based on the amount of the registered capital of Hongtai (China). As a result of the transfer, Hongtai (China) was owned as to 40% by Mr. Lin, 33% by Mr. Qiu and 27% by Mr. Cai.

On 11 June 2010, each of Mr. Lin, Mr. Qiu and Mr. Cai transferred their respective equity interests in Hongtai (China) to Hongtai (Hong Kong) at a consideration of HK\$4.0 million, HK\$3.3 million and HK\$2.7 million, respectively. As a result of the transfer, Hongtai (China) was wholly owned by Hongtai (Hong Kong).

The principal business of Hongtai (China) is design, manufacture and sales of fabrics and cotton yarns in the PRC.

As a result of the Reorganisation, Hongtai (China) became an indirect wholly-owned subsidiary of our Company.

Hongsheng (Hubei)

Hongsheng (Hubei) is a company established in the PRC on 24 May 2012 with an initial registered capital of RMB10.0 million, all of which were contributed by Hongtai (China). The principal business of Hongsheng (Hubei) is design, manufacture and sales of fabrics and cotton yarns in the PRC. On 23 June 2013, the registered capital of Hongsheng (Hubei) was increased to RMB15.0 million.

HISTORY, REORGANISATION AND GROUP STRUCTURE

As a result of the Reorganisation, Hongsheng (Hubei) became our indirect wholly-owned subsidiary.

Hongtai (Hubei)

On 8 August 2013, Hongtai (Hubei) was established as a limited liability company in the PRC with an initial registered capital of RMB2.0 million, all of which was contributed by Hongtai (China). The principal business of Hongtai (Hubei) is sales of yarns and fabrics.

As a result of the Reorganisation, Hongtai (Hubei) became our indirect wholly-owned subsidiary.

PRE-IPO INVESTMENTS

The Pre-IPO agreements

In order to broaden our shareholders' base and leveraging on the investors' experiences to facilitate our Group's expansion, Mr. Lin, Mr. Qiu and Mr. Cai entered into the following agreements (the "**Pre-IPO Agreements**") with the Pre-IPO Investors whereby Mr. Lin, Mr. Qiu and Mr. Cai agreed to transfer to the relevant Pre-IPO Investors shares in Hongtai (Hong Kong). Pursuant to the Pre-IPO Agreements, the shares to be transferred are shares of Hongtai (Hong Kong), and upon completion of the Reorganisation, shares of our Company. It is the intention of the parties that the Pre-IPO Investors (or their nominees) are ultimately to hold shares in the listed company upon completion of the Reorganisation. After the Pre-IPO Agreements were entered into, our Group commenced the preparation works for the Listing, including undergoing the Reorganisation. Furthermore, Yeung Chi Choi directed Mr. Lin, Mr. Qiu and Mr. Cai to transfer the Shares to Ocean Fu and Wu Kong King directed Mr. Qiu and Mr. Cai to transfer the Shares to Sun Prosperity.

The following table sets forth the key details of the Pre-IPO investments:-

Pre-IPO Investor	Date of agreement	Transferor	Transferee	Date of transfer	Number and approximate percentage of Shares transferred before the Capitalisation Issue	Number and approximate percentage upon Listing (note 1)	Consideration and date of full payment (RMB)	Cost per Share (HK\$)	Discount to Offer Price (note 2)
Sea Dragon	31 January 2012	Merit Lead	Sea Dragon	10 October 2013	200 Shares (2%)	—	4,000,000 5 June 2012	—	—
		Mr. Qiu	Sea Dragon	10 October 2013	165 Shares (1.65%)	—	3,300,000 5 June 2012	—	—
		Mr. Cai	Sea Dragon	10 October 2013	135 Shares (1.35%)	—	2,700,000 5 June 2012	—	—
					500 Shares (5%)	37,500,000 Shares (3.75%)	10,000,000	0.33	54.2%
Yeung Chi Choi	31 January 2012	Merit Lead	Ocean Fu	10 October 2013	240 Shares (2.40%)	—	4,800,000 20 June 2012	—	—

HISTORY, REORGANISATION AND GROUP STRUCTURE

Pre-IPO Investor	Date of agreement	Transferor	Transferee	Date of transfer	Number and approximate percentage of Shares transferred before the Capitalisation Issue	Number and approximate percentage upon Listing (note 1)	Consideration and date of full payment (RMB)	Cost per Share (HK\$)	Discount to Offer Price (note 2)
		Mr. Qiu	Ocean Fu	10 October 2013	198 Shares (1.98%)	—	3,960,000 20 June 2012	—	—
		Mr. Cai	Ocean Fu	10 October 2013	162 Shares (1.62%)	—	3,240,000 20 June 2012	—	—
					600 Shares (6%)	45,000,000 Shares (4.50%)	12,000,000	0.33	54.2%
Hong Kong Investments	12 March 2012	Mr. Qiu	Hong Kong Investments	10 October 2013	487 Shares (4.87%)	—	10,227,000 16 April 2012	—	—
		Mr. Cai	Hong Kong Investments	10 October 2013	403 Shares (4.03%)	—	8,463,000 16 April 2012	—	—
					890 Shares (8.90%)	66,750,000 Shares (6.68%)	18,690,000	0.35	51.4%
Fu Tak Investments	12 March 2012	Mr. Qiu	Fu Tak Investments	10 October 2013	300 Shares (3.00%)	—	6,300,000 8 June 2012	—	—
		Mr. Cai	Fu Tak Investments	10 October 2013	200 Shares (2.00%)	—	4,200,000 8 June 2012	—	—
					500 Shares (5.00%)	37,500,000 Shares (3.75%)	10,500,000	0.35	51.4%
Wu Kong King	12 March 2012	Mr. Qiu	Sun Prosperity	10 October 2013	350 Shares (3.50%)	—	7,350,000 25 May 2012	—	—
		Mr. Cai	Sun Prosperity	10 October 2013	300 Shares (3.00%)	—	6,300,000 25 May 2012	—	—
					650 Shares (6.50%)	48,750,000 Shares (4.87%)	13,650,000	0.35	51.4%

Notes:

1. Based on the number of Shares to be issued upon completion of the Capitalisation Issue but without taking into account any Shares to be issued upon the exercise of the Over-allotment Option.
2. Based on the mid-point of the indicative Offer Price range of HK\$0.72 per Share.

The considerations payable under the Pre-IPO Agreements were reached by the relevant parties by arm's length negotiations and with reference to the net profits of Hongtai (China) for the year of 2011 and an agreed price-to-earnings ratio. There is no guaranteed discount to the Offer Price. The Pre-IPO Investors confirmed that the consideration paid by them under the Pre-IPO Agreements was irrevocable. On the basis that the Pre-IPO Investors have agreed that the consideration was to be paid before the transfer of shares, our legal adviser as to Hong Kong law is of the view that the transfers are valid.

HISTORY, REORGANISATION AND GROUP STRUCTURE

The proceeds from the pre-IPO investments were paid to Mr. Lin, Mr. Qiu and Mr. Cai, as the transferors of the Shares. As at the Latest Practicable Date, Mr. Lin, Mr. Qiu and Mr. Cai had not injected the proceeds into our Group. As shareholders of our Company, Mr. Lin, Mr. Qiu and Mr. Cai may, where necessary, make further contributions to our Group to finance our funding needs.

The Pre-IPO Agreements provide that if the Listing fails to take place by 31 March 2014, each of the transferors has the pre-emptive rights to buy back the shares transferred at the then market value (or the valuation amount of the shares) but in any event, the buy back price shall not be less than the consideration paid by the transferees under the Pre-IPO Agreements. The transferors have confirmed that they would not exercise this pre-emptive right. No special right was granted to the Pre-IPO investors under the Pre-IPO Agreements.

Background of the Pre-IPO Investors

Sea Dragon

Sea Dragon is a company incorporated in the BVI on 23 May 2006 and is beneficially wholly-owned by Wong Yan Kong, an Independent Third Party. To the knowledge of our Directors, Sea Dragon is an investment holding company and Wong Yan Kong has extensive experience in the trading business and overseas markets.

We acquainted with Wong Yan Kong and Sea Dragon through Mr. Lin. Wong Yan Kong was introduced to Mr. Lin through one of their common friends in 2009.

To the best knowledge and belief of our Directors, Sea Dragon decided to invest in our Group in view of the prospects of our business growth and its confidence in the extensive experience of our management in the PRC textile industry.

Ocean Fu

Ocean Fu is a company incorporated in the BVI on 2 January 2013 and is beneficially wholly-owned by Yeung Chi Choi, an Independent Third Party. To the knowledge of our Directors, Ocean Fu is an investment holding company and Yeung Chi Choi has extensive experience in the textile industry in Fujian.

We acquainted with Yeung Chi Choi through Mr. Lin. Yeung Chi Choi was introduced to Mr. Lin through one of their common friends.

To the best knowledge and belief of our Directors, Yeung Chi Choi decided to invest in our Group in view of the prospects of our business growth.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Hong Kong Investments

Hong Kong Investments is a company incorporated in the BVI on 3 January 2006 and is beneficially wholly-owned by Cheung Chi Mang, an Independent Third Party. To the best knowledge and belief of our Directors, Hong Kong Investments is an investment holding company engaging in fund raising and investments activities. Our Directors believe having Hong Kong Investments as one of our Shareholders would benefit us through its providing advice on our future potential fund raising and investments activities.

We acquainted with Cheung Chi Mang through Mr. Lin. Cheung Chi Mang was introduced to Mr. Lin through one of their common friends in 2008.

To the best knowledge and belief of our Directors, Hong Kong Investments decided to invest in our Group in view of our good reputation in Fujian and the extensive experience of our management in the PRC textile industry.

Fu Tak Investments

Fu Tak Investments is a company incorporated in the BVI on 16 September 2009 and is beneficially wholly-owned by Huang Binbin, an Independent Third Party. To the best knowledge and belief of our Directors, Fu Tak Investments is an investment holding company principally engaging in fund raising and investments activities.

We acquainted with Huang Binbin through Mr. Lin. Huang Binbin was introduced to Mr. Lin through one of their common friends in 2008. Huang Binbin has good personal network in Fujian and this would benefit our Group's expansion.

To the best knowledge and belief of our Directors, Fu Tak Investments decided to invest in our Group in view of our good reputation and market recognition of our fabric products in Fujian and the prospects of our business growth as a result of the rising living standard in the PRC.

Sun Prosperity

Sun Prosperity is a company incorporated in the BVI on 3 January 2013 and is beneficially wholly-owned by Wu Kong King, an Independent Third Party. To the best knowledge and belief of our Directors, Sun Prosperity is an investment holding company.

We acquainted with Wu Kong King through Mr. Lin. Wu Kong King was introduced to Mr. Lin through Cheung Chi Mang in 2011. Wu Kong King has extensive experience in fund raising and investments activities. Our Directors believe that having Sun Prosperity as one of our Shareholders would benefit us through its providing advice on our future potential fund raising and investments activities.

To the best knowledge and belief of our Directors, Wu Kong King decided to invest in our Group in view of the extensive experience of our management in the PRC textile industry, our systematic production and sales process and the prospects of our business growth.

HISTORY, REORGANISATION AND GROUP STRUCTURE

To the best knowledge and belief of our Directors, each of the Pre-IPO Investors is independent from each other.

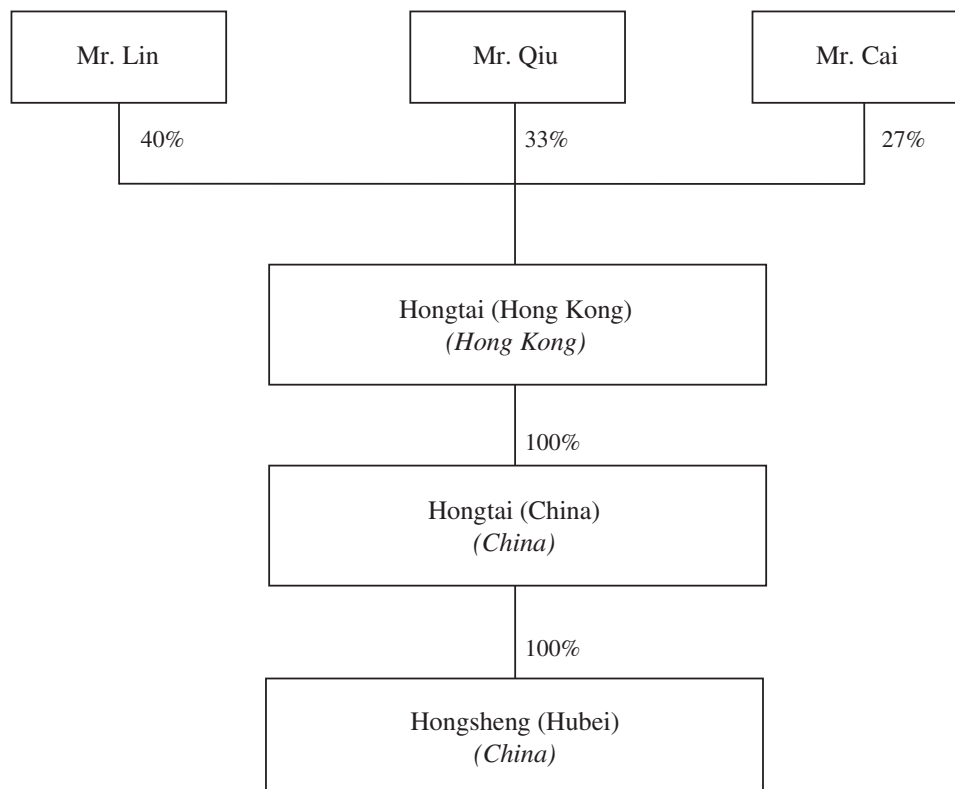
The lock-up arrangements and other matters

Each of the Pre-IPO Investors has undertaken to our Company that the Shares held by them will be subject to a lock-up of a period of six months after the Listing. The Shares held by the Pre-IPO Investors will be counted towards the public float after the Listing for purpose of Rule 8.08 of the Listing Rules.

Since the Pre-IPO Investors paid all the investment costs on or before June 2012, the Sole Sponsor is of the view that the Pre-IPO Agreements are in compliance with the interim guidance on pre-IPO investments (HKEx-GL29-12) issued by the Stock Exchange.

REORGANISATION

The following chart sets forth our corporate and shareholding structure prior to the Reorganisation:-



HISTORY, REORGANISATION AND GROUP STRUCTURE

In preparation for the Listing, we underwent the Reorganisation which involved the following steps:-

Incorporation of our Company

On 29 April 2013,

- (a) our Company was incorporated in the Cayman Islands as an exempted company with limited liability with an authorised share capital of HK\$1,000,000 divided into 10,000,000 Shares of HK\$0.10 each;
- (b) one Share was allotted and issued as nil paid Share to the initial subscriber;
- (c) the subscriber transferred its one Share to Mr. Lin as nil paid Share; and
- (d) our Company allotted and issued 3,999 Shares to Mr. Lin, 3,300 Shares to Mr. Qiu and 2,700 Shares to Mr. Cai, all nil-paid.

On 23 September 2013, Mr. Lin transferred the 4,000 Shares he held in our Company to Merit Lead.

Incorporation of Potent Union

On 18 March 2013, Potent Union was incorporated in the BVI as our immediate holding company.

On 23 May 2013, Potent Union allotted and issued 100 shares to our Company for cash at par.

Incorporation of Hongtai (Hubei)

On 8 August 2013, Hongtai (Hubei) was established as a limited liability company in the PRC with an initial registered capital of RMB2.0 million, all of which was contributed by Hongtai (China).

Acquisition of Hongtai (Hong Kong) by Potent Union

On 10 September 2013, each of Mr. Lin, Mr. Qiu and Mr. Cai transferred their respective shareholding in Hongtai (Hong Kong) to Potent Union. In consideration of the transfers, Potent Union allotted and issued a total of 100 shares to our Company, as directed by Mr. Lin, Mr. Qiu and Mr. Cai.

Transfer of Shares to the Pre-IPO Investors

On 10 October 2013, Merit Lead, Mr. Qiu and Mr. Cai transferred Shares to the Pre-IPO Investors pursuant to the Pre-IPO Agreements entered into in 2012. Details of the transfers are set forth in the paragraph headed “History, Reorganisation and Group Structure — Pre-IPO Investments” of this prospectus.

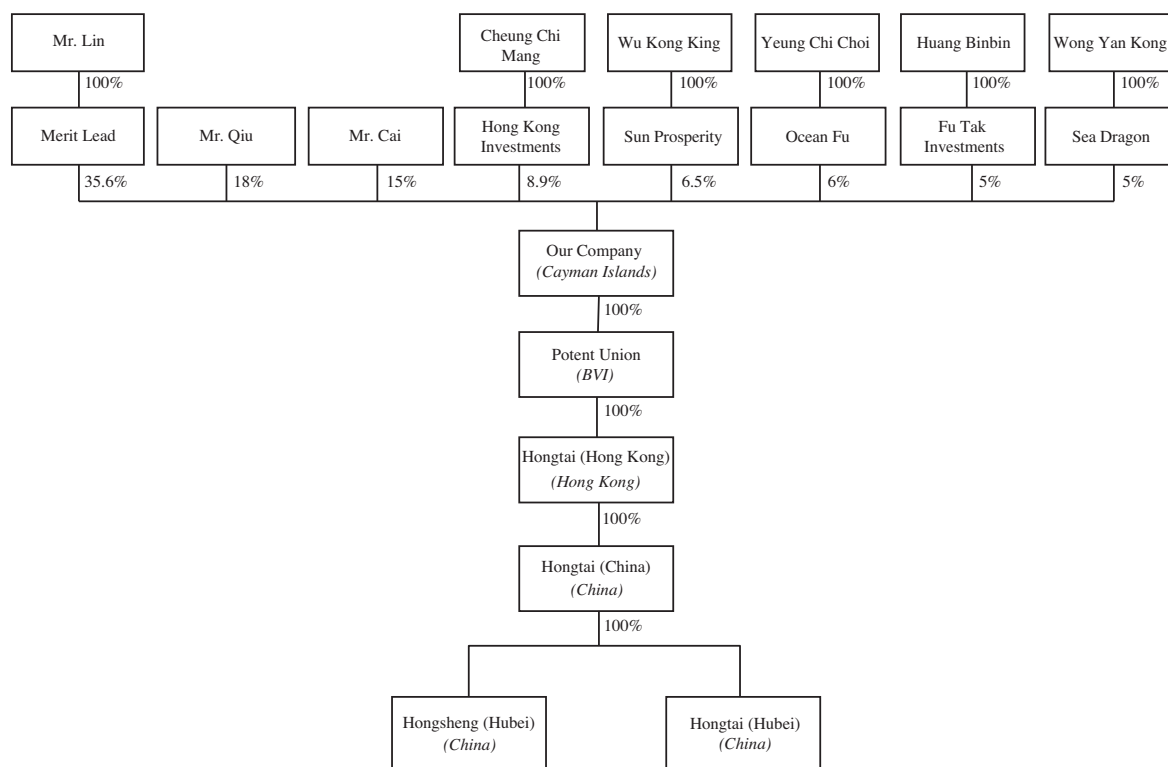
HISTORY, REORGANISATION AND GROUP STRUCTURE

In consequence of these transfers, the shareholding of our Company are as follows:-

Name of Shareholder	Number and percentage of Shares held
Merit Lead	3,560 Shares (35.60%)
Mr. Qiu	1,800 Shares (18.00%)
Mr. Cai	1,500 Shares (15.00%)
Hong Kong Investments	890 Shares (8.90%)
Sun Prosperity	650 Shares (6.50%)
Ocean Fu	600 Shares (6.00%)
Fu Tak Investments	500 Shares (5.00%)
Sea Dragon	500 Shares (5.00%)

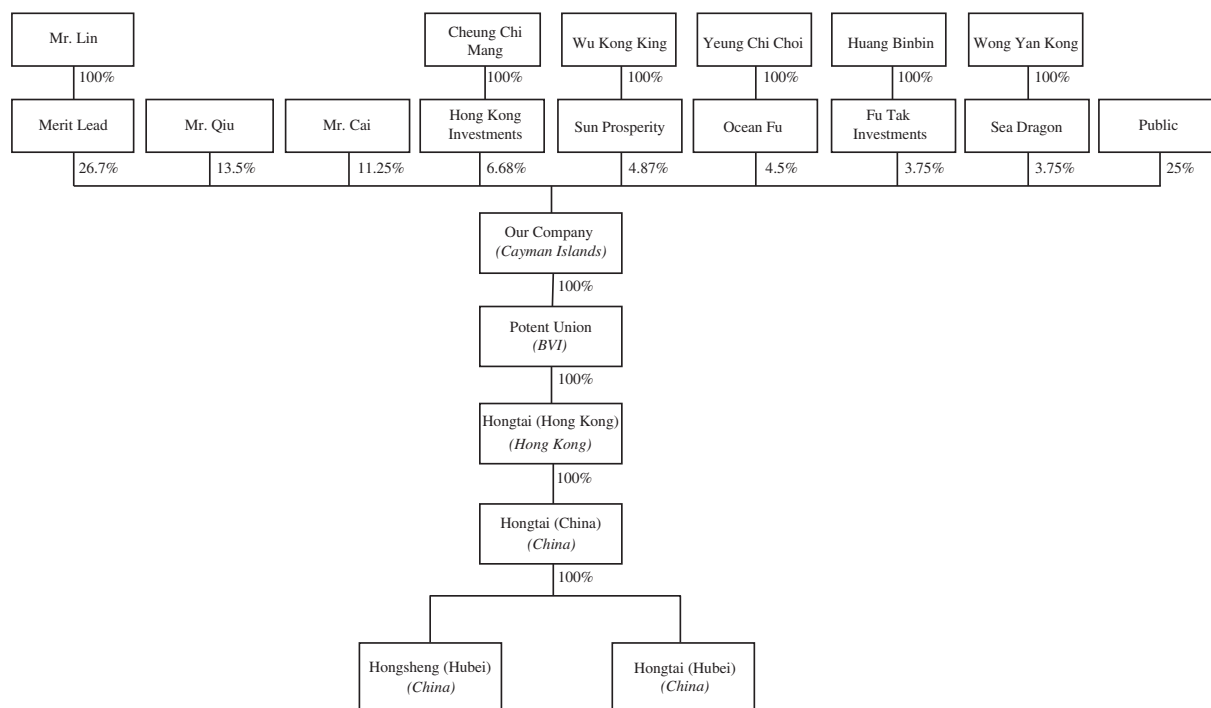
GROUP STRUCTURE

The following chart sets forth our corporate and shareholding structure upon completion of the Reorganisation but immediately before the completion of the Global Offering and the Capitalisation Issue:-



HISTORY, REORGANISATION AND GROUP STRUCTURE

The following chart sets forth our corporate and shareholding structure immediately after the completion of the Global Offering and the Capitalisation Issue (without taking into account the Shares to be allotted and issued upon the exercise of the Over-allotment Option and any action which may be granted under the Share Option Scheme):-



Should the Over-allotment Option be exercised in full, our Company will be held as to 25.7% by Merit Lead, 13.1% by Mr. Qiu, 10.8% by Mr. Cai, 6.4% by Hong Kong Investments, 4.7% by Sun Prosperity, 4.4% by Ocean Fu, 3.6% by Fu Tak Investments, 3.6% by Sea Dragon and 27.7% by the public.

OUR REORGANISATION AND THE RULES ON THE MERGER AND ACQUISITION OF DOMESTIC ENTERPRISES BY FOREIGN INVESTORS

Under the Provisions for the Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (the “**M&A Provisions**”), an offshore special purpose vehicle formed for listing purposes and controlled, directly or indirectly, by PRC companies or individuals, in cases where its shareholder or itself purchases the equities of the shareholders of a domestic company or subscribes for the increased capital of a domestic company by paying with its equities or additional issued shares, shall be required to obtain approval from the CSRC prior to the listing and trading of the securities of such offshore special purpose vehicle on an overseas stock exchange. In accordance with the M&A Provisions, “acquisition of a domestic enterprise by a foreign investor” means that the foreign investor purchases by agreement the equities of the shareholders of a domestic non-foreign-invested enterprise (“**Domestic Enterprise**”) or subscribes for the increased capital of a Domestic Enterprise, and thus changes the Domestic Enterprise into a foreign-invested enterprise; or

HISTORY, REORGANISATION AND GROUP STRUCTURE

a foreign investor establishes a foreign investment enterprise, and through which it purchases by agreement the assets of a Domestic Enterprise and owns its assets; or, a foreign investor purchases by agreement the assets of a Domestic Enterprise, and then invest such assets to establish a foreign-invested enterprise and own the assets.

Our PRC Legal Adviser has advised us that Hongtai (China) was a foreign investment enterprise established prior to 8 September, 2006, when the M&A Provisions came into effect, and Hongsheng (Hubei) is a PRC enterprise established by a foreign investment enterprise and, therefore the M&A Provisions are not applicable. In addition, our PRC Legal Adviser has advised that our Reorganisation is not subject to the M&A Provisions as there was no acquisition of domestic enterprises by foreign institutions (as defined in the M&A Provisions) involved in the Reorganisation and as at the Latest Practicable Date, neither our Company nor any of our indirect subsidiaries in the PRC is required to obtain approvals or permits from any relevant PRC Government authorities or departments or complete any other legal procedures, or register with any other PRC Government authorities or departments for the purpose of the Listing.

SAFE REGISTRATION

According to the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Return Investment Activities of Domestic Residents Conducted via Overseas Special Purpose Vehicle (the “**SAFE Circular 75**”), which was issued by the SAFE on 21 October 2005, and became effective on 1 November 2005, domestic residents who establish or control an overseas special purpose vehicle shall conduct foreign exchange registration with the local foreign exchange authority; and domestic residents who have contributed their assets or shares of a domestic enterprise into an overseas special purpose vehicle, or have raised funds overseas after such contribution, shall conduct foreign exchange registration for the modification of the record concerning the overseas special purpose vehicle with the local foreign exchange authority.

As advised by our PRC Legal Adviser, “domestic residents” who shall conduct foreign exchange registration with the local foreign exchange authority under the SAFE Circular 75 include the ultimate individual shareholders of a PRC incorporated company who are holders of PRC passport and seek to set up and raise funds through special purpose vehicles. Given that Mr. Lin, Mr. Qiu and Mr. Cai are holders of PRC passport and raise funds through special purpose vehicles, they are required to carry out the foreign exchange registration with local foreign exchange authority under the SAFE Circular 75. Mr. Lin, Mr. Qiu and Mr. Cai completed the foreign exchange registration with Fujian Branch Bureau of SAFE on 7 November 2013.

PRC LEGAL COMPLIANCE

Our PRC Legal Adviser confirmed that all approvals, permits and licences required under the PRC laws and regulations in connection with the Reorganisation and the equity interests transfers of Hongtai (China) as set forth in this section have been obtained, and the Reorganisation has complied with all applicable PRC laws and regulations.

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OVERVIEW

We principally engage in the production and sales of fabrics and yarns in the PRC. We currently offer five series of fabrics: (i) interwoven fabric with multi-fibres series; (ii) slub series; (iii) blended fabric series; (iv) stretch fabric series; and (v) pure cotton series. Our fabric products are principally used in the manufacturing of apparel including casual wear and business trousers, shorts, shirts and outer suit jackets. All of our products are tailor-made according to customers' specifications.

We commenced our yarns business in May 2012. The yarns we produce are cotton yarns. We also use the yarns we produce for our fabric production. For the years ended 31 December 2012 and 2013, approximately 33.9% and 14.6%, respectively, of the yarns we produced were used for our fabrics production.

We have two production facilities, namely, Shishi Production Facilities and Hubei Production Facilities. The Shishi Production Facilities first commenced production in June 2006 and are used for production of fabrics with reed width of up to 1.9 metres and yarns while the Hubei Production Facilities is our new production facilities. Our Hubei Production Facilities will be implemented in three phases and the first phase of which commenced operation in June 2013. Our Hubei Production Facilities can be used for production of fabrics with reed width of up to 2.3 metres and yarns after the completion of the construction of the three phases.

From January 2011 to December 2011, we also engaged in the production and sales of apparel. However, as the financial performance of the apparel business had not been up to our management's expectation, we discontinued and sold our apparel business to an Independent Third Party in December 2011.

During the Track Record Period, we directly sold all our products to customers in the PRC. We did not enter into any distribution agreement with our customers. Our fabrics customers include trading companies and branded apparel manufacturers, and our yarns customers are fabrics weaving manufacturers. Majority of our customers are located in Fujian Province.

Revenue from our continuing business increased from approximately RMB262.1 million in 2011 to approximately RMB405.3 million in 2012 and further increased to approximately RMB791.5 million in 2013. We will continue to focus on expanding our production capacity and increasing our market presence in the PRC.

Going forward, we will continue to focus on our two existing business segments, namely, fabrics and yarns, through continuing the construction of our Hubei Production Facilities. As at the Latest Practicable Date, we did not have any plan to commence other new business after Listing.

As the construction of the first phase of our Hubei Production Facilities was substantially financed by borrowings, our Directors expect that depreciation cost from our continuing business and finance cost for borrowings may increase significantly in the foreseeable future which may in turn have material adverse impact on our profitability, financial condition and operation results. For the

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years ended 31 December 2011, 2012 and 2013, the depreciation cost from our continuing business was approximately RMB12.0 million, RMB19.4 million and RMB32.1 million, respectively. For the years ended 31 December 2011, 2012 and 2013, our finance cost was approximately RMB9.1 million, RMB15.7 million and RMB17.0 million, respectively.

We have been closely monitoring and reviewing our financial position from time to time to ensure that we have sufficient cash flow to maintain our business operation and development. As a result, we are able to maintain a continuing growth in our revenue and profits over the Track Record Period.

OUR COMPETITIVE STRENGTHS

We believe we have the following competitive strengths:-

Our strategic location in Shishi City, Fujian Province enables us to be better positioned to benefit from government policies under the Twelfth Five-year Plan of the textile industry in Fujian Province

We are strategically based in Shishi City, Fujian Province, which is one of the major manufacturing bases of clothing and footwear in the PRC. According to China Cotton Textile Association, Fujian Province ranked the sixth and the fourth among different provinces and regions in the PRC in terms of production volume of fabrics and yarns, respectively in 2012. With our headquarters and one of our production facilities located in Shishi City, Fujian Province, we believe we are well positioned to benefit from the proposed government policies under the Twelfth Five-year Plan of the textile industry in Fujian Province and reaching out to a large number of apparel manufacturers in Fujian Province. Further details of the Twelfth Five-Year Plan of the textile industry in Fujian is set forth in the paragraph headed “Industry Overview — Opportunities and challenges faced by the textile industry in the PRC” of this prospectus. For the years ended 31 December 2011, 2012 and 2013, approximately 85.4%, 77.9% and 87.2%, respectively, of our sales are generated from Fujian Province. Since 2012, the government of Shishi City has been putting forward a development plan known as “Eastern Milan Plan (東方米蘭計劃)”, pursuant to which Shishi City is targeted to be transformed into an important hub of the high quality and trendy fashion, textile and fashion accessories comparable to the international fashion centres, such as Milan and Paris. In the 16th Straits Textile Clothing Fair (海峽兩岸紡織服裝博覽會) held in April 2013, Shishi City was awarded by China National Textile and Apparel Council (中國紡織工業聯合會) as “China Famous City for Casual Wear Textiles Trading” (中國休閒面料商貿名城).

In light of the above, our Directors believe that we are geographically located in a favourable operating environment and thus there is substantial room and opportunities for our business growth.

We have strong research and development capabilities

We believe regular product innovation and timely response to market trends and development are critical to success in the textile and clothing industry. We consider our research and development capability to be a vital element of our continuous business growth, and in particular, our competence in producing products of high quality in order to meet the requirements of our customers and to respond to market trends.

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Since the establishment of our research and development centre in 2008, we have greatly enhanced our research and development capabilities in terms of product feature improvements, product diversification, production efficiency and environmental protection enhancement. We have the capabilities to provide our customers with tailor-made products. In November 2010, our charcoal fibre fabric (竹炭纖維面料) developed from the research project titled Bamboo Charcoal Fibre Fabric Textiles Pilot (竹炭纖維功能性面料) was awarded by the People's Government of Fujian Province as the "Famous Branded Product of Fujian Province" (福建省名牌產品). In April 2010 and in April 2012, we were awarded by China National Textile and Apparel Council (中國紡織工業聯合會) and China Textiles Development Centre (國家紡織產品開發中心) as Fabrics China Pioneer Plant-Woven Cotton Fabric for Casual Wear (國家棉休閒面料織造開發基地), respectively. In December 2011, we were awarded by the China National Textile and Apparel Council the "Product Development Contribution Award" (產品開發貢獻獎). In June 2013, our interwoven fabric with multi-fibres series research project (多種纖維紗線交織的服裝面料的開發) was awarded the Golden Bridge Award (金橋獎) by Technology Market Association of China (中國技術市場協會).

We have a strong research team which is led by Ms. Liu Xuemin, who has over 29 years of experience in the textile industry in the PRC. As a result of the efforts by our dedicated research team, we were able to offer 441 types of fabrics to our customers in 2013. As at the Latest Practicable Date, we had registered 14 utility patents in relation to certain methods and materials, registered one invention patent and applied for registration of two invention patents in relation to certain methods in the PRC which have been used in the production of and applied in our products. Details of our patents are set forth in the paragraph headed "Statutory and General Information — B. Further information about the business of our Group — 2. Intellectual property rights of our Group" in Appendix V to this prospectus.

With a view to strengthening our research and development capabilities on textile products and to enhancing our existing production techniques, we have been collaborating with academic institutions to research and develop technologies used in textile and clothing products and enhance production efficiency. In June 2012, we entered into a framework co-operation agreement with the Textile College of Tianjin Polytechnic University (天津工業大學紡織學院) to cooperate in product research and research people training. We have established the Post-doctoral Research Hongtai (China) Sub-station (博士後科研工作站宏太(中國)有限公司分站) with Textile College of Tianjin Polytechnic University and People's Government of Shishi City in 2012 to engage in post-doctorate research projects in the textile industry.

In April 2013, our research and development centre was recognised by the People's Government of Quanzhou City as a City-level Corporate Technology Centre (市級企業技術中心).

We believe our strong research and development capabilities and efforts have provided us with the advantages of improving operation efficiency, diversifying our products, meeting customers' different requirements and reduction of production costs.

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Our production process is highly automated and enables us to produce products efficiently and cost-effectively

Our production process is highly automated. For the years ended 31 December 2011, 2012 and 2013, our addition in machinery and equipment (including transfer from construction in progress) was approximately RMB15.2 million, RMB61.6 million and RMB110.5 million, respectively. In respect of our fabric business, we used air-jet looms under the brands of Toyota in Japan and Picanol in Belgium in our production. The Picanol group is based in Belgium and specialises in development, production and sales of weaving machines and technology for the textile industry.

In respect of our yarns business, we used automated rotor spinning machine under the brand of Rieter in Switzerland, which is a leading supplier of textile machinery and components based in Switzerland, in our production. Our Directors believe that these automated machinery and equipment help to improve our production efficiency and provide flexibility to cater for different product specifications and the ability to enhance our profits, which in turn offer us the edge in the industry. Our highly automated production process allows us to reduce our reliance on labour, simplify the production procedures and enhance quality control over our products. This enables us to reduce our production cost as a whole, increase our production capacity and achieve higher profit margins.

We offer a wide range of fabric products of different features and applicability to our customers

We currently offer five series of fabric products to our customers, namely, interwoven fabric with multi-fibres series (多種纖維交織系列), slub series (竹節系列), blended fabric series (混紡系列), stretch fabric series (彈力系列) and pure cotton series (純棉系列). Each of these series has different features in aspects such as features, style and applicability. For instance our stretch fabric series is suitable for trendy slim cut trousers whereas our interwoven fabric with multi-fibres series is suitable for use as fabrics for casual wear trousers and outer suit jacket. Our slub series is suitable for use as fabrics for outer beach trousers, outdoor shirt and casual shorts. Our blended series is suitable for use as fabrics for casual jacket and casual shirt and our pure cotton series is suitable for business suit and business trousers.

In addition, with our strong research and development capability, we are able to take the initiatives in developing new fabrics to meet the requirements of our customers for fabrics and to respond to market trends and promote these new fabrics to our existing and potential customers. Upon request of our customers for fabrics with certain features and specifications, we also have the capability to meet their requests.

Accordingly, we believe that our diverse product range and our capabilities in developing new products enable us to effectively adapt to product and technical adjustments according to changes in the market and customers' needs.

We integrate the production of yarns and fabrics

In order to expand our product range and to secure a stable supply of yarns, we have commenced the production of yarns since May 2012 with a view to lowering the production cost of fabrics and to diversifying our business. Since then, some of our fabric products are produced with our own

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yarns and approximately 33.9% and 14.6%, respectively, of the yarns we produced were used in our fabric production for the years ended 31 December 2012 and 2013. As a result of our production of yarns, we are able to maintain a relatively stable and timely supply of yarns if the yarns produced by us are suitable for producing fabrics according to the customers' requirement, and broaden our customer base by having this additional business segment.

We have an experienced and dedicated management team

We have an experienced and dedicated management team with extensive operational expertise and an in-depth understanding of the textile industry in China, and this in turn has allowed us to anticipate market trends when formulating our positioning and development strategies. In particular, Mr. Lin has over 10 years of experience in the textile and clothing industry in the PRC. Mr. Qiu has about 24 years of experience in the textile and clothing industry. Mr. Zhang Wenwang and Ms. Liu Xuemin, who act as the department head of our production department and our research and development department, respectively, have dedicated to the textile industry in the PRC for over 29 years.

Under the leadership of our management team, we have built up our research and development capabilities, increased our product types and expanded our market presence. We believe that our experienced and stable management team is able to contribute to the development of our business.

OUR BUSINESS STRATEGIES

Our goal is to strengthen our position to become a leading brand name in the textile industry in Fujian Province and to continue to increase our market presence in the PRC. We intend to achieve this objective by implementing the following strategies:-

Expand our production capacity and increase our market presence in the PRC

According to the National Bureau of Statistics of China, the total expenditure on clothing of the PRC residents has been recording continuous growth from 2008 to 2012.

For the year ended 31 December 2013, the average utilisation rate of our fabrics production machinery of our Shishi Production Facilities and our Hubei Production Facilities was approximately 94.6% and 92.9%, respectively. The average utilisation rate of our yarns production machinery of our Shishi Production Facilities for the same period was approximately 90.5%. In order to meet the increasing demand for textile products in the PRC and to capture the future growth opportunities of the PRC market, we have been expanding our production capacity through the construction of our Hubei Production Facilities. Our Hubei Production Facilities will be implemented in three phases, and the first phase of which commenced operation in June 2013 while the construction of the second phase and the third phase is expected to commence in June 2015 and June 2016, respectively. Upon commencement of operation of the first phase of our Hubei Production Facilities, we are able to produce fabrics with reed width of up to 2.3 metres. Our total production capacity for fabrics will be increased to approximately 68,247 km per year upon full operation of the first two phases of our Hubei

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Production Facilities in June 2016. The greater production capacity will enable us to accommodate the increasing demand for textile products in the PRC thereby increasing our market presence. Detailed information of our Hubei Production Facilities are set forth in the paragraph headed “Business — Production facilities — Hubei Production Facilities” of this prospectus.

According to the National Bureau of Statistics of China, Hubei Province ranked the fourth in the PRC fabric industry in 2012 in terms of production volume. Our Directors believe that we have benefited and will continue to benefit from the favourable government policies under the Twelfth Five-year Plan of textile industry in Hubei Province. Detailed information of the Twelfth Five-year Plan of the textile industry in Hubei is set forth in the paragraph headed “Industry Overview — Opportunities and challenges faced by the textile industry in the PRC” of this prospectus. We believe that with our new production plant and facilities in Hubei Province, we will be able to reach a wider variety of customers, which, in turn, enables us to expand our customer base to support our future business growth.

Enhance our brand recognition in the PRC

We strive to enhance our image as a manufacturer and supplier of high quality fabrics for casual wear. We intend to improve our brand recognition and positioning by further strengthening our marketing capabilities and intensifying our marketing efforts including participating in more exhibitions and trade fairs, placing advertisements through various media channels such as industry publications, the internet, outdoor media and establishing additional sales and marketing offices in different regions of the PRC.

We also plan to set up our first fabric promotion centre (面料體驗館) in Shishi City in the first half year of 2014. If we receive positive feedback for our first fabric promotion centre, we will consider setting up more promotion centres in key cities including Beijing, Shanghai and Guangzhou. We believe we can benefit from the close proximity to apparel manufacturers and fabric procurement centres and the first hand market information in these key cities. These centres will serve as platforms to promote our products to the apparel manufacturers and for exchange of ideas between apparel designers and us. Our Directors believe that through these fabric promotion centres, we can exhibit to the public the weaving methods and technologies, production process of fabrics, the features, specifications and applications of fabrics with an aim to raise the public awareness of the fabric industry and promote our products, image and brand among the public.

Expand our sales network in the PRC

In order to expand our sales network in the PRC, we established a sales team comprising five personnel in July 2013 in Hubei and intend to establish a sales commercial centre within our Hubei Production Facilities. Construction of the building for the sales commercial centre is expected to commence in the first half year of 2015. We also plan to establish sales offices in Guangzhou in Guangdong Province and Changshu in Jiangsu Province in 2014 each to station with two to three sales personnel to strengthen the existing relationship with our local customers and reach potential customers. Our Directors believe that Guangzhou and Changshu are two well-established markets for fabrics trading due to the presence of apparel manufacturers in these two places. These sales offices can provide a more direct and effective channel for our products to reach potential clients. We can also

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communicate more efficiently with our clients and enhance our understanding of the market trend. Through the sales offices, we are able to expand our business and sales network outside Fujian Province. As at the Latest Practicable Date, no sales office has been established in Guangzhou and Changshu yet.

Focus on research and development continuously

We consider our research and development capabilities are vital to our continuous business growth. To this end, we intend to:-

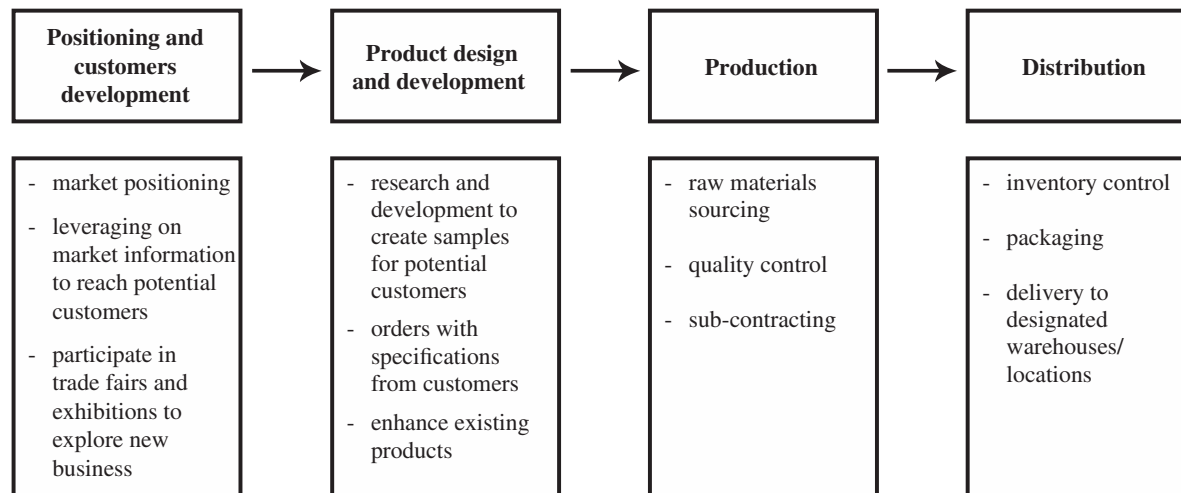
- upgrade the facilities in our research and development centre by consummating our monitoring and sampling equipment and encourage our research and product development personnel to participate in training provided by external research institutions, such as China National Textile and Apparel Council (中國紡織工業聯合會);
- develop new kinds of raw materials for fabrics such as blended fabric of elastic silk and cotton (舒彈絲與棉混紡紗面料), warp-wise stretch fabric (經向彈力面料) and interwoven fabric with multi-fibres and silk screen (多種纖維紗并網絲交織面料) and apply them in our production process to enhance our fabric features and applicability;
- recruit more experienced professionals in the textile industry and collaborate with research organisations or universities to provide more training to our research and development staff in order to maintain our capability in developing new products; and
- enhance communication and coordination between our marketing department, our research and development department and our production department so as to respond to customers' feedback more effectively.

OUR BUSINESS MODEL

At present, we principally engage in the production and sales of fabrics and yarns. Prior to May 2012, we principally engaged in the production of fabrics. We commenced our yarns business in May 2012 with a view to lowering the production cost of fabrics and to diversifying our business. Before commencement of our yarns business, our management, through an independent consulting company, had conducted a business study and analysis on the potential of yarns business in the PRC covering various areas such as (a) market overview of yarns products; (b) potential market demand and supply; (c) scale and location of production facilities; (d) production technology, equipment and machinery; (e) environmental protection requirements and production safety; (f) estimated investment amount and source of funding; and (g) financial returns and analysis. Since then, some of our fabric products are produced with our own yarns. From January 2011 to December 2011, we also engaged in the production and sales of apparel. However, as the financial performance of the apparel business had not been up to our management's expectation, we discontinued such business in December 2011. For detailed information of our discontinued apparel business, please refer to the paragraph headed "Business — Apparel business" of this prospectus.

Fabrics

The following diagram illustrates the typical key processes of our fabric business:-



Positioning and customers development

We position ourselves as a supplier of fabrics for the outer parts of casual wear. Our target customers primarily include trading companies and branded apparel manufacturers. Our sales and marketing staff visit our existing and potential customers, receive their feedback on our products and obtain information on the market trends. We analyse the market information collected to adjust our development strategies, strengthen the relationship with existing customers and reach new customers. We also attend trade fairs and exhibitions to explore new business opportunities.

Product design and development

In addition to supplying existing products to our customers, our research team also takes the initiative in developing fabrics with new features including texture, style and specifications to respond to market trends. Our research team will then conduct research, if necessary, to meet the specifications and requirements by our customers. In some cases, customers may provide sample fabrics and request our Group to produce fabrics with features and specifications same as the samples.

Our research efforts focus not only on the development of new products and enhancement of new products, we also divert research resources with an aim to improve our production efficiency and enhance environmental protection measures during the production process so as to increase our profits as far as possible. Our registered utility patent, energy-saving and environmentally-friendly system for realising workshop humidity and temperature (一種實現車間溫濕度的節能環保系統) helps, amongst others, to reduce the heat released during the production process and our Directors believe that consequently our production cost could thereby be lowered.

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Production

In general, upon receiving customers' purchase orders, we source the necessary raw materials and arrange for the production of the fabrics. For raw materials which are commonly used in our production process, such as raw cotton, we generally maintain an inventory level of around 15 days on average.

Depending on the types of fabrics, we source raw materials, mainly yarns, from our list of qualified suppliers, all of whom are located in the PRC. Since May 2012, we also use our own yarns in our fabric production. Normally, for new customers, we produce and provide samples to them before they made a purchase order. For our existing customers or recurring purchase orders for existing products, we have the knowledge of their previous specifications and requirements. We are therefore able to plan the sourcing of raw materials ahead of our customers' purchase orders because we already have the information on the requisite types of yarns and raw materials. This practice minimises the uncertainties in sourcing suitable raw materials and inventory risk. We could also commence production in a timely manner upon receiving purchase orders from our customers.

Except for the dyeing process, all of the fabric production processes are carried out at our own production facilities, and we impose quality control throughout our production processes from raw materials sourcing to finished product examination.

For the dyeing process of our fabrics, we outsource such work to independent subcontractors. For the years ended 31 December 2011, 2012 and 2013, approximately 39.1%, 59.6% and 77.9%, respectively, of our fabrics required dyeing process performed by our independent subcontractors. Our subcontractors were mainly dyeing factories located close to our production facilities. To ensure the quality of the dyeing process, our quality control staff may attend the production facilities of our subcontractors to conduct on-site inspection on the quality of their work. For detailed information of the arrangement with our subcontractors, please refer to the paragraph headed "Business — Production process — Production process of fabrics — Subcontracting of dyeing process" of this prospectus.

Distribution

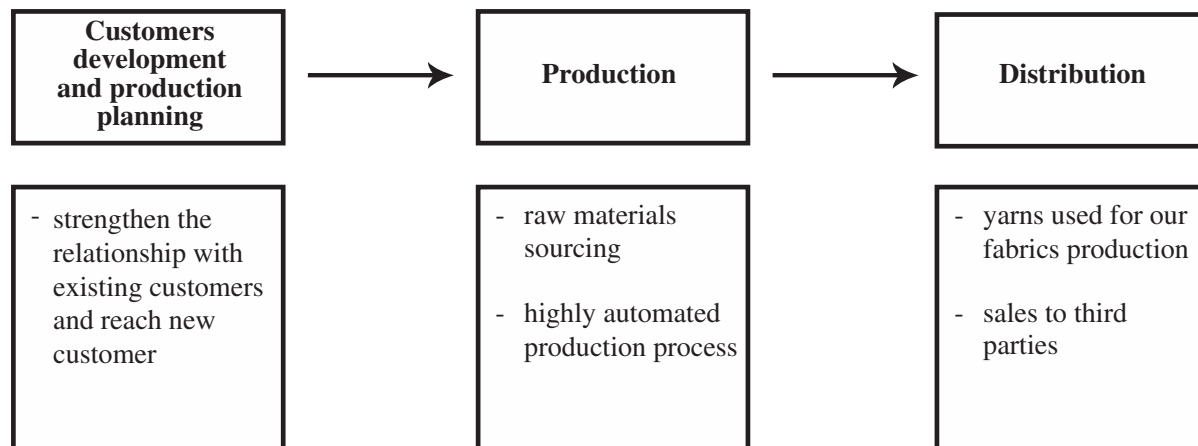
During the Track Record Period, all of our sales were domestic sales in the PRC. We directly sold our fabric products to our customers, which include trading companies and branded apparel manufacturers in the PRC.

For products produced at our Shishi Production Facilities, our customers generally collect our products from our production facilities or, in case where dyeing process is required, at the production facilities of our subcontractors. Most of our customers are responsible for arranging the transportation at their own cost. For products produced at our Hubei Production Facilities, it is our policy that we are responsible for arranging the delivery at our costs for those customers who are not situated near our Hubei Production Facilities whereas those customers who are situated in the locality of our Hubei Production Facilities are responsible for arranging the transportation at their own costs.

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Yarns

The following diagram illustrates the typical key processes of our yarn business:-



Customers development and production planning

We visit our existing customers from time to time to strengthen our business relationship and attend trade fairs and exhibitions to explore new business opportunities. In case where the yarns we produced are suitable for the production of our fabrics, we use our yarns in the production of our fabrics.

Production

At present, we only produce cotton yarns. The major raw material for the production of cotton yarns is raw cotton. We source raw cotton from our list of qualified suppliers, who are located in the PRC.

Other than the inspection of the raw cotton to ensure that they meet our requirements and standards, which is conducted manually by our workers, most of our yarn production processes are automated, including the quality control and detection of any defects in the production processes.

Distribution

During the Track Record Period, the customers for our yarn products were fabrics weaving companies in the PRC. Given that we commenced our yarn business in May 2012, for the years ended 31 December 2012 and 2013, approximately 33.9% and 14.6%, respectively, of the yarns we produced were used in the production of our fabric products. For those yarns produced in our Shishi Production Facilities, most of our customers are responsible for arranging the transportation for collecting products from our Shishi Production Facilities at their own costs. Our Directors consider that in the long-run, priority of our yarns will be given to satisfy our own fabrics production needs.

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APPAREL BUSINESS

With a view to vertically expanding our business in the textile industry, we commenced the production and sales of apparel in the PRC in January 2011. Before we commenced our apparel business, our management has conducted a business study and analysis on the apparel business covering various areas such as (a) potential market prospects and development; (b) market positioning of our apparel products; (c) estimated initial capital expenditure and source of funding; and (d) expected financial returns and analysis.

The production machinery and equipment for our apparel business were located in a production plant which had been leased from an Independent Third Party close to our Shishi Production Facilities. We primarily used our own fabrics for the production of our apparel. We produced and sold leisure apparel for men and women and, a small portion for kids. All of the apparel produced and sold by us in 2011 were sold domestically in the PRC. Our customers included apparel trading companies. Hong Tai Industrial, which was owned by Mr. Lin as to 70.0% until June 2012, was the largest customer of our apparel business, representing approximately 83.6% of the revenue generated from our apparel business in 2011. For detailed information on Hong Tai Industrial and our transactions with Hong Tai Industrial, please refer to the paragraph headed “Business — Sales — Connected customers — Hong Tai Industrial” of this prospectus.

As the apparel business was a new segment of our Group, we reviewed its operations and results from time to time. Having operated the apparel business for about a year and due to the following major reasons, our management decided to discontinue our apparel business:-

- (a) the financial performance of the apparel business had not been up to our management’s expectation. First, the gross profit margin of the apparel business was approximately 16.5% for 2011, which was not as high as the margin originally expected and was also just slightly higher than the gross profit margin of the continuing business in the same year. Second, the extra value added to our business model from the apparel business was not significant, as demonstrated by the small difference in the net profit margin of the continuing business (8.9% in 2011) and that of the apparel business (11.7% in 2011) in the same year;
- (b) the apparel business was relatively more labour intensive as compared to our fabric business. Based on the recent years of increasing labour cost in the PRC, our management expects that the labour cost in the PRC will continue to increase in the coming years, profitability of the apparel business is, therefore, expected to decrease along with the continuous increase in the labour cost; and
- (c) marketing expenses were incurred to promote our products including our apparel products to our customers. Our Directors expected that a significant amount of marketing expenses for brand building of our apparel business would be required for the coming years if we had to continue the apparel business.

As a result, we discontinued the apparel business in December 2011 and disposed of the sewing machines and other related equipment of the apparel business to an Independent Third Party at a consideration of RMB900,000 which was determined with reference to the then net book value of such

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machinery and equipment. As the apparel products were produced upon receiving purchase orders from the customers, and we discontinued the apparel business after having fulfilled all obligations under the relevant purchase orders placed by the then customers, we did not have any finished goods inventory for our apparel products after the discontinuance of the apparel business. Furthermore, we sold the raw materials of apparel, which were primarily fabrics, at profit. As such, save for a loss of approximately RMB24,000 arising from the disposal of the machinery and equipment, we did not incur any loss on inventories write-off, labour severance payment and other expenses in relation to the discontinuance of our apparel business.

For the year ended 31 December 2011, the apparel business generated a revenue of approximately RMB49.0 million.

OUR BUSINESS SEGMENTS

We currently operate two business segments, namely the manufacture and sales of fabrics and yarns. In 2011, we also engaged in the production and sales of apparel. The following table sets forth the breakdown of our revenue by business segment during the Track Record Period:-

	Year ended 31 December					
	2011		2012		2013	
	<i>RMB'000</i>	<i>% to total revenue</i>	<i>RMB'000</i>	<i>% to total revenue</i>	<i>RMB'000</i>	<i>% to total revenue</i>
Continuing business						
Fabrics	262,072	100.0	360,449	88.9	680,352	86.0
Yarns ^(Note 1)	—	—	44,837 ^(Note 3)	11.1	111,166 ^(Note 3)	14.0
Total	<u>262,072</u>	<u>100.0</u>	<u>405,286</u>	<u>100.0</u>	<u>791,518</u>	<u>100.0</u>
Discontinued business						
Apparel ^(Note 2)	<u>49,010</u>	<u>N/A</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

Notes:-

1. We commenced our yarns business in May 2012.
2. We carried out the apparel business from January 2011 to December 2011.
3. Intra-group sales of yarns we produced are excluded.

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OUR PRODUCTS

Fabrics

Our fabrics are mainly used for the outer parts of casual wear and trousers. We classify our fabrics into five series primarily according to their features in aspects including textures and style. They are (i) interwoven fabric with multi-fibres series; (ii) slub series; (iii) blended fabric series; (iv) stretch fabric series; and (v) pure cotton series.

The following table sets forth the revenue breakdown by series of our fabrics during the Track Record Period:-

	Year ended 31 December					
	2011		2012		2013	
	<i>% to total</i>		<i>% to total</i>		<i>% to total</i>	
	<i>revenue</i>		<i>revenue</i>		<i>revenue</i>	
	<i>attributable</i>		<i>attributable</i>		<i>attributable</i>	
	<i>to the</i>		<i>to the</i>		<i>to the</i>	
	<i>fabrics</i>		<i>fabrics</i>		<i>fabrics</i>	
	<i>RMB'000</i>	<i>segment</i>	<i>RMB'000</i>	<i>segment</i>	<i>RMB'000</i>	<i>segment</i>
Interwoven fabric with multi-fibres series	199,259	76.0	300,768	83.4	550,999	81.0
Slub series	22,809	8.7	21,524	6.0	43,106	6.3
Blended fabric series	32,256	12.3	17,427	4.8	33,331	4.9
Stretch fabric series	5,078	2.0	15,419	4.3	30,053	4.4
Pure cotton series	2,670	1.0	5,311	1.5	22,863	3.4
Total	<u>262,072</u>	<u>100.0</u>	<u>360,449</u>	<u>100.0</u>	<u>680,352</u>	<u>100.0</u>

Interwoven fabric with multi-fibres series (多種纖維交織系列)



This series is produced by interweaving of various kinds of fibres and yarns with diverse fabric structures to create different texture and visual properties. Our “production process of interwoven

fabric” (一種交織面料的生產工藝) invention patent has been used in the production process of and applied in the products of our interwoven fabric with multi-fibres series. According to the Department of Science and Technology of Quanzhou City (泉州市科學技術局), the production efficiency of interweaving various fibres through such production method can be enhanced by 15%, as compared to the traditional method. This series is suitable for use as fabrics for casual wear trousers and outer suit jacket.

Slub series (竹節系列)



This series of fabrics is produced by utilising slub yarns of different thickness and length intervals onto warp and weft of fabric, together with diverse fabric structures, to create different styles of fabrics. This series is suitable for use as fabrics for outdoor beach trousers, outdoor shirt and casual shorts.

Blended fabric series (混紡系列)



This series of fabrics is produced by interweaving different kinds of yarns and fibres to create properties which suit various specifications. This series is suitable for use as fabrics for casual jacket and casual shirt.

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Stretch fabric series (彈力系列)



This series of fabrics is produced by using cotton stretch yarns and polyester stretch yarns etc. on weft fabric to bring comfort in wearing. This series is suitable for use as fabrics for trendy slim cut trousers and slim cut polo-shirt.

Pure cotton series (純棉系列)



This series of fabrics is produced by using cotton yarns. It belongs to mid-count and high-density kind of fabrics and is produced through the variation of structure of fabrics to create different styles and patterns. This series is suitable for use as fabrics for business suit and business trousers.

Yarns

Yarns currently produced and offered by us are cotton yarns. Cotton yarns are produced from raw cotton. In case where the yarns we produce are suitable for the production of our fabrics and the cost of using our yarns is lower or using our yarns is more convenient than yarns we sourced from independent suppliers, we will use our yarns in our production of fabrics. For the years ended 31 December 2012 and 2013, approximately 33.9% and 14.6%, respectively, of the yarns we produced was used in the production of our fabrics.

Generally our fabrics are produced in accordance with the specifications requested by our customers, and the consumption of the raw materials for production of our fabrics depend on the types

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and specifications of fabrics our customers requested. Similarly, consumption of our own yarns in the production of our fabrics are subject to the types and specifications of fabrics requested by customers, which may be due to various factors including but not limited to, to the best knowledge and belief of our Directors, the market and fashion trend. The increase or decrease in the consumption of the yarns we produce for our production of fabrics is not within our control.

PRODUCTION FACILITIES

We have two production facilities, namely the Shishi Production Facilities and the Hubei Production Facilities. Our Shishi Production Facilities first commenced production in June 2006 and the first phase of our Hubei Production Facilities commenced production in June 2013.

Shishi Production Facilities

Our Shishi Production Facilities are located in Wubao Science and Technology Park, Hongshan Town, Shishi City, Fujian Province (福建省石獅市鴻山鎮伍堡科技園區). Our Shishi Production Facilities are used for the production of both fabrics and yarns. The fabrics our Shishi Production Facilities produce are fabrics with reed width of up to 1.9 metres and the yarns we produce are cotton yarns. It occupies a total site area of 64,451.01 square metres and total gross floor area of 60,764.33 square metres.

Our production process is highly automated. In respect of our fabrics business, we used air-jet looms under the brand of Toyota in Japan and Picanol in Belgium in our production. The Picanol group is based in Belgium and specialises in development, production and sales of air-jet looms and technology for the textile industry. In respect of our yarns business, we used automated rotor spinning machine under the brand of Rieter in Switzerland, which is a renowned supplier of textile machinery and components based in Switzerland, in our production.

As at 31 December 2013, the designed annual production capacity of our Shishi Production Facilities was 22,798 km of fabrics and 7,080 tonnes of yarns. Generally, our Shishi Production Facilities operate 24 hours a day. We carry out regular inspection of our production facilities and equipment to ensure that our production lines operate efficiently and at optimal levels. For the years ended 31 December 2011, 2012 and 2013, the scheduled downtime for maintenance and repair of our Shishi Production Facilities and equipment was 14 days, 11 days, 11 days, respectively.

Hubei Production Facilities

We continue to expand our production facilities to cater for our further development. Our Hubei Production Facilities is our new production facilities which is located at Da Sheng Guan Shan Industrial Zone, Huangmei County, Huanggang City, Hubei Province (湖北省黃岡市黃梅縣大勝關山工業園), where we would benefit from the relatively lower land cost, production cost and labour cost as compared to those in Fujian Province. As at 31 December 2013, the designed annual production capacity of our Hubei Production Facilities was 23,449 km of fabrics (assuming that the annual downtime for maintenance and repair for the year ended 31 December 2013 is 11 days). Our presence

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in Hubei will also enable us to benefit from the favourable government policies under the Twelfth Five-year Plan of textile industry in Hubei Province. For detailed information of the favourable government policies in Hubei Province, please refer to the paragraph headed “Industry Overview — Opportunities and challenges faced by the textile industry in the PRC” of this prospectus.

Our Hubei Production Facilities occupies a total site area of 161,949 square metres and a total gross floor area of 52,365.2 square metres. Construction of the first phase of our Hubei Production Facilities commenced in October 2012. Our Hubei Production Facilities will be implemented in three phases and its first phase commenced operation in June 2013. The construction of the whole first phase was completed in July 2013. Following the model of our Shishi Production Facilities, our Hubei Production Facilities will be equipped with imported automated machinery and equipment. The first and second phases of our Hubei Production Facilities are and will be used for the production of fabrics with reed width of up to 2.3 metres which is wider than the fabrics with reed width of up to 1.9 metres produced in our Shishi Production Facilities. These wider fabrics offer more flexibilities in their application and allow us to reach a wider variety of customers. The third phase of our Hubei Production Facilities is expected to be used for yarns production, including cotton yarns and other types of yarns. Full operation of all three phases of our Hubei Production Facilities is expected to commence in mid-2017.

As at 28 February 2014, it is estimated that the total gross investment amount for our Hubei Production Facilities is approximately RMB668.5 million, approximately RMB268.5 million of which was incurred and invested in the first phase of our Hubei Production Facilities and such amount was funded by our internal resources and borrowings. We expect that the estimated investment amount of RMB158 million for the second phase will be financed by the net proceeds of the Global Offering, internal resources and/or borrowings and the estimated investment of RMB242 million for the third phase will be financed by internal resources and/or borrowings.

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The following table sets forth the detailed information of our Hubei Production Facilities:-

Phase of development	Estimated maximum annual production capacity	Products	Commencement date of construction	Commencement date/expected commencement date of operation	Estimated/actual gross investment amount and source of funding
First phase	23,449 km ^(Note 1)	Fabrics with reed width of up to 2.3 metres	October 2012	June 2013	RMB268.5 million actually incurred as at 28 February 2014 and funded mainly by internal resources and borrowings ^(Note 2)
Second phase	22,000 km	Fabrics with reed width of up to 2.3 metres	June 2015	June 2016	RMB158.0 million to be funded by the net proceeds from the Global Offering, internal resources and/or borrowings
Third phase	60,000 spindles ^(Note 3)	Yarns	June 2016	June 2017	RMB242.0 million to be funded by internal resources and/or borrowings

Notes:-

1. The estimated maximum annual production capacity of approximately 23,449 km is based on 288 air-jet looms upon the completion of the whole first phase of our Hubei Production Facilities in July 2013 and a period of 354 days of operation.
2. It represents the actual aggregate gross investment amount in the first phase of our Hubei Production Facilities up to 28 February 2014. We expect that additional investment, which will not be substantial, may be made for the purchase of ancillary facilities and equipment or for the final furnishing works and maintenance works.
3. Production volume converted into tonnes varies depending on a number of factors including speed and efficiency of our equipment and machinery, types of yarns and production techniques involved.

As confirmed by our PRC Legal Adviser, we have obtained all necessary permits and licences for the first phase development and operation of our Hubei Production Facilities. We will apply for the requisite permits and licences (except land use right certificate, which has been obtained) for our second phase and third phase development of our Hubei Production Facilities.

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As the commencement of operation of our Hubei Production Facilities, which was originally planned to operate in March 2013, had been delayed to June 2013, we purchased grey fabrics from third parties and, after further processing into dyed fabrics, re-sold these fabrics to our customers in order to reduce our production pressures to satisfy our then customers' need. This was only a temporary arrangement to cater for the aforesaid situation and we have discontinued such arrangement since the third quarter of 2013 and our Directors currently do not have any intention to continue doing the same in the future.

The following table sets forth the number of production machinery, the designed annual production capacity, the actual production volume and the average utilisation rate of our Shishi Production Facilities and Hubei Production Facilities, respectively, during the Track Record Period:-

Shishi Production Facilities

	As at 31 December		
	2011	2012	2013
Number of air-jet looms (for fabrics production)	280	280	280
Number of production lines (for yarns production)	—	6	6
Designed annual production capacity <i>(note 1)</i>			
— <i>Fabrics (km)</i>	22,604	22,798	22,798
— <i>Yarns (spindles)</i> <i>(note 2)</i>	—	30,000	30,000
— <i>Yarns (tonnes)</i>	—	7,080	7,080
Actual production volume for the year			
— <i>Fabrics (km)</i>	18,320	19,750	21,557
— <i>Yarns (tonnes)</i>	—	3,890	6,406
Average utilisation rate for the year (%) <i>(note 3)</i>			
— <i>Fabrics</i>	81.0	86.6	94.6
— <i>Yarns</i>	—	84.6 <i>(note 4)</i>	90.5

Notes:-

- (1) The designed annual production capacity is calculated based on (i) speed and efficiency of our equipment and machinery; and (ii) number of days worked for the year. For the purpose of this prospectus, it is assumed that all production facilities operate 24 hours per day for the number of days per year after deducting the respective scheduled or estimated downtime for maintenance and repair. In particular, for the calculation of designed annual production capacity of yarns, it is assumed that yarns of 25 counts are used as standardisation for all yarns.
- (2) For the purpose of this prospectus, the production speed of each spindle is 30 metres per minute. The actual number of rotors of our yarns is 3,000 with a production speed of 300 metres per minute and therefore equivalent to 30,000 spindles.
- (3) The average utilisation rate is determined based on the actual production volume divided by the designed annual production capacity, which is calculated based on the assumptions as disclosed in note (1) above.
- (4) Our yarns business commenced in May 2012. As such, the designed annual production capacity used to calculate the average utilisation rate for the year ended 31 December 2012 is based on a period of 230 days of operation.

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Hubei Production Facilities

As at 31 December 2013

Number of air-jet looms (for fabrics production)	288
Designed annual production capacity for fabrics (km) <i>(note 1)</i>	23,449
Actual production volume of fabrics (km)	11,161
Average utilisation rate (%) <i>(note 2)</i>	92.9

Notes:-

- (1) The designed annual production capacity is calculated based on (i) speed and efficiency of our equipment and machinery; and (ii) number of days expected to work for the year. For the purpose of this prospectus, it is assumed that all production facilities operate 24 hours per day for the number of days per year after deducting the respective scheduled or estimated downtime for maintenance and repair.
- (2) The average utilisation rate is determined based on the actual production volume divided by the designed annual production capacity, which is calculated based on the assumptions as disclosed in note (1) above. The first phase of our Hubei Production Facilities commenced operation in June 2013, and the whole first phase of our Hubei Production Facilities was completed in July 2013. As such, the designed annual production capacity used to calculate the average utilisation rate for the year ended 31 December 2013 is based on the operation of 40 air-jet looms put in operation since June 2013 for a period of 196 days and the operation of 248 air-jet looms put in operation since July 2013 for a period of 179 days.

Our Directors consider the expansion plan and expected proposed commencement date of operation of our Hubei Production Facilities is appropriate because of the following reasons:-

- (a) our Group had continuous net current liabilities of approximately RMB30.6 million, RMB111.0 million and RMB104.4 million, respectively, as at 31 December 2011, 2012 and 2013, as well as relatively high gearing ratio of 109.1%, 88.3% and 103.5%, respectively, as at the same dates. As at 28 February 2014, it is estimated that the total gross investment for our Hubei Production Facilities is approximately RMB668.5 million, which is considered substantial to us. Our Directors believe that it is the best interests of our Group and the Shareholders as a whole to take a prudent course in pursuing its business expansion involving substantial amount of investment; and
- (b) one of the major reasons for us to commence the yarn business is to secure a stable and timely supply of yarns if the yarns produced by us are suitable for our production of fabrics according to the customers' requirement. For the years ended 31 December 2012 and 2013, only approximately 33.9% and 14.6%, respectively, of the yarns we produced were used in the production of our fabrics. Hence, from the perspective of self-supplying yarns for our production of fabrics, our Directors believe that there is no imminent need in the short term to expand the production capacity of our yarns business.

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PRODUCTION PROCESS

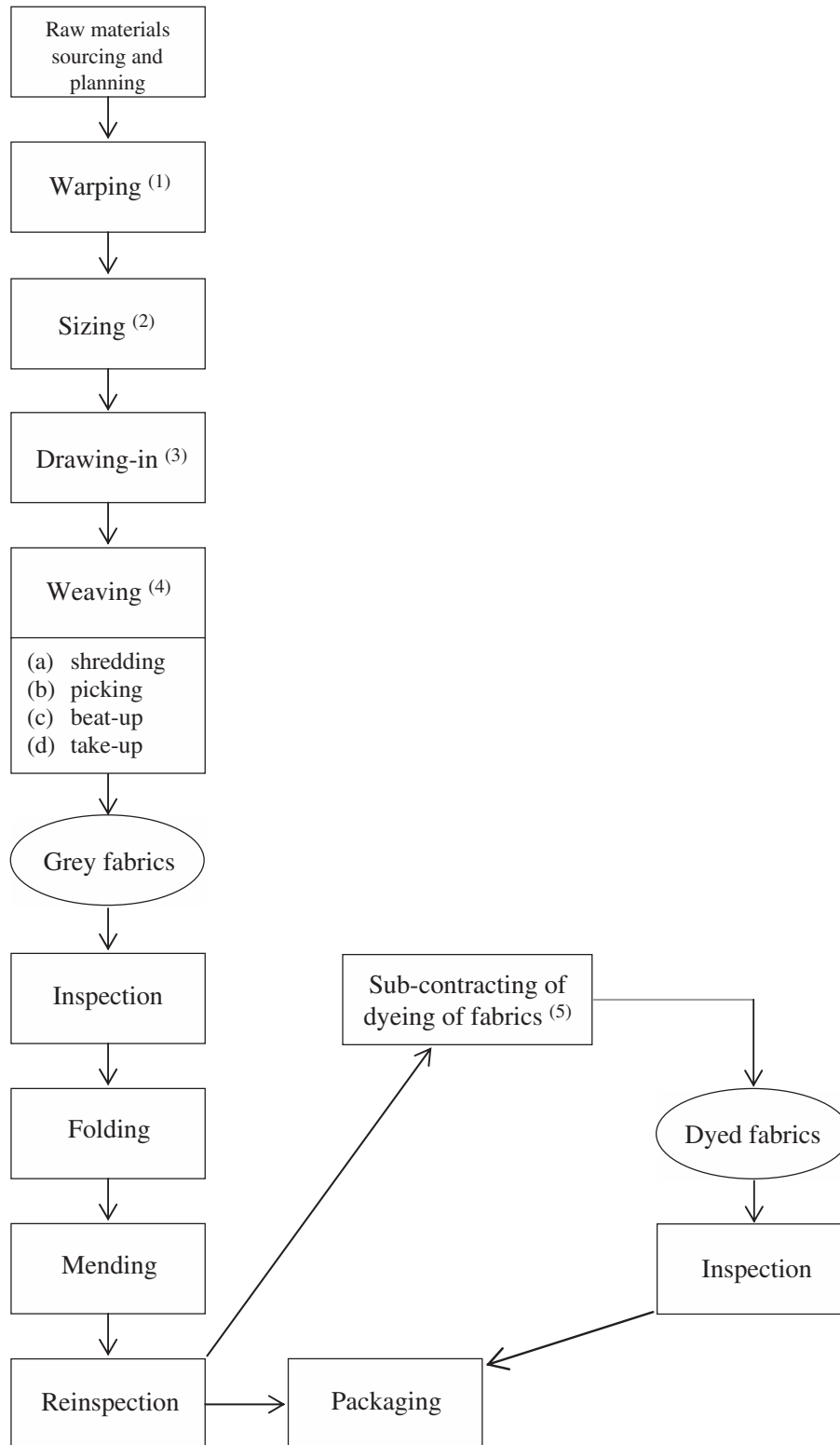
Fabrics

Our production process for fabrics is highly automated which can increase our production efficiency thereby enhancing our profitability.

The entire production process of fabrics, i.e. from the first commencement of production to the delivery of the first batch of the finished products, in general, takes approximately 15 to 20 days, depending primarily on the specifications and technical requirements of the relevant customers. In practice, for products with new specifications and new customers, we are required to provide samples to our customers before they formally place the purchase orders. Our customers will place purchase orders after our samples met their requirements and standards. The production process commences upon the confirmation of the purchase orders with our customers. Our production facilities operates 24 hours a day. If the fabrics require dyeing, this dyeing process will be outsourced and handled by independent subcontractors.

Production process of fabrics

The chart below illustrates our main production processes for fabrics:-



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Notes:-

(1) Warping (整經)

Arranging bobbin cones in long length parallel to one another evenly with application of certain tension and rounding onto a beam.

(2) Sizing (漿紗)

Yarns from several beams are treated with size and dried in preparation for leasing.

(3) Drawing-in (穿綜)

According to technical requirement, yarns are treated through the drop wires of the warp stop motion, the heald wire of the heald frames and the dents at the reed for preparation of weaving.

(4) Weaving (織布)

The process of interlacing two yarns to cross each other at right angles according to technical requirement to produce fabric. The warp runs lengthwise and the weft runs perpendicular to warp, the interwoven of which produces fabric. The fabric is wound onto a rolling beam.

Weaving consists of the following steps:-

(a) *Shedding*: the raising of one or more harnesses to separate the warp yarns and form a shed

(b) *Picking*: passing through the shed to insert the filling

(c) *Beat-up*: the reed pushing the filling yarn back in the cloth

(d) *Take-up*: the finished cloth is wound on the cloth beam

(5) Where dyeing of the fabrics is required, this process will be outsourced and handled by independent subcontractors.

During the Track Record Period, we did not experience any disruption in production which may materially and adversely affect our operations and financial conditions.

Subcontracting of dyeing process

Some of the fabric products we offer to our customers require dyeing. In such case, since we do not have dyeing facilities, the dyeing process is subcontracted to dyeing factories located near to our production facilities, all of which are Independent Third Parties. We have a list of qualified subcontractors and we will review their performance, standard of services provided and subcontracting fees charged from time to time. As at 31 December 2011, 2012 and 2013, we had 8, 11 and 25 subcontractors on our qualified list, respectively.

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Our typical subcontracting arrangement includes the following:-

- the subcontracting agreement sets forth the subcontracting fees charged by the subcontractors and the quantities of the fabrics which requires dyeing;
- we provide to the subcontractor samples of the finished products, which will be treated as a benchmark for quality inspection upon completion of the dyeing process and/or written technical requirements and the subcontractor has to comply with the applicable technical requirements;
- the subcontractor is responsible for procuring the requisite raw materials for dyeing; and
- our quality control staff attend the production facilities of the subcontractor to provide guidance in the course of the dyeing work and to conduct on-site inspection, if necessary.

Upon completion of the dyeing process by the subcontractors, our quality control staff will inspect the quality of the dyed fabrics at the production facilities of the subcontractors in accordance with the agreed technical requirements before arranging the collection/delivery of our fabrics products by/to our customers.

For the years ended 31 December 2011, 2012 and 2013, the subcontracting fees paid to these independent subcontracting dyeing factories amounted to approximately RMB12.3 million, RMB17.3 million and RMB51.9 million, respectively, representing approximately 4.5%, 6.0% and 9.6%, respectively, of the total cost of production of our fabrics business during the same period. The reason of the increasing amounts and percentages in our fees paid to these independent subcontracting dyeing factories during the Track Record Period is mainly attributable to the increasing sales volume of our dyed fabrics to our customers during the same period. We had not received any material claims or complaints by our customers in respect of the quality of the dyed fabrics processed by our subcontractors during the Track Record Period.

We have not entered into any long-term agreements with our subcontractors and we placed orders with them on an order-by-order basis, but we believe we have managed to maintain a good relationship with our subcontractors. During the Track Record Period, we did not experience any material disputes with our dyeing subcontractors.

Yarns

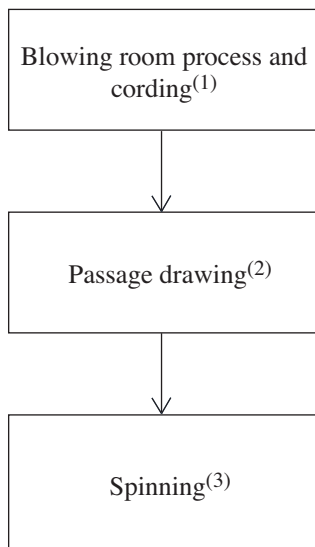
Other than the inspection of the raw cotton to ensure they meet our requirements and standards, our yarn production processes are almost entirely automated utilising our automated machinery and equipment, including the quality control and detection of any defects in the production process. The period between receiving purchase orders from our customers and the delivery of our finished yarn

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products ranged from 25 to 45 days during the Track Record Period. The production facilities for our yarn business operates 24 hours a day. During the production process, our staff will monitor the proper functions of our machinery and equipment. Our quality control staff conduct sample inspections on our finished yarns.

Production process of yarns

Spinning raw cotton into yarns in general involves the following main processes:-



Notes:-

- (1) Blowing room process and carding (清梳聯)

Through treatment of the cotton plucker, opener, blender, storage machine and carding machine, the cotton is loosen and trash is removed. The cotton is carded and form into silvers.

- (2) Passage drawing (並條)

Doubling and drafting silvers to form lap of certain weight. This is a blending operation that contributes to greater yarn uniformity.

- (3) Spinning (氣流紡)

Spinning draws and adds the twists according to weight, and making the yarns into cotton yarns.

Utilities

The primary utilities consumed for the production of our products are electricity and water. Water is mainly used for the production of steam to maintain optimum temperature and humidity at our production facilities.

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The consumption of electricity and water accounted for approximately 4.1%, 5.1% and 4.0%, respectively, of our total cost of production for continuing business for the years ended 31 December 2011, 2012 and 2013.

During the Track Record Period, we had not experienced any material disruption in our production due to utility supply failure.

PROCUREMENT AND SUPPLIERS

Our procurement department is responsible for sourcing our raw materials and supplies.

Raw materials

Fabrics

Our principal raw materials for producing fabrics are cotton yarns. We sourced the raw materials for production of fabrics from a number of suppliers in the PRC. Since May 2012, after the commencement of our yarn business, we have also used a portion of the self-produced yarns for our own production. As a newly-established business, we currently produce cotton yarns only, which are the major raw materials for the production of our fabrics. After taking into account factors including the suitability of the yarns for our production, the delivery time, the production cost of our yarns, the procurement cost from third party, the quality of yarns and our ability to satisfy purchase orders of our yarn customers, we will opt to use our own yarns for our production. For the years ended 31 December 2012 and 2013, approximately 33.9% and 14.6%, respectively, of the yarns we produced were used for our fabrics production. The self-produced yarns used by us for the production of our fabrics were treated as our intra-segment sales at cost.

Yarns

Our principal raw materials for producing yarns are raw cotton. We purchased all of the raw cotton from the PRC for our production of yarns.

Our Directors are of the view that if the cotton price is getting too high, it will be a macro factor which will generally affect all the market players, including our Group. To the best knowledge and belief of our Directors, they are not aware of any alternative material of raw cotton at present. Our customers generally place purchase orders after we have provided samples and fee quotation to them. Should the price of raw cotton is getting too high and our customers opt for other alternative raw materials, we will purchase and produce the fabrics using alternative materials. On the contrary, if our customers opt for raw cotton, we are generally able to transfer the increase in the costs of raw materials to our customers. As such, our Directors believe that our competitiveness among other market players will not be materially affected due to the increase in the market cotton price.

During the years ended 31 December 2012 and 2013, the total cost of raw materials used for our yarns products amounted to approximately RMB62.6 million and RMB97.7 million, respectively, out

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of which raw cotton amounted to approximately RMB40.1 million and RMB58.2 million, respectively. For detailed information, please refer to the paragraph headed “Financial Information — Factors affecting our financial condition and results of operations — Cost of raw materials” of this prospectus.

Procurement

Production of our fabrics commences after our customers’ confirmations of the samples and specifications, or in case of recurring sales orders, based on previous approved samples and specifications. For commonly-used raw materials for our fabrics, we generally maintained an inventory level of around 15 days during the Track Record Period. In some cases, we procure these raw materials after receipt of purchase orders from our customers and procurements are made on an case-by-case basis depending on the types and specifications of fabrics required by our customers. We generally fix the delivery date with our customers after the sourcing of raw materials and production planning, and accordingly, during the Track Record Period we were able to source sufficient raw materials and deliver our fabrics to our customers in accordance with the timeline set forth in our sales orders.

We operate a continuous procurement and production cycle for our yarns business. For raw cotton, which is the major raw material for our yarns production, we generally maintained an inventory level of around 15 days for our yarns during the Track Record Period. Our inventory staff closely monitor the inventory level and the market prices of raw materials for our yarn business. During the Track Record Period, we were able to source and maintain sufficient raw materials for our yarns business.

Our procurement department procures the raw materials pursuant to the purchase requests prepared by our production department. Our procurement staff request for price quotations from at least two to three suppliers from our list of qualified suppliers to obtain the best price for the raw materials. Our staff will conduct sample inspection and testing on the quality of the raw materials. We negotiate with our suppliers for return or a price reduction in respect of any substandard raw materials.

Measures taken to manage the price risk of raw materials

We monitor prices of raw materials closely and adjust our raw material inventory policy from time to time with due consideration of the price fluctuations of raw materials. In anticipation of any material fluctuations of certain types of raw materials, we may adopt measures including increasing our inventory level of such raw materials, enhancing procurement resources by communicating with suppliers for better terms, increasing the amount of prepayments to secure supplies and exploring other alternative/substitute materials. In addition, our customers generally place purchase orders after we have provided samples and fee quotation to them and we produce in accordance with the specific requirements set forth in the purchase orders. We, therefore, have knowledge of the requisite raw materials ahead, so as their estimated costs. As a result, we are generally able to transfer the increase in the costs of raw materials to our customers. However, we cannot assure you that there would not be any disruptive surge in the costs of raw materials after confirming the price of our products in the purchase orders with our customers. In such situation, we might not be able to pass the increase in the

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costs of raw materials to our customers. As there is only a short time interval between the receipt of purchase orders and our procurement of raw materials, our Directors believe that this price risk is not likely. During the Track Record Period and up to the Latest Practicable Date, we had not encountered the occurrence of such situation.

Although the average purchase price of the cotton we purchased in the PRC is in general higher than the average purchase price of cotton of the international market and we believe that such relatively higher price of cotton in the PRC will have adverse impact on the textile market in the PRC especially for the domestic cotton yarns manufacturers who purchase cotton in the PRC, our Directors believe that the impact caused by the higher market price of cotton in the PRC on our financial and operation positions is not material due to the following reasons:-

1. Our customers generally place purchase orders after we have provided samples and fee quotation to them. Our customers may opt for other raw materials if the price of cotton is too high, or if our customers opt for cotton, we are able to pass on the increase in the purchase cost of our raw materials to our customers.
2. As a result of the vertical expansion into yarns business in May 2012, we are able to lower the production cost of fabrics to a certain extent, which could help maintain our competitiveness in the fabric market.

Our Directors consider that the above arrangement helps mitigating the negative effect of the fluctuation of the market price of cotton in the PRC on our financial performance. We managed to sustain a continuous growth in our revenue and profit from continuing business during the Track Record Period at a CAGR of 73.8% and 79.4%, respectively, and have been able to maintain our gross profit margin at 16.2%, 18.7% and 18.7%, respectively, during the same period notwithstanding that our average purchase price of cotton in the PRC is generally higher than those in the international market.

Suppliers

As at 31 December 2013, we had over 135 suppliers in total for our fabric business segment and our major suppliers have had business relationship with us for more than five years. We had over 13 suppliers in total for our yarn business segment and our major suppliers have had business relationship with us since 2012. Our suppliers include manufacturers and trading companies of yarns, fibres and cotton. During the Track Record Period, all of our purchases were made with suppliers located in the PRC.

To ensure the quality of our raw materials, we have implemented an assessment and selection procedure in selecting our suppliers. Our procurement staff will conduct a background assessment on each potential supplier before admitting them to our qualified supplier list. We will assess and evaluate the potential suppliers on various aspects including their scale of operation, quality control, pricing, delivery time, compliance with relevant laws and regulations and reputation. To be our qualified supplier, the supplier should have (i) a valid business licence; (ii) business operation facilities in accordance with the relevant laws and regulations in the PRC; and (iii) good reputation and integrity in the industry.

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We also carry out evaluation and assessment of our existing suppliers from time to time. Suppliers that repeatedly fail to meet our requirements will be removed from our list of qualified suppliers. As we do not foresee any significant difficulty in sourcing alternate suppliers for our raw materials, we do not enter into any long-term supply agreement with our suppliers. We place individual purchase orders with our suppliers after we have received sales orders from customers. We believe this arrangement provides us with the higher flexibility in choosing our suppliers and obtaining a competitive price.

Our suppliers generally grant us a credit period of 15 to 180 days upon delivery of raw materials to us. We principally settled our suppliers in Renminbi by telegraphic transfer or bank acceptance bills.

For the years ended 31 December 2011, 2012 and 2013, our five largest suppliers accounted for approximately 44.3%, 30.1% and 37.1%, respectively, of our total purchases, and our largest supplier accounted for approximately 11.9%, 9.8% and 9.6%, respectively, of our total purchases. Our Directors confirmed that each of our five largest suppliers are Independent Third Parties and none of our Directors, their respective associates or any Shareholder holding more than 5% of the issued share capital had any interest in any of these five largest suppliers during the Track Record Period.

We had not experienced any material disruption or dispute in supply during the Track Record Period. We did not engage in any hedging activity nor enter into any futures contract to manage the price fluctuation of our raw materials during the Track Record Period.

Prepayments made to suppliers

As at 31 December 2011, 2012 and 2013, the outstanding amount of prepayments to our suppliers for purchase of raw materials was approximately RMB30.4 million, RMB44.4 million and RMB41.5 million, respectively. We make prepayments to some of our suppliers mainly in the following circumstances for the purpose of securing supply of raw materials and reducing our production cost:-

- where we need specific types of raw materials, in particular, yarns, in the production of our fabrics;
- where there is a possibility of shortage of supply; and/or
- where discounts ranging from 5% to 10% will be offered to us if we make certain payments in advance.

Terms of prepayments were reached after arm's length negotiations between our Group and our suppliers and set out in our purchase orders. In determining the amount of prepayments, we take into account the above factors and also the historical relationship and record with our suppliers. The amount of prepayments to our suppliers in general represents approximately 10% to 40% of the purchase price. Our prepayments are generally subject to refund if the supplier fails to deliver the raw materials on a timely basis. During the Track Record Period, we did not experience any material failure of our suppliers in the delivery of raw materials nor substantial amount of refund.

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The increase in the prepayments to suppliers from 2011 to 2012 was principally due to:-

- (a) the increase in our production capacity and volume throughout the Track Record Period, and our total purchases of raw materials increase correspondingly; and
- (b) our increase in the use of specific yarns for production of fabrics with requirements and specifications specifically requested by our customers.

The decrease in the prepayments to suppliers from 2012 to 2013 was in line with our decrease in the proportion of the purchase of specific yarns to our total purchase in 2013.

The following table sets forth the total purchase amount, the amount of prepayments made and the amount of specific yarns purchased during the Track Record Period:-

	Year ended 31 December					
	2011		2012		2013	
	RMB'000	% of total purchase	RMB'000	% of total purchase	RMB'000	% of total purchase
Total purchase amount	247,321	—	281,846	—	576,625	—
Amount of prepayments made (<i>Note</i>)	30,398	12.3	44,391	15.8	41,539	7.2
Amount of specific yarns purchased	58,980	24.3	79,491	30.0	113,966	19.8

Note: Being the balance as at the end of the year as indicated above.

The aging of our prepayments to suppliers during the Track Record Period are as follows:-

	Percentage of prepayments		
	2011	2012	2013
Within 3 months	51.3%	96.1%	92.0%
4 to 6 months	16.5%	2.1%	7.3%
Over 6 months	32.2%	1.8%	0.7%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

As at the Latest Practicable Date, approximately 92.3% of all outstanding prepayments to suppliers as at 31 December 2013 has been subsequently applied to settle the purchase prices of purchases made by us with the relevant suppliers.

To the best knowledge and belief of our Directors, making prepayments to our suppliers to secure supply of specific types of raw materials and to mitigate the risk of shortage of supply is in line with the general industry practice.

We will continue making prepayments to our suppliers in the future where it is necessary to secure raw materials supply and provides us the benefit of a lower raw materials purchase cost. In making such prepayments, we will evaluate the potential benefits against the potential risks which may be incurred. We will only make prepayments to selected suppliers who have good historical relationship and record with us.

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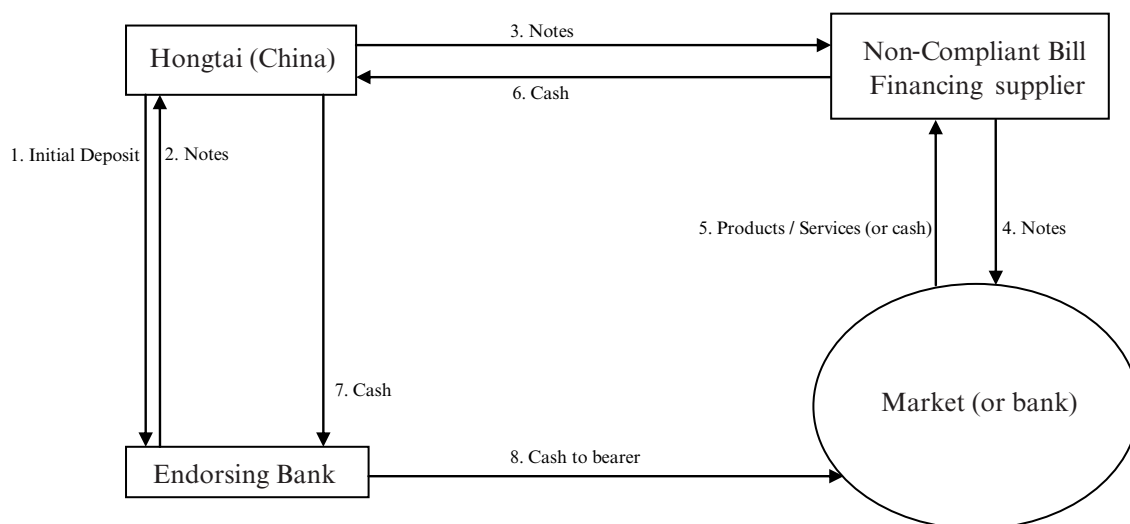
NON-COMPLIANT BILL FINANCING

Overview

From March 2010 to April 2012, Hongtai (China) entered into credit agreements with three PRC commercial banks (the “**Endorsing Banks**”) for issuance of bank acceptance notes as a type of credit facility. Within the stipulated credit limits of these credit agreements, Hongtai (China) issued bank acceptance notes to certain of our suppliers as payments for purchase of raw materials. The total amount of some of the bank acceptance notes Hongtai (China) issued to two of our independent suppliers exceeded the amount of actual purchase from the relevant suppliers. In July 2010, Hongtai (China) issued bank acceptance notes to Hong Tai Industrial to settle the purchase payment in relation to yarns which we originally intended to purchase from Hong Tai Industrial. The transaction with Hong Tai Industrial did not proceed and Hong Tai Industrial remitted to us the purchase price. These suppliers presented these bank acceptance notes to the banks or used these notes to settle its transactions in the market, and they remitted to Hongtai (China) the balance equivalent to the difference between the face value of the bank acceptance notes and the actual amount of purchase of the relevant transaction. As such, certain proceeds from the bank acceptance notes were used by Hongtai (China) for purposes other than for payment of the purchases from the relevant suppliers.

Our PRC Legal Adviser is of the view that such bill financing transactions did not comply with the terms of the relevant credit agreements, the PRC Negotiable Instrument Law (in particular Article 10 which states that bank bills must be issued on the basis of actual underlying transactions) and certain banking regulations promulgated by the PBOC, including the Measures for the Implementation of the Administration of Negotiable Instrument (《票據管理實施辦法》), the Measures for the Payment and Settlement (《支付結算辦法》) and the Notice of the PBOC on Certain Improvements of the Negotiable Instrument Systems (《中國人民銀行關於完善票據業務制度有關問題的通知》) (the “**Non-Compliant Bill Financing**”).

The chart below illustrates the flow of the Non-Compliant Bill Financing transactions:-



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Notes:-

1. Hongtai (China) placed initial deposit at the bank accounts maintained with the Endorsing Banks. The amount of the deposits were generally not less than 30% of the face value of the respective bank acceptance note to be issued and were accounted for as restricted bank deposit.
2. The Endorsing Banks issued bank acceptance notes under the relevant credit agreements. Face value of the notes was accounted for as note payables to suppliers.
3. Hongtai (China) delivered the bank acceptance notes to the Non-Compliant Bill Financing suppliers.
4. Non-Compliant Bill Financing suppliers used these notes to settle its transactions with other parties or presented these notes to banks.
5. If Non-Compliant Bill Financing suppliers used these notes to settle its transactions, it received products / services in return whereas if it presented them to the banks, it received cash in return.
6. Non-Compliant Bill Financing supplier remitted in cash the balance equivalent to the difference between the face value of the bank acceptance notes and the actual amount of the relevant transactions.
7. Hongtai (China) settled the bank acceptance notes with restricted bank deposits initially placed, with the remaining balance paid by cash before maturity of the bank acceptance notes. All bank acceptance notes issued by Hongtai (China) during the Track Record Period matured in six months.
8. Endorsing Banks paid cash to the bearer of the notes on date of maturity.

Hongtai (China) ceased the issuance of bank acceptance notes for the purpose of the Non-Compliant Bill Financing since May 2012 and fully settled all such bank acceptance notes in October 2012. Hongtai (China) has also implemented measures to strengthen its internal controls. Other than the aforesaid purchase intended to be made with Hong Tai Industrial in 2010, our Group had not purchased any raw materials from Hong Tai Industrial during the Track Record Period.

The aforesaid bank acceptance notes were issued with the following typical terms and conditions:-

1. the bank acceptance notes were secured by pledged bank deposits of not less than 30.0% of the face value of the bank acceptance notes with interest charged at prevailing bank interest rate; and
2. Hongtai (China) would make repayment on the payable amount of the bank acceptance notes on maturity date.

As advised by our Directors, the principal reasons for our Non-Compliant Bill Financing transactions were to obtain additional source of financing and to lower our overall finance costs. Our Directors believe that the main reason for the Non-Compliant Bill Financing suppliers to engage in

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the Non-Compliant Bill Financing transactions was to maintain good business relationships with Hongtai (China). Our Directors confirmed that they or any of their respective associates did not receive any amount as rebate or benefits in connection with the Non-Compliant Bill Financing transactions during the Track Record Period.

Effect on our financial position

We used the proceeds from the Non-Compliant Bill Financing transactions as working capital to help finance part of our daily operations.

The following table sets forth the key financial information in respect of the Non-Compliant Bill Financing transactions:-

	Year ended	
	31 December	
	2011	2012
	<i>RMB'000</i>	<i>RMB'000</i>
Face value of the bank acceptance notes	59,503	61,658
The actual transaction amount with relevant suppliers	18,203	36,358
Total amount of funds obtained from the Non-Compliant Bill Financing transactions during the year (<i>note 1</i>)	41,300	25,300
Outstanding balance of the amount of Non-Compliant Bill Financing as at the year end	41,300	—
Total borrowings from banks and other financial institutions	128,749	111,743
Amount of interest saved (<i>note 2</i>)	671	1,435
Tax effect (<i>note 3</i>)	84	373

Notes:

1. This amount is equal to the difference between face value of the bank acceptance notes and the actual transaction amount with relevant suppliers.
2. The calculation is based on the amount of funds obtained from the Non-Compliant Bill Financing minus the relevant amount of pledged bank deposits, then multiplied by the weighted average effective interest rate on borrowings from banks and other financial institutions as disclosed in note 15(a) to the Accountant's Report as set out in Appendix I to this prospectus.
3. The tax effect is calculated based on the interest savings multiplied by the applicable effective tax rate as disclosed in note 24 to the Accountant's Report as set out in Appendix I to this prospectus.

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Given that (i) the Endorsing Banks have confirmed that Hongtai (China) has settled all relevant bank acceptance notes in relation to the Non-Compliant Bill Financing and they will not take any action against Hongtai (China), its shareholders, directors and senior management in respect of the Non-Compliant Bill Financing; (ii) the Shishi Branch of PBOC confirmed that no administrative penalty is promulgated in relation to the Non-Compliant Bill Financing under the current PRC laws and regulations, and it would not impose any administrative penalty or take legal action against Hongtai (China), its shareholders, directors and senior management; and (iii) Shishi Office of Quanzhou Branch of CBRC (中國銀行業監督管理委員會泉州監管分局石獅辦事處) was verbally consulted and it acknowledged that (a) the bill financing activities of corporates are under the supervision of the competent PBOC and relevant commercial banks under the PRC Negotiable Instrument Law and relevant regulations; and (b) it has no objection if the relevant competent PBOC and commercial banks confirmed that they will not impose any administrative punishment on Hongtai (China), its shareholders, directors, senior management and/or relevant companies in relation to the Non-Compliant Bill Financing and it will not take further action against the aforesaid parties, the Directors are of the view that no penalty will be taken into account in the calculation of the minimum profit requirement.

In October 2012, Hongtai (China) settled all bank acceptance notes in relation to the Non-Compliant Bill Financing. Our Directors confirmed that the settlement of the outstanding bank acceptance notes did not and will not have a significant effect on our working capital.

No fraudulent activity was involved

Our Directors confirmed that no fraudulent, bribery or other illegal activities under the PRC Negotiable Instrument Law were involved in obtaining the Non-Compliant Bill Financing.

According to the PRC Negotiable Instrument Law, the following activities/events constitute fraudulent activities and acts of deception, namely (a) the act of forging or altering a negotiable instrument; (b) the act of deliberately using forged or altered negotiable instruments; (c) the act of issuing dishonourable cheques or deliberately issue cheques whose signature or seal does not tally with the signature or seal in the true name pre-submitted for counter-checking in order to obtain property by deception; (d) the act of issuing drafts or promissory notes without reliable sources of funds in order to obtain money by deception; (e) the act by the drawer of drafts or promissory notes to make false recordings at the time of draft in order to obtain property by deception; (f) the act of using negotiable instruments of others or deliberately using negotiable instruments overdue or voided in order to obtain property by deception; and (g) that a payer has committed one of the aforesaid acts in vicious collaboration with the drawer or holder.

Our Directors, on the following bases, are of the view that no fraudulent activity as prescribed under the PRC Negotiable Instrument Law was involved in the Non-Compliant Bill Financing transactions:-

1. the written confirmations from the three Endorsing Banks stating that they will not take actions against Hongtai (China), its shareholders, directors and senior management; and

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2. based on its understanding of the meaning of fraudulent activity under the PRC Negotiable Instrument Law, and on the basis of (i) the confirmations from Hongtai (China) and the relevant companies confirming that no fraudulent activity under PRC Negotiable Instrument Law was involved in obtaining the Non-Compliant Bill Financing and that all relevant bank acceptance notes were fully settled; (ii) the confirmations from the relevant Endorsing Banks; (iii) the confirmation from the Shishi Branch of PBOC; and (iv) the verbal consultation with Shishi office of Quanzhou Branch of CBRC, our PRC Legal Adviser is of the view that no fraudulent activity as prescribed by the PRC Negotiable Instrument Law was involved in the Non-Compliant Bill Financing transactions.

The Sole Sponsor, after considering the following, namely: (i) our Directors' view above; (ii) our PRC Legal Adviser's view above; (iii) the written confirmations from the three Endorsing Banks; (iv) the confirmations from Hongtai (China) and the relevant companies; (v) the confirmation from the Shishi Branch of PBOC; (vi) the verbal consultation with Shishi office of Quanzhou Branch of CBRC; and (vii) the advice from its legal adviser as to PRC law, Deheng Law Offices (Shenzhen), who concurred with our PRC Legal Adviser's view, concurred with our Directors' view that no fraudulent activity as prescribed under the PRC Negotiable Instrument Law was involved in the Non-Compliant Bill Financing transactions.

Senior management's involvement in the Non-Compliant Bill Financing

The Non-Compliant Bill Financing transactions were approved by Mr. Qiu, our executive Director and the general manager of Hongtai (China). Mr. Qiu is responsible to oversee our procurement department and he has been generally authorised by our Board to do things in relation to procurement including the approval of the Non-Compliant Bill Financing transactions and our Board as a whole was aware of Mr. Qiu in approving such transactions. Our Directors believe that such kind of arrangement was not an uncommon capital raising method used by enterprises in the PRC to obtain working capital at lower interest rate. Besides, Mr. Qiu and any of the Board members did not have the relevant legal knowledge at the time when Mr. Qiu authorised such Non-Compliant Bill Financing transactions and were not adequately advised by professionals on matter pertaining to bill financing and was not aware that the Non-compliant Bill Financing transactions did not comply with the relevant PRC laws when such transactions were entered into. Our Directors confirmed that the Board members only became aware that the Non-Compliant Bill Financing transactions had not complied with the relevant PRC laws when they were informed by our PRC Legal Adviser in the course of our preparation for the Listing. Our Directors confirmed that they had no intention to obtain and had not obtained any personal benefit directly or indirectly from the Non-Compliant Bill Financing transactions.

Confirmations from the relevant PRC Government authorities, the relevant Endorsing Banks, and the Directors

PBOC is responsible for monitoring bill financing activities in the PRC while CBRC is the regulatory authority overseeing commercial banks and their operations in the PRC. As confirmed by our PRC Legal Adviser, the Shishi Branch of PBOC (中國人民銀行石獅市支行) and Shishi Office of Quanzhou Branch of CBRC (中國銀行業監督管理委員會泉州監管分局石獅辦事處) are the competent and appropriate PRC Government authorities to be consulted in respect of the Non-Compliant Bill Financing.

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The Shishi Branch of PBOC confirmed that no administrative penalty is promulgated in relation to the Non-Compliant Bill Financing under the current PRC laws and regulations, and it would not impose any administrative penalty or take legal action against Hongtai (China), its shareholders, directors and senior management. The PRC Legal Adviser confirmed that according to the PRC People's Bank Law (《中華人民共和國中國人民銀行法》) and the Procedures on Administrative Penalties of the People's Bank of China (《中國人民銀行行政處罰程序規定》), the Shishi Branch of PBOC has the authority to issue the confirmation without the approval of the PBOC at the provincial level. As at the Latest Practicable Date, Hongtai (China) had not received any notice of formal investigation or inquiry in respect of the Non-Compliant Bill Financing from the Shishi Branch of the PBOC. Shishi Office of Quanzhou Branch of CBRC (中國銀行業監督管理委員會泉州監管分局石獅辦事處) was verbally consulted and it acknowledged that (i) the bill financing activities of corporates are under the supervision of the competent PBOC and relevant commercial banks under the PRC Negotiable Instrument Law and relevant regulations; and (ii) it has no objection if the relevant competent PBOC and commercial banks confirmed that they will not impose any administrative punishment on Hongtai (China), its shareholders, directors, senior management and/or relevant companies in relation to the Non-Compliant Bill Financing and it will not take further action against the aforesaid parties. Our PRC Legal Adviser confirmed that the Shishi Office of Quanzhou Branch of CBRC is the appropriate and competent government authority to advise on the aforesaid matters and that the officer of Shishi Office of Quanzhou Branch of CBRC with whom we verbally consulted is in the position with the appropriate authority to attend the consultation and provide the above confirmation.

The Endorsing Banks have confirmed that Hongtai (China) has settled all relevant bank acceptance notes in relation to the Non-Compliant Bill Financing and they will not take any action against Hongtai (China), its shareholders, directors and senior management in respect of the Non-Compliant Bill Financing. The PRC Legal Adviser confirmed that according to the PRC Negotiable Instrument Law (《中華人民共和國票據法》), the PRC Commercial Banking Law (《中華人民共和國商業銀行法》) and the PRC Contract Law (《中華人民共和國合同法》), the three Endorsing Banks, being the issuing banks, are in the position with the appropriate and legal authority to issue the confirmations.

Each of our executive Directors also confirmed that (i) save and except for the Non-Compliant Bill Financing transactions approved by Mr. Qiu and conducted between March 2010 and April 2012, each member of our Group (including its respective directors and senior management) was not involved in the Non-Compliant Bill Financing transactions or any other non-compliant bill financing activities; (ii) Mr. Qiu did not obtain any personal benefit directly or indirectly from the Non-Compliant Bill Financing transactions; and (iii) Mr. Qiu understood that our Group would need to take remedial action to prevent the Non-Compliant Bill Financing transactions from further occurrence.

The Sole Sponsor confirmed that, based on (i) the opinion of the PRC Legal Adviser that the confirmations were issued by competent government authorities and banks; and (ii) the advice from Deheng Law Offices (Shenzhen), the legal adviser to the Sole Sponsor as to PRC law, who also concurred with the view of our PRC Legal Adviser in this respect, nothing has brought to the Sole

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Sponsor's attention that the confirmations issued by the three Endorsing Banks and the Shishi Branch of PBOC were not obtained from competent government authorities and banks, and the verbal consultation with Shishi Office of Quanzhou Branch of CBRC was not with a competent government authority.

Opinion of our PRC Legal Adviser on the Non-Compliant Bill Financing transactions

Our PRC Legal Adviser advised us that the Non-Compliant Bill Financing transactions Hongtai (China) had entered into were not in compliance with the terms of the relevant credit agreements, the PRC Negotiable Instrument Law (in particular Article 10 which states that bank bills must be issued on the basis of actual underlying transactions) and certain banking regulations promulgated by the PBOC.

Our PRC Legal Adviser also advised that there is no express provision in the laws, rules and regulations in the PRC which impose administrative or criminal liability for Non-Compliant Bill Financing transactions. In addition, our PRC Legal Adviser further advised that (a) the relevant Endorsing Banks were not entitled to claim against us on the interest saved by Hongtai (China) as a result of the Non-Compliant Bill Financing transactions according to the PRC Negotiable Instrument Law and the relevant agreements entered into between Hongtai (China) and the relevant Endorsing Banks; and (b) each of the suppliers and Hong Tai Industrial has no legal basis to make any claims against Hongtai (China).

Strengthening our internal control system and corporate governance measures

We have not entered into any Non-Compliant Bill Financing transactions since May 2012 and settled all such bank acceptance notes in October 2012. Since the cessation of the Non-Compliant Bill Financing arrangements, we have undertaken a series of measures to improve our corporate governance and internal controls to prevent future occurrence of the Non-Compliant Bill Financing.

The following table sets forth the rectification measures and the status of our rectification work:-

<i>Suggested rectification measures</i>	<i>Status of rectification work</i>
1. Notify all of our employees and management engaging in our bill financing activities that bill financing without any underlying transactions is forbidden and no senior management in charge of our bill financing may approve any bill financing without any underlying transactions.	Implemented since January 2013
2. Amend our approval procedures for bill financing transaction. For all bill financing transactions, our finance manager and general manager will review the transactions and their approval is required after the finance accountant checks and verifies the genuineness of the underlying transactions.	Implemented since January 2013

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<i>Suggested rectification measures</i>	<i>Status of rectification work</i>
3. Implement a policy that any employee or management who has breached the above measures regarding bill financing activities will be subject to various disciplinary actions and will be financially and legally liable.	Implemented since July 2013
4. Provide preliminary training to employees involved in financing activities about our new policy and the consequence of non-compliance with the relevant PRC laws and regulations in relation to bill financing without support of underlying transactions.	Completed in February 2013
5. In addition to our internal trainings, our Directors and senior management to obtain advice from our Hong Kong legal advisers and PRC legal advisers on the PRC regulations about bill financing and the obligations of our Company and our Directors under the Listing Rules.	Completed in July 2013
6. To conduct regular internal trainings to our employees and management on our compliance policy and engage external professionals, including our Hong Kong legal advisers and PRC legal advisers, to conduct trainings on our ongoing compliance and obligations under the Listing Rules and all other Hong Kong and PRC regulations to ensure awareness and compliance of the policies.	On-going
7. Our finance manager and chief financial officer to review our internal control systems and procedures on a regular basis and report to our general manager accordingly.	Implemented since July 2013
8. Our internal audit department to review and monitor our bill financing activities on a quarterly basis, conduct random checks and report its findings to our chief financial officer and audit committee.	Implemented since July 2013
9. An audit committee comprising three independent non-executive Directors to review and supervise our internal control systems and procedures for compliance with the requirements of the Listing Rules.	To be implemented upon Listing

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<i>Suggested rectification measures</i>	<i>Status of rectification work</i>
10. To disclose the non-compliant bill financing activities identified, if any, in our first annual report after the Listing.	To be implemented after Listing

In April 2013, we engaged an independent consulting firm as our internal control consultant (the “**Internal Control Consultant**”) to perform an internal control review engagement (the “**Internal Control Review**”) with reference to the Technical Bulletin — AATB 1 Assistance Options to New Applicants and Sponsors in connection with Internal Controls over Financial Reporting, issued in March 2008 by the Auditing and Assurance Standards Committee of the Hong Kong Institute of Certified Public Accountants to review and comment upon the design and implementation of selected internal control procedures over financial reporting, which included certain underlying controls over revenue and receivables, purchase and payables, fixed assets and construction, inventory and costing, financial reporting, human resources and payroll, treasury and company level controls at Hongtai (China). The Internal Control Review was conducted based on information we provided and no assurance or opinion on internal controls was expressed by the Internal Control Consultant. At the conclusion of the Internal Control Review in April 2013, the Internal Control Consultant reported to us that it had identified certain deficiencies in our internal control procedures and made corresponding recommendations to address these deficiencies. Since then, we have been taking active measures to remediate the deficiencies identified in the Internal Control Review. The Internal Control Consultant conducted follow-up review in August 2013 and January 2014 and confirmed that it had no further comments or recommendations with regard to the design and implementation of the remediated internal controls over those areas where deficiencies and weaknesses had been identified.

In addition, in August 2013 and January 2014, we requested the Internal Control Consultant to review the design and implementation of our remedial controls to the issuance and discounting of bank acceptance notes of Hongtai (China), covering the period from 1 January 2013 to 31 July 2013 and period from 1 August 2013 to 31 December 2013. The internal control review was conducted based on information provided by our Company and no assurance or opinion on internal controls was expressed by the Internal Control Consultant. Our Internal Control Consultant has reported to our Company that it has not raised any material negative findings regarding the remediated internal controls over the issuance and discounting of bank acceptance notes of Hongtai (China) at the end of July 2013 and December 2013, respectively.

To ensure that our Directors will be fully aware of their duties and responsibilities as directors of a listed company, and be kept abreast of the Listing Rules and legal requirements in Hong Kong and the PRC, we have established a compliance manual setting the corporate governance policies for compliance with the Listing Rules. Our PRC Legal Adviser has provided a training session to our Directors and senior management in respect of the Non-Compliant Bill Financing transactions in the PRC and the measures to be taken to prevent the same from re-occurring. 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 adviser to our Directors and senior management after the Listing.

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We will 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 Guotai Junan Capital Limited 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 the Listing.

We have also established a Regulatory Compliance Committee on 26 February 2014, detailed information of which are set forth in the paragraph headed “Business — Internal control” of this prospectus.

In addition, we have engaged an independent external consultant in April 2014 for at least next 12 months after the Listing to monitor our bill financing activities periodically and to provide reports for our audit committee to review. Findings of the consultant will be disclosed in the corporate governance report of our annual report for the first full financial year after the Listing.

In accordance with Rule 3A.11(2) of the Listing Rules, the Sole Sponsor has made reasonable due diligence inquiries and based on the measures taken by us as set forth in the paragraph headed “Business — Non-Compliant Bill Financing — Strengthening our internal control system and corporate governance measures” of this prospectus, the Sole Sponsor has reasonable grounds to believe that our Company has established adequate and effective procedures, systems and controls (including accounting and management systems).

Indemnity from the Covenantors

Each of the Covenantors, has undertaken to fully indemnify us from any and all liabilities arising from the Non-Compliant Bill Financing transactions.

SALES

During the Track Record Period, all of our sales were domestic sales to customers located in the PRC. Our customers place purchase orders with us directly and we have not appointed any sales agent or distributors.

Sales of our products are to a certain extent affected by seasonality. The fourth quarter is generally the peak seasons for our sales due to the higher demand by our customers during the period before the Chinese New Year holiday whereas our sales around the Chinese New Year holiday are usually lower. In addition, there are other factors relevant to seasonality which may affect our sales, such as weather conditions, the timing of launch of new products and the timing of delivery of products.

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Sales breakdown by geographical regions in the PRC

The following table sets forth the breakdown of the revenue of our products by geographical regions in the PRC during the Track Record Period:-

Provinces/ regions	Year ended 31 December								
	2011			2012			2013		
	% to total			% to total			% to total		
	Amount	revenue		Amount	revenue		Amount	revenue	
	Rank	(RMB' 000)	(%)	Rank	(RMB' 000)	(%)	Rank	(RMB' 000)	(%)
Fujian	1	223,849	85.4	1	315,626	77.9	1	689,972	87.2
Zhejiang	2	10,323	3.9	2	23,296	5.7	2	39,196	5.0
Guangdong	3	8,814	3.4	4	18,376	4.5	3	26,438	3.3
Hubei	9	769	0.3	5	14,905	3.7	4	12,062	1.5
Jiangxi	8	1,365	0.5	3	18,887	4.7	5	11,229	1.4
Jiangsu	5	4,786	1.8	6	6,196	1.5	6	7,428	0.9
Shanghai	6	2,496	1.0	7	2,301	0.6	7	1,690	0.2
Guangxi	13	256	0.1	17	85	—	10	427	0.1
Others		9,414	3.6		5,614	1.4		3,076	0.4
Total		262,072	100.0		405,286	100.0		791,518	100.0

For the years ended 31 December 2011, 2012 and 2013, approximately 85.4%, 77.9% and 87.2%, respectively, of our revenue were attributable to sales to customers located in the Fujian Province. Our Directors confirmed that many of our customers based in Fujian were recurring customers during the Track Record Period. Over the years, we have been placing efforts in expanding our sales to other provinces of the PRC, and as a result of such efforts, our sales in terms of sales amount to provinces including Zhejiang, Jiangsu and Guangdong increased over the Track Record Period. We will continue to diversify our sales to other provinces in the PRC. With the commencement of operation of the first phase of our Hubei Production Facilities, we expect our sales to customers in Hubei and the provinces nearby will increase in the future.

Sales breakdown by customer types

The following table sets forth a breakdown of the revenue by nature of customers during the Track Record Period:-

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Apparel manufacturers	215,876	266,464	401,777
Trading companies	46,196	94,198	279,390
Fabrics weaving companies	—	44,624	110,351
Total	262,072	405,286	791,518

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Our customers

We have established business relationship with most of our customers for one to three years.

Fabrics

All of our fabrics customers during the Track Record Period are located in the PRC. Our customer base grows along with a wider variety of fabrics we offered. Our fabric customers are primarily trading companies and branded apparel manufacturers in the PRC. The number of customers of our fabric products was 384, 375 and 401, respectively, for the years ended 31 December 2011, 2012 and 2013, of which 50, 50 and 65, respectively, were trading company customers.

Revenue from the sales to trading company customers increased by approximately 196.6% from approximately RMB94.2 million in 2012 to approximately RMB279.4 million in 2013. Our Directors believe that such significant increase was primarily due to our efforts in developing the business relationship with trading company customers which grew from 50 in 2012 to 65 in 2013 and the increase of our product types offered to trading companies from 50 types in 2012 to 168 types in 2013 so as to satisfy more customers' needs.

Trading companies

To the best knowledge and belief of our Directors, our trading company customers principally engage in the trading fabrics and thus, would further sell our fabrics to their own customers including apparel manufacturers. Other than Hong Tai Industrial and Jia Lun Textile, our trading company customers are Independent Third Parties. During the Track Record Period, we generally granted a credit period of 90 days to our trading company customers, which was in line with the credit period offered to other customers. Other than Hong Tai Industrial which contributed approximately 13.2% of our total revenue (including revenue attributable to the discontinued business) for the year ended 31 December 2011, we did not have concentration of sales to any particular trading company customer and none of the trading company customers contributed more than 10% of our revenue for each of the years ended 31 December 2011, 2012 and 2013. We did not enter into any agency or distribution agreement with any of them.

Hong Tai Industrial and Jia Lun Textile were our connected persons under the Listing Rules. Hong Tai Industrial is a company established in the PRC and was controlled by Mr. Lin up to June 2012. Jia Lun Textile is a company established in the PRC and was controlled by the son of Mr. Lin up to July 2012.

We continue to sell to Hong Tai Industrial and Jia Lun Textile after their cessation to be our connected persons.

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The following table sets forth our sales made to Hong Tai Industrial and Jia Lun Textile in approximate amount during the Track Record Period:

Sales to Hong Tai Industrial

	For the year ended 31 December					
	2011		2012		2013	
	% to total		% to total		% to total	
	revenue of		revenue		revenue	
	RMB'000	our apparel business	RMB'000	revenue	RMB'000	revenue
Apparel	40,981	83.6	—	—	—	—
Fabrics	—	—	6,542	1.6	11,421	1.4

Sales to Jia Lun Textile

	For the year ended 31 December					
	2011		2012		2013	
	% to total		% to total		% to total	
	revenue		revenue		revenue	
	RMB'000	revenue	RMB'000	revenue	RMB'000	revenue
Fabrics	16,901	6.4	22,789	5.6	37,989	4.8

Apparel manufacturers

The apparel manufacturers include branded apparel manufacturers such as Lilang (China) Co., Ltd. (利郎(中國)有限公司), Fordoo China Company Limited (虎都(中國)男裝有限公司) and STAVA (China) Co., Ltd. (斯得雅(中國)有限公司) which, to the best knowledge and belief of our Directors, will use our fabrics in the production of some of their apparel products. Lilang (China) Co., Ltd. whose brand, is considered as one of the leading PRC menswear brands, was one of our five largest customers during the Track Record Period. We established business relationship with Lilang (China) Co., Ltd. since 2010.

Other than placing sales orders for the fabric products we offered, in some cases, our customers may provide us with samples and requisite features and specifications. We will research and conduct various testings to develop fabrics in order to meet their requirements. In some cases, we will take the initiatives in developing new fabric products and promote these new products to our customers.

Yarns

Other than the yarns produced which is used by us, the customers for our yarns products are fabrics weaving companies in the PRC. To the best knowledge and belief of our Directors, the fabrics weaving companies use our yarns as raw materials in their production. The number of customers of our yarns business was 28 and 41, respectively, for the years ended 31 December 2012 and 2013.

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No influence on our customers

During the Track Record Period, we sold our products directly to our customers, and to the best knowledge and belief of our Directors, our trading company customers further sell our products to their own customers, and our customers who are apparel manufacturers and fabric weaving companies, would use our products for their own production. Other than return of defective products, products sold to our customers are not subject to return or refund. We do not have any influence on our customers as to their distribution channel, pricing and end-customers.

Connected customers

Hong Tai Industrial

During the year ended 31 December 2011, we sold apparel to Hong Tai Industrial. Our sales to Hong Tai Industrial in 2011 amounted to approximately RMB41.0 million, representing approximately 83.6% of our total revenue generated from our apparel business in the same year. Hong Tai Industrial was our largest customer of our apparel business in 2011. As we did not have a well-established sales team for apparel, we sold our apparel to Hong Tai Industrial in 2011. During the years ended 31 December 2012 and 2013, we sold fabric products to Hong Tai Industrial. Our sales to Hong Tai Industrial in 2012 and 2013 amounted to approximately RMB6.5 million and RMB11.4 million, respectively, representing approximately 1.6% and 1.4%, respectively, of our total revenue in the same period. As Hong Tai Industrial has its own sales force for the further sale of textile products in the PRC, we sold our fabrics products to Hong Tai Industrial in 2012 and 2013.

Hong Tai Industrial was a PRC enterprise established on 24 June 2009 and was owned as to 70.0% by Mr. Lin until June 2012. It principally engages in the business of trading and distribution of textile products in the PRC and overseas. We continued to sell our fabrics products to Hong Tai Industrial after Mr. Lin's disposal of his equity interests in Hong Tai Industrial in June 2012. The revenue attributable to the sales of fabric products to Hong Tai Industrial after Mr. Lin's disposal of his equity interests in June 2012 up to 31 December 2012 amounted to approximately RMB3.9 million. Sales in the amount of RMB11.4 million were recognised from Hong Tai Industrial during the year ended 31 December 2013, representing approximately 1.4% of our total revenue during the same year. Our Directors confirmed that the terms of the transactions with Hong Tai Industrial were similar to those of the transactions with other customers who are Independent Third Parties. Our Directors further confirmed that the terms of the sales to Hong Tai Industrial were determined after arm's length negotiation and on normal commercial terms, both prior to and subsequent to the disposal. The apparel we sold to Hong Tai Industrial was not subject to return or refund other than by reasons of defective products. We did not have any influence on Hong Tai Industrial as to its distribution channel, pricing and end-customers. For the year ended 31 December 2011, we did not experience any return of products by Hong Tai Industrial. In June 2012, Mr. Lin disposed all of his equity interests in Hong Tai Industrial to an Independent Third Party, because Mr. Lin decided to focus on the business development of our Group. The consideration was based on the then registered capital of Hong Tai Industrial. Since then, Hong Tai Industrial ceased to be a connected person of our Company. The Independent Third Party is an individual who, to the best knowledge and belief of our Directors, engages in the textile trading business and Mr. Lin through the introduction by their common friend acquainted with the Independent Third Party for more than five years.

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In July 2010, we issued bank acceptance notes to Hong Tai Industrial to settle part of the purchase price of yarns we purchased from Hong Tai Industrial. Detailed information on the issued bank acceptance notes is set forth in the paragraph headed “Business—Non-Compliant Bill Financing” of this prospectus.

To the best knowledge and belief of our Directors, after the disposal of Hong Tai Industrial by Mr. Lin to the Independent Third Party in June 2012, Hong Tai Industrial still carries on its business under the Chinese name of “宏太(福建)實業發展有限公司”. As advised by our PRC Legal Adviser, the use of “宏太” in the Chinese name of “宏太(福建)實業發展有限公司” neither infringes our right regarding enterprise name nor infringes our intellectual property rights because (i) according to the relevant PRC laws and regulations, companies not in the same industry can use the same business name as their respective enterprise name and (ii) the right regarding enterprise name and intellectual property right are two different types of rights under the relevant PRC laws and regulations. However, infringement of our intellectual property rights may occur if the brands and trademarks of Hong Tai Industrial’s products are similar to those of our products and caused confusion among the public. We will continue to monitor if there is any mis-association of our Group with Hong Tai Industrial through the public sources and regular enquiry with Hong Tai Industrial to understand the latest business activities and development of Hong Tai Industrial. Should there be any misunderstanding that the products of Hong Tai Industrial were products of our Group, we will (a) promptly make clarification announcements through appropriate public media if necessary, (b) make a complaint to the relevant Industry and Commerce Administration Bureau and (c) take out the necessary legal proceedings to protect our intellectual property rights.

Jia Lun Textile

During the Track Record Period, we sold fabrics to Jia Lun Textile. Our sales to Jia Lun Textile for the years ended 31 December 2011, 2012 and 2013 amounted to RMB16.9 million, RMB22.8 million and RMB38.0 million, respectively, representing approximately 6.4%, 5.6%, and 4.8%, respectively, of our total revenue during the same period.

Jia Lun Textile was a PRC enterprise established on 25 November 2009 and was controlled by Mr. Lin Hong Peng, the son of Mr. Lin, until July 2012. Mr. Lin Hong Peng disposed of his entire equity interests in Jia Lun Textile to an Independent Third Party in July 2012 because of his personal commercial consideration and as such, Jia Lun Textile ceased to be a connected person of our Company since then. The Independent Third Party is an individual who, to the best knowledge and belief of our Directors, engages in the trading of textile products and acquainted with Mr. Lin Hong Peng through the introduction by a friend in 2010. The consideration was based on the then registered capital of Jia Lun Textile. It principally engaged in the business of trading of textile products. We have continued to sell our fabrics products to Jia Lun Textile after the disposal by Mr. Lin Hong Peng of his equity interests in July 2012. Revenue attributable to the sales of fabrics products to Jia Lun Textile after the disposal by Mr. Lin Hong Peng of his equity interests up to 31 December 2012 amounted to approximately RMB9.4 million. Revenue attributable to the sales to Jia Lun Textile for the year ended 31 December 2013 amounted to approximately RMB38.0 million. Our Directors

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confirmed that the terms of the transactions between our Group and Jia Lun Textile were similar to those of the transactions with other customers who are Independent Third Parties. Our Directors further confirmed that the terms of the sales to Jia Lun Textile were determined after arm's length negotiation and on normal commercial terms, both prior to and subsequent to the disposal.

Five largest customers

For the years ended 31 December 2011, 2012 and 2013, our five largest customers accounted for approximately 31.6%, 26.7% and 21.6%, respectively, of our total revenue from continuing business, and our largest customer accounted for approximately 9.3%, 7.5% and 4.8%, respectively, of our total revenue from continuing business.

Our Directors confirmed that save and except for Hong Tai Industrial and Jia Lun Textile, each of our five largest customers during the Track Record Period are Independent Third Parties and none of our Directors, their respective associates or any Shareholder holding more than 5% of the issued share capital had any interest in any of these five largest customers during the Track Record Period.

Pricing strategy

Our pricing strategy is based on a variety of factors including the raw material prices, production costs, market condition and the technical requirements of the products required by our customers.

The price of our products is determined on a "cost-plus" basis, comprising the price of the raw materials, the labour costs and a processing fee, which depends on the specifications and skills required for the relevant products. As a result of our "cost-plus" pricing strategy, our Directors believe that we can pass on the increase in purchase costs of raw materials to our customers.

The following table sets forth the average unit selling price by series of our fabrics products:-

	Year ended 31 December		
	2011	2012	2013
	RMB/metre	RMB/metre	RMB/metre
Interwoven fabric with multi-fibres series	16.7	18.9	19.7
Slub series	17.7	17.9	18.9
Blended fabric series	18.4	19.4	18.5
Stretch fabric series	17.2	21.0	19.9
Pure cotton series	13.1	26.1	22.3

Note:-

The average unit selling price was calculated by dividing the sales revenue of the relevant series by the sales volume in the same series.

The average unit selling price of our cotton yarns products was RMB20,230 per tonne and RMB19,725 per tonne, respectively, for the years ended 31 December 2012 and 2013.

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Payment terms and credit period

As at the Latest Practicable Date, we did not enter into long-term sales agreement with our customers. We enter into individual sales orders with our customers for sales of our products. The terms included in these sales order usually include specification of the product, unit price, volume, delivery terms and payment terms. Since our customers are based in the PRC, our sales are denominated in RMB. Payments are mainly settled by way of telegraphic transfer and bank acceptance bills.

We normally offer major customers with good repayment history a credit term of not more than three months. In general, we require prepayment ranging from 10% to 30% of the purchase price before delivery of products to new customers and non-recurring customers.

We believe that our control over our trade receivables is adequate. During the Track Record Period, we did not experience any major defaults in payments or bad debts from our customers.

Delivery and logistics

For products produced at our Shishi Production Facilities, our customers generally collect our products from our production facilities. For fabric products produced at our Shishi Production Facilities which require dyeing process, our customers are in general responsible for collecting the products at the production facilities of our subcontractors. In both cases, the transportation and delivery costs involved are generally borne by our customers. For products produced at our Hubei Production Facilities, it is our policy that we are responsible for arranging the transportation and delivery at our cost for those customers who are not situated near our Hubei Production Facilities whereas those customers who are situated in the locality of our Hubei Production Facilities are responsible for arranging the transportation at their own cost. We have not maintained any regular delivery team or delivery vehicles and are able to reduce our capital investment in logistics and during transit.

Risks and title of our products are passed to our customers upon their collection of or our delivery to them of our products.

ENTITIES WHO ARE OUR CUSTOMERS AND ALSO OUR SUPPLIERS

During the Track Record Period, to the best knowledge and belief of our Directors, nine of our customers and/or their related companies in the same group were also our suppliers. For the years ended 31 December 2011, 2012 and 2013, our sales to these nine customers accounted for approximately 11.1%, 4.8% and 7.5%, respectively, of our total revenue. During the same period, our purchase from such nine customers and/or their related companies accounted for approximately 7.0%, 4.7% and 4.2%, respectively, of our total purchase of raw materials. Gross profit for the sale of fabric products to these nine customers for the years ended 31 December 2011, 2012 and 2013 was approximately RMB4.3 million, RMB2.7 million and RMB8.7 million, respectively, and the gross profit margin was 14.8%, 13.8% and 14.7%, respectively. Gross profit margin for the sales to these nine customers is lower than our overall gross profit margin because of the following reasons. For the years ended 31 December 2011 and 2012, over 70% of our sales to these nine customers were primarily

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sales of grey fabrics which had generally lower gross profit margin. For the year ended 31 December 2013, approximately 39.7% and 34.9%, respectively of our sales to these nine customers were sales of grey fabrics and cotton yarns. Both of these two types of products in general had lower profit margin.

Based on their historical record and credit, we granted a credit period of not more than three months to these nine customers, which was in line with the credit period we granted to our other customers.

To the best knowledge and belief of our Directors, these entities and their ultimate beneficial owners are Independent Third Parties. These nine customers together with their related group companies principally engage in the manufacture of yarns, fabrics and apparel. Our Directors believe that it is not uncommon for a textile enterprise in the PRC to carry out manufacture of yarns, fabrics and apparel. We mainly purchased their yarns for our fabric production and we mainly sold our fabrics to them for their production of apparel. Although some of the apparel manufacturers also engage in the production of fabrics, they may not be able to supply all types of fabrics as required for their apparel production and thus, may need to purchase fabrics from us accordingly. Similarly, yarns produced by a textile enterprise may be for its own use and sales to other parties.

Negotiations of the terms of our sales to and purchases from these nine customers and/or their related group companies were conducted on individual basis and the sales and purchases were neither inter-connected nor inter-conditional with each other. Our Directors confirmed that, during the Track Record Period, the products we purchased from these nine customers and/or their related companies were not sold to these nine customers. The terms of transactions with these nine entities are in line with the market and similar to those transactions with our other customers and suppliers.

MARKETING AND PROMOTION

We adopt a customer-centered approach in marketing. In order to strengthen the relationship with our existing customers, our sales and marketing personnel pay visits to them from time to time to keep abreast the latest trend of the market and to explore further business opportunities.

Active marketing and promotion of our brand has been pivotal in strengthening our **MT** brand name and image in the PRC. We actively participated in various trade fairs and exhibitions to promote our products and to enhance our brand recognition in the textile and clothing industry. In 2012, we participated in China International Trade Fair (Autumn & Winter) for Apparel Fabrics and Accessories (中國國際紡織品面料及輔料 (秋冬) 博覽會) and in 2013, we participated in China International Trade Fair (Spring & Summer) for Apparel Fabrics and Accessories (中國國際紡織品面料及輔料 (春夏) 博覽會). Through participating in these exhibitions and trade fairs, we are able to broaden our customer base continuously.

In order to expand our sales network in the PRC, we established a sales team comprising five personnel in Hubei in July 2013 and intend to establish a sales commercial centre within our Hubei Production Facilities. Construction of the building for the sales commercial centre is expected to commence in the first half year of 2015. We also plan to establish sales offices in Guangzhou in Guangdong Province and Changshu in Jiangsu Province in 2014 each to station with two to three sales

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personnel to strengthen the existing relationship with our local customers and to reach potential customers. Our Directors believe that Guangzhou and Changshu are two well-established markets for fabrics trading due to the presence of apparel manufacturers in these two places. These sales offices can provide a more direct and effective channel for our products to reach potential clients. We can also communicate more efficiently with our clients and enhance our understanding of the market trend. Through the sales offices, we are able to expand our business and sales network outside Fujian Province. As at the Latest Practicable Date, no sales office has been established in Guangzhou and Changshu yet.

We also recognised the importance of promoting our products online. We entered into an agreement with an independent online platform service provider in 2010 and 2012, respectively, which enabled us to have an additional channel to promote our products.

RESEARCH AND PRODUCT DEVELOPMENT

Our Directors believe that continuous and innovative product development is important for us to maintain our competitiveness in the textile industry in the PRC. We also conduct market research to keep abreast of the latest trend in the clothing and textile industry.

Our research results and projects

Since the establishment of our research and development centre in 2008, we have enhanced our research and development capabilities focusing in various aspects including products quality and functions improvements, products diversifications and production efficiency and environmental protection enhancement. We also have the capabilities to provide them with tailor-made products. In 2008, our research project Bamboo Charcoal Fibre Fabric Textiles Pilot Project (竹炭纖維面料新產品開發項目) was recognised by Quanzhou Administration of Science and Technology as a “New Material” project in the Quanzhou City. The Bamboo Charcoal Fibre Fabric (竹炭纖維面料) developed from this research project was awarded by the People’s Government of Fujian Province as the “Famous Branded Product of Fujian Province” (福建省名牌產品) in November 2010. In April 2010, we became the National Casual Wear Cotton Fabric Woven Textiles Pilot Plant (國家棉休閒面料織造開發基地). Two of our research projects, namely, the Development and Application of Green Warp Size (綠色漿料的開發和應用), Interwoven Fabrics with Yarns of Multi-Fibres (多種纖維紗線交織面料) and Interwoven Fabric produced by Short Fibre Sizing Machines instead of Filament Sizing Machines (短纖漿紗機代替漿絲機生產交織面料), were recognised as important research projects of Shishi City in 2010, 2011 and 2012, respectively. In 2013, we commenced the research on the sizing mechanism based on ultrasonic-assisted forced infiltration and new sizing methods, targeting at enhancing the efficiency and energy-saving of the sizing process in the production of fabrics.

In April 2013, our research and development centre was recognised by the People’s Government of Quanzhou City as a City-level Corporate Technology Centre (市級企業技術中心).

Our research team

Our research team comprising 17 members, is led by Ms. Liu Xuemin, who has over 29 years of experience in the textile industry in the PRC. Ms. Liu graduated from Tianjin Institute of Textile

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Science and Technology (天津紡織工學院) with a major in textile engineering (紡織工程) in 1983. She was qualified as a senior engineer (高級工程師). Ms. Liu was appointed as a member of China Textile Engineering Society Cotton Textile Professional Committee Wearing Technology Group (中國紡織工程學會棉紡織專業委員會織造學組) in September 2003. Four members of our research team graduated from colleges and obtained diplomas in relevant industry. As a result of the efforts by our dedicated research team, we were able to offer 441 types of fabrics to our customers in 2013. As at the Latest Practicable Date, we have registered 14 utility patents in relation to certain methods and materials, one invention patent and applied for registration of two invention patents in relation to certain methods in the PRC. These patents have been used in the production of and applied in our products.

Our research activities do not require substantial capital commitment. Once the research facilities have been set up and the relevant equipment for conducting research activities have been installed, these facilities and equipment can be used for a long period of time with minimal maintenance expenses. Furthermore, as our research activities are carried out parallel to our day-to-day business operation, such research activities also do not involve substantial expenses. Our research and product development expenditures were approximately RMB1.7 million, RMB2.9 million and RMB4.5 million, respectively, for the years ended 31 December 2011, 2012 and 2013.

Accordingly, we believe we are well positioned to identify the upcoming trend in yarns and fabrics and we are able to react promptly to changes in market demand for textile products.

Co-operation with the Textile College of Tianjin Polytechnic University

With a view to strengthen our research and development capabilities on textile products and to enhance our existing production techniques, from time to time, we collaborated with academic institutions to research and develop technologies used in textile and clothing products.

We entered into a framework co-operation agreement with the Textile College of Tianjin Polytechnic University (the “**College**”) (天津工業大學紡織學院) in June 2012. Pursuant to the framework co-operation agreement, the parties agreed to cooperate in product research and training of research staff. The College is responsible for new technology research, new product research and research people training and our Group is responsible to research on the application of the technology, promote and market the technology and provide practical on-site training and employment opportunities to students. The researches under the framework co-operation agreement focused on fabrics for outer parts of apparel and improvements and upgrading of existing technology. The commercial returns of the jointly developed technology will be shared by our Group and the College on a proportion as stated in the specific agreement for the relevant research project. “Commercial returns” was not specifically defined or elaborated in such framework co-operation agreement. Such framework co-operation agreement also does not expressly prescribe the ownership of the technology and intellectual property rights jointly developed by our Group and the College. These are to be further agreed by the parties in the agreements in respect of the specific research projects.

In early 2013, Hongtai (China) entered into two specific research and development cooperation agreements with the College in relation to our production methods and raw materials used in our production. Pursuant to these two specific agreements, Hongtai (China) agreed to pay to the College

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an aggregate amount of RMB50,000 (the “**First Specific Agreement**”) and RMB80,000 (the “**Second Specific Agreement**”), respectively, as remuneration and the College agreed to complete the relevant researches by December 2014 and by December 2015, respectively. In August 2013, Hongtai (China) entered into a supplemental agreement in respect of the First Specific Agreement with the College pursuant to which a further amount of RMB30,000 would be paid by Hongtai (China) to the College as remuneration. Hongtai (China) also entered into a supplemental agreement in respect of the Second Specific Agreement with the College pursuant to which no further remuneration would be paid by Hongtai (China). It is also agreed that the intellectual property rights arising from the joint research and development will be owned by our Group. Our PRC Legal Adviser is of the view that the two specific research and development cooperation agreements together with the respective supplemental agreements entered into between us and the College in 2013 are valid and legally binding on the parties to the agreements, and are enforceable under PRC laws. Our Directors believe that the research results from the above cooperation can further enhance our technology level.

In September 2012, Casual Wear Cotton Fabrics Research and Development Centre (棉休閒面料研發中心) was established jointly by Hongtai (China) and the College with an aim to develop new fabric products and to improve the existing production techniques.

Starting from 2012, we have established the Post-doctoral Research Hongtai (China) Sub-station (博士後科研工作站宏太(中國)有限公司分站) with the College and People’s Government of Shishi City. Pursuant to this arrangement, holders of doctorate degrees would be assigned to our Group to engage in post-doctorate research projects in the textile industry. A team comprising our Mr. Zhang Wenwang, Ms. Liu Xuemin and the professor assigned by the College would provide guidance to the candidate in respect of his research project. The ownership of the intellectual property rights of the research project would be separately agreed between our Group and the candidate. By establishing the Post-doctoral Research Hongtai (China) Sub-station, we are able to draw resources from and share the research results of the post-doctorate degree holders, and this in turn would enhance our technology level.

Product development in accordance with the needs of our customers

In some cases, our customers may request for fabrics with certain features or specifications. With our research and development capability, we are able to meet the requirements of our customers for fabrics and to respond to market trends and promote these new fabrics to our existing and potential customers. Our Directors believe that this has enhanced our close relationship with our customers and provided us insights into and trends in the textile and clothing industry. We can also gain knowledge of new production techniques through the interaction with our customers.

INVENTORY MANAGEMENT

Raw materials

We monitor and control the inventory levels of our raw materials with an aim to optimise our business operations. Our inventory of raw materials primarily consists of raw cotton and cotton yarns.

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Cotton yarns are the major raw materials used in the production of fabrics. Production of our fabrics commences after our customers' confirmations of the samples and specifications, or in case of recurring sales orders, based on the previous approved samples and specifications. Procurements of raw materials for fabrics are generally made on a case-by-case sales order basis depending on the types and specifications of fabrics required by our customers. We generally agree the delivery date with our customers after sourcing of the requisite raw materials and production planning, and accordingly, during the Track Record Period we were able to source sufficient raw materials and deliver our fabrics to our customers in compliance with our sales orders. For commonly-used raw materials for our fabrics, we generally maintain an inventory level of around 15 days on average.

Raw cotton is the major raw material used in the production of yarns. In order to maintain a continued production cycle, we have a policy of maintaining an inventory level of around 15 days on average.

Our inventory management staff conducts stock-take on a sampling basis of our inventory level of raw materials on a monthly basis. A full stock-take is conducted by our staff in the finance department semi-annually and annually to monitor the inventory level of raw materials and make provision in accordance with our accounting policy.

Finished products

Our inventory of finished goods mainly consists of finished goods pending collection by our customers.

Our inventory policy for yarns is that priority is given for our own production use. As at 31 December 2011, 2012 and 2013, our inventory, comprising raw materials, work in progress and finished goods, amounted to RMB57.5 million, RMB62.5 million and RMB75.6 million, respectively. Our average inventory turnover days during the same period were 63 days, 66 days and 39 days, respectively.

QUALITY CONTROL

We believe that our commitment to quality, which we believe has been consistently reflected in our production processes and our products, is one of our competitive edges in the textile and clothing market. As at 31 December 2013, we had 91 quality control personnel.

Our quality control system for fabrics in our Shishi Production Facilities was accredited ISO9001:2008 certification in 2010.

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Our achievements in quality control are attributable to our strict quality control standards on each of the following stages:-

- Raw materials quality control

Incoming raw materials are inspected on a sampling basis. Our quality control staff carry out a laboratory test to assess the quality of the raw materials. Upon discovery of any sub-standard or defective raw materials, we will arrange for the return of supplies or a reduction of purchase prices.

- Production quality control

Throughout the production process of our fabrics, we imposed quality control at various stages of our production process for our fabrics. Despite our highly automated production process for our fabrics, skilful and experienced staff are employed to monitor the production process and attend to and fix any defect spotted. We conduct random inspection and regular checks of our yarns production machinery and equipment.

- Output quality control

Our quality control staff would examine all the fabrics after the weaving process. Defects found would be remedied. Our quality staff would conduct a final check on the fabrics before packaging. Where dyeing for our fabrics is required, we will provide the dyeing requirements and standards to our subcontractors and our quality control staff will attend the production facilities of our subcontractors and conduct on-site inspection on the quality of works, if necessary, before packing.

Our quality control staff would conduct sample checking and testing on our yarns before packaging.

During the Track Record Period, we had not received any material claims or complaints by our customers in respect of the quality of our products and there was no incident of failure of our quality control systems which had a material and adverse impact on our business operation.

MARKET AND COMPETITION

Our Directors are of the view that the PRC textile industry is highly competitive and fragmented. We principally compete with small-to-medium sized domestic fabric manufacturers in Fujian Province. Please also refer to the paragraphs headed “Industry Overview — Competitive landscapes”, “Industry Overview — Textile market in the PRC” and “Industry Overview — Cotton textile market in the PRC” of this prospectus.

AWARDS AND CERTIFICATIONS

In recognition of our quality and management, we have been granted a number of awards and certifications.

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The following table sets forth the major awards received by us:-

Date of grant	Award/Certification	Issuing authority/institution
February 2009	Shishi City Science and Technology Award — Science Technology Business Plan Award (石獅市科學技術獎 — 科技創業獎)	People's Government of Shishi City (石獅市人民政府)
November 2010	Our  brand was awarded as Renowned Trademark of Quanzhou City (泉州市知名商標)	Administration for Industry and Commerce of Quanzhou City (泉州市工商行政管理局)
November 2010	Our  brand was awarded Famous Branded Product of Fujian Province (福建省名牌產品) (valid for three years)	People's Government of Fujian Province (福建省人民政府)
November 2010	Our charcoal fibre fabric textiles pilot (竹炭纖維功能性面料) was awarded Famous Branded Product of Fujian Province (福建名牌產品)	People's Government of Fujian Province (福建省人民政府)
October 2011	Famous technological brand enterprise of Fujian Province (福建科技品牌知名企業)	Science and Technology Technological Brands Patent Department of Fujian and China Council for the Promotion of Brands and Market Strategies (福建科技報社科技品牌專利部及中國名牌與市場戰略促進委員會)
December 2011	China National Textile and Apparel Council Product Development Contribution Award (中國紡織工業聯合會產品開發貢獻獎)	China National Textile and Apparel Council (中國紡織工業聯合會)
December 2011	Our  brand was awarded as Renowned Trademark of Fujian Province (福建省著名商標) (valid for three years)	Administration for Industry and Commerce of Fujian Province (福建省工商行政管理局)
October 2012	Top 500 Competitive Companies of China's Textile and Apparel Industry 2011-2012 (2011-2012年度中國紡織服裝企業競爭力500強)	China National Textile And Apparel Council (中國紡織工業聯合會)

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Date of grant	Award/Certification	Issuing authority/institution
October 2012	Fujian Province Innovative Pioneer Enterprise (福建省級創新型試點企業)	Department of Technology of Fujian Province, Fujian Province Economic and Trade Commission, State-owned Assets Administration Commission of Fujian Provincial Government, and Fujian Province Chamber of Commerce (福建省科技廳, 福建省經濟貿易委員會, 福建省政府國有資產管理委員會, 福建省總工會)
October 2012	2012 Quality Control Representative Unit (2012年度質量管理示範單位)	China Textile Information Centre, China Textiles Development Centre, and CNTAC Testing Centre (中國紡織信息中心, 國家紡織產品開發中心, 中國紡織工業聯合檢測中心)
December 2012	Quanzhou City Intellectual Property Pioneer Enterprise (泉州市知識產權試點企業)	Intellectual Property Department of Quanzhou (泉州知識產權局)
April 2013	Our research and development centre was recognised as a City-level Corporate Technology Centre (市級企業技術中心)	People's Government of Quanzhou City (泉州市人民政府)
June 2013	Our interwoven fabric with multi-fibres series research project was awarded the Golden Bridge Award (金橋獎)	Technology Market Association of China (中國技術市場協會)
October 2013	Science Technology Advancement Award (Third Rank) (科學技術進步獎三等) for sizing technology for filament yarns and short-staple yarns (長絲/短纖紗線共漿生產技術)	China National Textile and Apparel Council (中國紡織工業聯合會)

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The following table sets forth our major certifications received by us:-

Year of grant	Recipient	Award	Awarding organisation or authority	Period of validity
2010	Hongtai (China)	ISO 9001:2008	AFNOR Certification	2 April 2013 to 2 April 2016
2010	Hongtai (China)	ISO 14001:2004	AFNOR Certification	2 April 2013 to 2 April 2016

EMPLOYEES

The following table sets forth the functional distribution of our employees of our Group as at 31 December 2013:-

Function

Managerial, administrative and finance	113
Sales and marketing	28
Procurement	6
Production	643
Quality control	91
Research and product development	17
Total number of employees	898

The remuneration payable to our employees includes basic salaries, allowances, pension and bonus. The ability to recruit and retain experienced and skilled labour is crucial to our growth and development. In addition to providing our staff the opportunities to receive regular on-the-job trainings, we strive to create a harmonious, warm working and living environment for our staff.

Our Directors believe that we have maintained a good relationship with our employees. We had not experienced any significant problem or labour dispute with our employees during the Track Record Period.

Social insurance and housing provident fund

Under the relevant PRC laws and regulations, we are required to contribute to a number of employee social welfare schemes in respect of our employees. Such schemes include social insurance contributions (including unemployment insurance, medical insurance, work-related injury insurance, pension insurance and maternity insurance) and housing provident fund contributions.

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Social insurance fund

During the Track Record Period, Hongtai (China) and Hongsheng (Hubei) made contributions to the social insurance fund for some of its employees only. For the years ended 31 December 2011, 2012 and 2013, the amount of outstanding social insurance contributions was approximately RMB2.1 million, RMB1.9 million and RMB4.2 million, respectively. Our Group made corresponding provisions for the outstanding social insurance contributions for the years ended 31 December 2011, 2012 and 2013. As advised by our PRC Legal Adviser, Hongtai (China) and Hongsheng (Hubei) have breached the Provisional Regulations on Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》) and the Social Insurance Law of the PRC (《中華人民共和國社會保險法》).

On 31 May 2013, Hongtai (China) obtained from Human Resources and Social Security Bureau of Shishi City (石獅市人力資源和社會保障局), being the competent and responsible authority for administering the social insurance fund related affairs in Shishi City, a written confirmation in respect of the unpaid contributions of social insurance fund from the date of incorporation of Hongtai (China) to 31 May 2013. According to such written confirmation, no administrative penalties were and will be imposed on Hongtai (China) for the unpaid contributions to the social insurance fund. Hongtai (China) has made contributions to the social insurance fund for all of its employees since September 2013. According to the confirmation dated 10 February 2014 issued by Human Resources and Social Bureau of Shishi City (石獅市人力資源和社會保障局), Hongtai (China) is not in breach of the relevant labour law or delay in making contributions to the social insurance. Our PRC Legal Adviser is of the view that the relevant authority will not impose any penalty on us for the outstanding social insurance for the period before June 2013 and the risk of the relevant authority imposing a penalty on us for the outstanding social insurance contribution for the period from June 2013 to August 2013 is remote.

Hongsheng (Hubei) had not made contributions to the social insurance fund for all of its employees before September 2013. Hongsheng (Hubei) has made contributions to social insurance fund for all of its employees since September 2013. According to the confirmation dated 11 February 2014 obtained from Huangmei County Human Resources and Social Security Bureau (黃梅縣人力資源和社會保障局), being the competent and responsible authority for administering the social insurance fund related affairs in Huangmei County, no administrative penalties were and will be imposed on Hongsheng (Hubei) for the unpaid contributions to the social insurance fund.

Housing provident fund

We did not register in time with the relevant housing provident fund authority and make housing contributions for all of our employees. Since March 2013, Hongtai (China) has registered with the relevant authority in respect of the housing provident fund for its employees. For the years ended 31 December 2011, 2012 and 2013, the amount of outstanding housing provident fund contribution was approximately RMB0.5 million, RMB0.5 million and RMB0.3 million, respectively. Our Group made corresponding provisions for the outstanding housing provident fund contribution for the years ended 31 December 2011, 2012 and 2013. As advised by our PRC Legal Adviser, Hongtai (China) has breached the Regulations on Management of Housing Provident Fund (《住房公積金管理條例》).

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On 10 February 2014, Hongtai (China) obtained from Shishi City Administration Department of Quanzhou City Housing Provident Fund Administration Centre (泉州市住房公積金管理中心石獅市管理部), being the competent and responsible authority for administering the housing provident fund related affairs in Shishi City, a written confirmation in respect of the unpaid contributions of housing provident fund. According to such confirmation, no administrative penalties were and will be imposed on Hongtai (China) for the unpaid contributions to the housing provident fund. Hongtai (China) has made contribution to the housing provident fund for all of its employees since September 2013.

Hongsheng (Hubei) had not paid housing contributions for all of its employees before September 2013. Hongsheng (Hubei) has made contributions to the housing provident fund for all of its employees since September 2013. According to the confirmation dated 12 February 2014 obtained from Huangmei Office of Huanggang Housing Provident Fund Administration Centre (黃岡住房公積金管理中心黃梅辦事處), being the competent and responsible authority for administering the housing provident fund related affairs in Huangmei County, no administrative penalties were and will be imposed on Hongsheng (Hubei) for the unpaid contributions to the housing provident fund.

Employees' benefits provided by our Group

We have established various employee benefit plans, including basic pension insurance, unemployment insurance, maternity insurance, work-related injury insurance, medical insurance and housing fund as required by the relevant PRC laws and regulations and the existing policy of the local government.

Labour contracts

We entered into labour contracts with our employees in accordance with the PRC labour law. We impose a non-competition and confidentiality obligation on our key research and development personnel and senior management.

Save as disclosed in the paragraph headed “Business — Employees — Social insurance and housing provident fund” of this prospectus, we have complied in all material aspects with the PRC labour law and all statutory requirements on retirement contribution in the jurisdictions where our Group operates.

INTELLECTUAL PROPERTY

We rely on a combination of laws and regulations including but not limited to patent and trademark laws, as well as confidentiality agreement signed by our senior management and employees involved in research and development to protect our intellectual property rights. Pursuant to the confidentiality agreement, the intellectual property rights of all inventions, technology, confidential information created by the research and development staff during their term of employment shall belong to our Group.

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As at the Latest Practicable Date, we had registered 12 trademarks, 14 utility patents in relation to certain methods and materials, one invention patent and had filed two invention patent applications in relation to certain methods and two trademark applications in the PRC. We had registered one trademark in Hong Kong.

Hongtai (China) entered into two patent licensing agreements with Donghua University (東華大學) (as licensor) pursuant to which we (as licensee) are granted the right to use in the PRC two patents owned by Donghua University (東華大學) for a term of around five years, one being from 6 May 2010 to 5 May 2015 at the total license fee of RMB100,000 and another one being from 20 September 2010 to 25 September 2015 at the total license fee of RMB80,000. As confirmed by our PRC Legal Adviser, the aforesaid licensing agreements were filed with the relevant PRC intellectual property authority.

Our Directors confirmed that our Group did not rely on these two licensed patents in the production of our products during the Track Record Period.

During the Track Record Period, we were not aware of any infringement of our intellectual property rights that had a material impact on us and we were not involved in any litigation involving infringement of intellectual property rights.

Detailed information of our intellectual property rights is set forth in the paragraph headed “Statutory and General Information — B. Further information about the business of our Group — 2. Intellectual property rights of our Group” in Appendix V to this prospectus.

INSURANCE COVERAGE

We maintain property insurance and mandatory accident liability insurance policies covering machinery and vehicles used in our operations, and certain other insurance policies for our employees.

Under the relevant PRC laws and regulations, we are not required to maintain product liability insurance. We do not maintain business interruption insurance or third-party liability insurance for claims of personal injury or property damage arising from accidents relating to our operations. Our Directors believe that our current level of insurance coverage is adequate and in line with the market practice in the PRC.

During the Track Record Period, we had not made or been the subject of any material insurance claims.

ENVIRONMENTAL PROTECTION

Our operations are subject to various PRC laws and regulations concerning environmental protection. Details of these PRC laws and regulations are set forth in the section headed “Summary of Applicable Laws and Regulations” of this prospectus.

Though our production process does not cause to the environment any material adverse impact, we are committed to minimising any adverse impact on the environment which may be resulted from

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our business activities. Our production also does not involve any dyeing process. Our environmental management system in our operations was accredited with ISO 14001:2004 international standards in 2010. Over the years, we strived to optimise our production process and applied certain of our patents to reduce the adverse impact on the environment. Our patent energy-saving and environmentally-friendly system for realising workshop humidity and temperature (一種實現車間溫濕度的節能環保系統) is our utility patent, particularly applied in our fabric production process to reduce heat emission. We received government subsidies in respect of our energy-saving effort including our economic use of water, recycle of materials and reduction in heat emission.

We also strived to use environmental-friendly materials in our production. To the best knowledge of our Directors, in the sizing process for production of fabrics, PVA is used as a sizing agent. Waste water created through the desizing process which contains PVA may cause an adverse impact to the environment. We, through wastage processing companies, process our waste water before it is discharged from our production facilities. To reduce the use of PVA, we launched the Development and Application of Green Warp Size (綠色漿料的開發和應用) project in 2010. This project principally involves the use of natural starch and corn flour to substitute PVA as the sizing agent for yarns used in our fabric production. The Development and Application of Green Warp Size (綠色漿料的開發和應用) project was accredited as Significant Project (重點項目) in 2010. Since 2010, we have been in the process of substituting PVA with green warp size (綠色漿料), which is a more environmental-friendly chemical, in our production process.

As our production does not involve significant discharge of pollutants and also based on our historical cost, during the Track Record Period, our Group did not incur any cost of compliance with the applicable environmental protection laws and regulations. We expect annual cost of compliance with applicable environmental protection laws and regulations will not experience significant change from that of the Track Record Period for the two years ending 31 December 2014 and 2015.

Our Directors believe that we have adopted effective measures to prevent and control pollution to the environment. Our Directors confirmed that our Group was in full compliance with all relevant environmental laws and regulations in the PRC and we have not encountered any penalty for failure to comply with the applicable environmental laws and regulations during the Track Record Period.

OCCUPATIONAL HEALTH AND SAFETY

We place emphasis on the health and safety of our employees in our production facilities. We have in place safety guidelines and operating manuals setting out safety measures for the production process. We also provide our employees with training programmes on work safety to ensure that all of our employees are aware of our safety procedures and policies, which includes guidelines for safety management, emergency situations and proper operation and usage of equipment and machinery.

During the Track Record Period, we had complied with the relevant PRC regulatory requirements on workplace safety and had not had any incidents or complaints which had materially and adversely affected our operations.

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PROPERTIES

As at 31 December 2013, our production facilities, proprietary outlets, offices buildings, residential units and other ancillary facilities occupied a total site area of approximately 226,400.01 square metres with a total gross floor area of approximately 113,129.53 square metres. For detailed information of our property interests, please refer to the Property Valuation Report set forth in Appendix III to this prospectus.

Land use rights

As at 31 December 2013, we owned or held six parcels of land with a total site area of 226,400.01 square metres in the PRC. As confirmed by our PRC Legal Adviser, We have obtained land use rights certificates for all such parcels of land.

Buildings

As at 31 December 2013, we owned or occupied 17 buildings or units with a total gross floor area of approximately 113,129.53 square metres. We have obtained building ownership certificates for 13 built properties with a total gross floor area of approximately 111,429.53 square metres located in our Shishi Production Facilities and Hubei Production Facilities. As at 31 December 2013, in respect of the remaining of four buildings with a total gross floor area of 1,700 square metres which are structures for ancillary purposes (including a boiler room, a tank, an air compressor room and switch board room with janitor's room) located in our Shishi Production Facilities, we had not obtained the construction works planning permit and the construction works commencement permit and building ownership certificates. For detailed information, please refer to the paragraph headed "Business — Government regulations, legal compliances and proceedings" of this prospectus.

Leased properties

As at 31 December 2013, we have a leased office in Hong Kong, with a lease term of two years from 1 April 2013 to 31 March 2015.

GOVERNMENT REGULATIONS, LEGAL COMPLIANCES AND PROCEEDINGS

As at the Latest Practicable Date, our business operations in the PRC are subject to legislation or regulatory controls as set forth in the section headed "Summary of Applicable Laws and Regulations" of this prospectus. Our PRC Legal Adviser confirmed that, save as disclosed in the following table, we have obtained all the necessary licences and permits for our business operations in China and it is not aware of any material non-compliance incidents of our Group under the relevant PRC laws and regulations during the Track Record Period and as at the Latest Practicable Date.

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The following table sets forth our material non-compliance incidents and measures we have adopted to prevent recurrence of non-compliance incidents in the future:-

No.	Non-compliance incidents	Reasons for non-compliance	Legal consequences and potential maximum penalties	Remedies and latest status	Preventive measures to be taken
1.	<i>We did not fully comply with the relevant social insurance contribution laws and regulations: we made contributions to the work-related injury insurance, basic pension insurance, basic medical insurance, maternity insurance, and unemployment insurance for some of the employees of our subsidiaries in China only. For the years ended 31 December 2011, 2012 and 2013, the amount of outstanding social insurance contribution was approximately RMB2.1 million, RMB1.9 million and RMB4.2 million, respectively.</i>	<p>During the Track Record Period, we did not fully comply with the relevant requirements under the social insurance laws and regulations because some employees come from rural areas (“migrant workers”) and these migrant workers do not have their household registration at the location of our Company. As the social insurance policy of the local government authorities varies, even if the migrant workers register and make social insurance contributions at the location of our Group, the migrant workers may not enjoy the benefits of the social insurance when they go back to their place of household registration. Employees also have responsibility to make their respective shares of contribution to the social insurance. As such, some employees are unwilling to participate in the social insurance scheme.</p> <p>Our Hubei Production Facilities were in the start-up process and we were in the course of recruiting employees at that stage and we have made contributions for all employees since September 2013.</p>	<p>Prior to the implementation of the Social Insurance Law of the PRC, which came into force on 1 July 2011, under the PRC laws, the social insurance authorities are entitled to order the employer to pay the outstanding social insurance within or without a time limit and impose a late charge of 0.05% and a fine ranging from one to three times of the outstanding amount for basic pension insurance and work-related injury insurance and the late charge of 0.2% for the other three types of social insurance if the employer fails to rectify the breach of social insurance contribution. Since 1 July 2011, for non-compliances that occurred after 1 July 2011, according to Social Insurance Law of the PRC (《中華人民共和國社會保險法》), the social insurance authorities are entitled to order the employer to pay the outstanding social insurance (including pension, medical, work injury, unemployment and maternity insurance), and impose a late charge of 0.05% and a fine ranging from one to three times of the outstanding social insurance.</p>	<p>We have made social insurance contributions in accordance with the relevant regulations for all of our employees since September 2013. Our PRC Legal Adviser is of the view that the relevant authority will not impose any penalty on us for the outstanding social insurance for the period before June 2013 and the risk of the relevant authority imposing a penalty on us for the outstanding social insurance for the period from June 2013 to August 2013 and repayment of the unpaid social insurance contribution is remote.</p>	<p>To ensure compliance with the relevant social insurance contribution laws and regulations, our finance department will check the number of employees whom we are making contributions for against the number of employees as recorded by our human resources department every time before making contributions to the social insurance.</p> <p>Our human resources department will consult our PRC legal advisers on the relevant laws and regulations from time to time.</p> <p>We will only employ staff who are willing to participate in the social insurance scheme in the future.</p> <p>Our Regulatory Compliance Committee will review on a monthly basis if our social insurance contribution has complied with the relevant laws and regulations.</p>

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No.	Non-compliance incidents	Reasons for non-compliance	Legal consequences and potential maximum penalties	Remedies and latest status	Preventive measures to be taken
2.	<i>We did not fully comply with the housing provident fund contribution laws and regulations: we did not register with the relevant housing provident fund authority in time and made housing fund contributions for some of the employees of our subsidiaries in China only. For the years ended 31 December 2011, 2012 and 2013, the amount of outstanding housing provident fund contribution was approximately RMB0.5 million, RMB0.5 million and RMB0.3 million, respectively.</i>	<p>During the Track Record Period, we did not fully comply with the relevant housing provident fund laws and regulations in respect of Hongtai (China) mainly due to two reasons. First, employees responsible for handling the housing provident fund are not familiar with the relevant requirement of registration of the housing provident fund account within 30 days from the establishment of the enterprise under the housing fund contribution regulations. Second, the migrant workers do not have their household registration at the location of our Group. As the housing provident fund policy of the local government authorities varies, even if the migrant workers register and make housing provident fund contributions at the location of our Group, the migrant workers may not enjoy the benefits of the housing provident fund when they go back to their place of household registration. Employees also have responsibility to make their respective shares of contribution to the housing provident fund. As such, some employees are unwilling to participate in the housing provident fund.</p> <p>Our Hubei Production Facilities were in the start-up process and we were in the course of recruiting employees at that stage and we made contributions for all employees since September 2013.</p>	The relevant authorities may order us to register at the relevant housing provident fund authority within a prescribed time limit and a maximum fine of RMB50,000. The housing provident fund authority may also order us to pay the outstanding housing provident fund contributions within a prescribed time limit. If we fail to do so, the housing provident fund authority may sort an order for payment from the relevant PRC court.	<p>We have made housing provident fund contributions for all of our employees since September 2013.</p> <p>Our PRC Legal Adviser is of the view that Hongtai (China) will not be subject to administrative penalty as a result of the failure to make the housing provident contribution.</p>	<p>To ensure compliance with the relevant housing provident fund contribution laws and regulations, our human resources department will consult our PRC legal advisers on the relevant laws and regulations from time to time.</p> <p>We will only employ staff who are willing to participate in the housing provident fund in the future.</p> <p>Our Regulatory Compliance Committee will review on a monthly basis if our housing provident fund contribution complies with the relevant regulations and laws.</p>

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No.	Non-compliance incidents	Reasons for non-compliance	Legal consequences and potential maximum penalties	Remedies and latest status	Preventive measures to be taken
3.	Hongtai (China) commenced production prior to passing the completion inspection of environmental protection for the extension construction project (擴建項目建設項目竣工環境保護驗收) which formed part of our Shishi Production Facilities.	As we are not engaged in highly polluting business, the employees responsible for handling this matter had inadvertently omitted to arrange for the inspection.	We may be ordered by the relevant environmental protection administrator to stop the production or use, and may be imposed a fine not exceeding RMB100,000 due to the failure to comply with the Regulations on the Administration of Construction Project Environmental Protection (《建設項目環境保護管理條例》).	On 2 August 2013, Hongtai (China) had obtained the Acceptance Opinion for the completion inspection of environmental protection for the extension construction project (擴建項目建設項目竣工環境保護驗收). Pursuant to a written confirmation from Environmental Protection Bureau of Shishi dated 10 February 2014, the Environmental Protection Bureau of Shishi confirmed that no penalty was and will be imposed on Hongtai (China) in respect of the production prior to passing the completion inspection of environmental protection for the extension construction project.	To ensure compliance with the relevant environmental laws and regulations, we will consult our PRC legal advisers and understand the relevant laws and regulations and seek the approval from our directors or the general manager of the relevant subsidiary before any construction work and commencement of production. We will provide trainings on the relevant environmental protection inspection requirements in the event of construction of any new and extension of our production facilities to our staff in charge with the assistance of our PRC legal advisers.
4.	During the Track Record Period, Hongtai (China) was involved in bill financing transactions that were not fully in compliance with the PRC Negotiable Instrument Law.	Such Non-Compliant Bill Financing transactions could provide an additional source of financing and lower our overall finance costs.	Our PRC Legal Adviser advised that there is no express provision in the laws, rules and regulations in the PRC which impose administrative or criminal liability for such Non-Compliant Bill Financing transactions.	Hongtai (China) ceased the issuance of bank acceptance notes for the purpose of the Non-Compliant Bill Financing since May 2012 and fully settled all bank acceptance notes involved in October 2012.	To ensure compliance with the relevant laws and regulations, we have strengthened our internal control system and corporate governance measures. Our Regulatory Compliance Committee will consult our PRC legal adviser on the relevant laws and regulations from time to time.

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No.	Non-compliance incidents	Reasons for non-compliance	Legal consequences and potential maximum penalties	Remedies and latest status	Preventive measures to be taken
5.	Hongtai (China) had not obtained the construction works planning permit and the construction works commencement permit for certain structures used for ancillary purposes (including a boiler room, a tank, an air compressor room and switch board room with janitor's room) it built in our Shishi Production Facilities.	Since these structures were not for our major production activities and were just ancillary in nature, our employees responsible for this matter inadvertently believed that the construction works planning permit and the construction works commencement permit were not required.	As advised by our PRC Legal Adviser, Hongtai (China) may be ordered to demolish such building structures being considered as illegal and may be imposed a fine up to RMB0.44 million by the relevant and competent authorities.	Pursuant to a written confirmation from Department of Housing and Urban-Rural Development of Shishi City (石獅市住房和城鄉規劃建設局) dated 13 September 2013, the Department of Housing and Urban-Rural Development of Shishi City (石獅市住房和城鄉規劃建設局) confirmed that no penalty was and will be imposed on Hongtai (China) in respect of the construction works of these structures. We believe that even if we are requested to demolish such structures, our Directors confirmed that our production process would not be materially interrupted.	To ensure compliance with the relevant construction laws and regulations, we will consult our PRC legal advisers and seek the approval from the directors or the general manager of the relevant subsidiary before any construction work of buildings. We will provide trainings to our relevant staff in respect of the legal matters in the PRC with the assistance of our PRC legal advisers.

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No.	Non-compliance incidents	Reasons for non-compliance	Legal consequences and potential maximum penalties	Remedies and latest status	Preventive measures to be taken
				<p>To ensure the construction and structural safety of these buildings, we engaged a construction project quality testing company in January 2014 to carry out a structure safety test for the relevant buildings. According to the structural quality test reports issued by this construction project quality testing company on 22 January 2014, the relevant buildings used for ancillary purposes passed the overall safety test. Our PRC Legal Adviser confirmed that this quality testing company is authorised by the competent PRC building construction authorities and thus qualified to carry out structural safety test of building structures and issue structural quality test report under the relevant PRC laws and regulations.</p> <p>Our Directors confirmed that there has not been occurrence of any accident due to any structural reason during the Track Record Period and up to the Latest Practicable Date.</p>	

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No.	Non-compliance incidents	Reasons for non-compliance	Legal consequences and potential maximum penalties	Remedies and latest status	Preventive measures to be taken
6.	During the Track Record Period, Hongtai (China) was involved in certain loan advancing activities with Hong Tai Industrial and third parties in the PRC. The third parties include six corporations and two individuals, two of those corporations are our suppliers, one is our customer, one corporation is our customer and also our supplier and two are companies established by Mr. Lin's acquaintances. The two individuals to which we have advanced loans, to the best knowledge and belief of our Directors, are also doing business in the textile industry and Mr. Lin acquainted with them through business gatherings and these individuals have good network in the industry and credibility.	These loans were made for their capital needs	As advised by our PRC Legal Adviser, pursuant to the Lending General Provisions (《贷款通则》), enterprises engaged in lending could be subject to a penalty between one to five times of the income generated from such activities. Since the loans between Hongtai (China) and the relevant parties were non-interest bearing, our PRC Legal Adviser advised that no fines will be imposed on Hongtai (China) according to the foregoing provision.	As at the Latest Practicable Date, all of the outstanding amount of such loans had been fully settled by the relevant parties.	We will cease advancing loan to third parties prior to Listing. We will designate our chief financial officer to review and approve the transactions which are not in trade nature prior to the execution.

As at the Latest Practicable Date, there were no litigation or arbitration proceedings or administrative proceedings pending or threatened against us or any of our Directors which would have a material adverse effect on our financial condition or results of operations.

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INTERNAL CONTROL

In order to continuously improve our corporate governance and to prevent recurrence of the non-compliance incidents, we have adopted the following measures:

- (a) we have set up a Regulatory Compliance Committee on 26 February 2014, which is led by Mr. Qiu, our executive Director and consists of our senior management, namely, Mr. Deng Qinghui and Mr. Siu Kai Chun, our chief financial officer and company secretary. Please refer to the section headed “Directors and Senior Management” of this prospectus for detailed information on the experience and qualification of our Directors and senior management;
- (b) we will appoint legal advisers as to the laws of Hong Kong and the PRC, respectively, to advise our Group on the laws and regulations of Hong Kong and the PRC;
- (c) the Regulatory Compliance Committee directly reports to our Board and is primarily responsible to ensure that our business operations and activities are in compliance with the relevant laws and regulations, including handling relevant procedures, such as business registration, property rental, property construction and maintenance and staff social welfare in accordance with the procedural requirements of the relevant authorities to ensure our compliance and seek legal advice when appropriate;
- (d) our senior management personnel have been briefed by the executive Directors on the importance of regulatory matters and will continue to monitor our compliance with relevant regulations and our senior management personnel will work closely with our staff to implement actions required to ensure our compliance with relevant regulations;
- (e) we will continue to arrange various training programmes to be provided by the Hong Kong legal adviser and the PRC legal adviser engaged by us and/or any appropriate accredited institution to update our Directors, senior management and relevant employees on the relevant laws and regulations; and
- (f) our Group has improved the existing internal control framework by adopting a set of internal control manual and policies in July 2013, including the corporate governance manual, which covers corporate governance, risk management, operations, legal matters, finance and audit.

Based on the above, our Directors are of the view that we have taken all reasonable steps to establish a proper internal control system to prevent future non-compliance with the relevant laws and regulations.

Views of our Directors and the Sole Sponsor

Our Directors are of the view that each of the non-compliance incidents is an isolated event, which was primarily due to inadequate legal knowledge and/or inadvertent oversight of the relevant laws and regulations by our management.

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Regarding our non-compliance incidents as disclosed above, the Sole Sponsor has (a) made enquires with our Directors and/or our senior management to understand the circumstances leading to our non-compliance incidents and our Directors confirmed that the non-compliance incidents are due to inadequate legal knowledge and/or inadvertent oversight of the law and none of the non-compliance incidents involve the integrity of our Directors; (b) reviewed relevant documents provided by us in relation to the non-compliance incidents; (c) considered the confirmations obtained from relevant governmental authorities in relation to the non-compliance incidents as set forth in the paragraph headed “Business — Government regulations, legal compliances and proceedings” of this prospectus; (d) considered the legal opinion from our PRC Legal Adviser and, where appropriate, the advice from Deheng Law Offices (Shenzhen), its legal adviser as to PRC law; (e) considered the substantial experience of Mr. Qiu and Mr. Lin in the textile industry; and (f) considered that, as at the Latest Practicable Date, to the best knowledge of our Directors after having made reasonable enquiry, there were no legal proceedings against our Directors in the PRC and Hong Kong.

Regarding the Non-Compliant Bill Financing, the Sole Sponsor has further considered the following:-

- (a) the information and confirmation provided by our Directors that all executive Directors or their respective associates have not obtained any personal benefit directly or indirectly from the Non-Compliant Bill Financing;
- (b) the confirmations from the three Endorsing Banks that Hongtai (China) has settled all relevant bank acceptance notes in relation to the Non-Compliant Bill Financing and they will not take any action against Hongtai (China), its shareholders, directors and senior management as a result of the Non-Compliant Bill Financing;
- (c) the confirmation from the Shishi Branch of PBOC that it will not impose any administrative punishment on or take any punitive measure against Hongtai (China), its shareholders, directors and senior management in relation to the Non-Compliant Bill Financing;
- (d) the result of the verbal consultation with Shishi Office of Quanzhou Branch of CBRC that it has no objection if the relevant competent PBOC and commercial banks confirmed that they will not impose any administrative punishment on Hongtai (China), its shareholders, directors, senior management and/or relevant companies in relation to the Non-Compliant Bill Financing and it will not take further action against the aforesaid parties; and
- (e) the legal opinion of our PRC Legal Adviser that no fraudulent activities were involved in obtaining the Non-Compliant Bill Financing and the Non-Compliant Bill Financing did not constitute fraud under the PRC Negotiable Instrument Law and the advice from Deheng Law Offices (Shenzhen), the legal adviser to the Sole Sponsor as to PRC law, which concur with our PRC Legal Adviser’s view in this respect.

Furthermore, the Sole Sponsor has also considered the remedial measures taken by us in relation to the non-compliance incidents, including: (a) the rectification measures in relation to Non-Compliant Bill Financing as detailed under the paragraph headed “Business — Non-Compliant Bill Financing — Strengthening our internal control system and corporate governance measures” of

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this prospectus; (b) the preventive measures and the internal control measures as detailed under the paragraphs headed “Business — Government regulations, legal compliances and proceedings” and “Business — Internal control” of this prospectus; and (c) the undertaking by our executive Directors, Mr. Qiu, Mr. Lin and Mr. Deng Qinghui that each of them 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 during each of the two years after the Listing.

The Sole Sponsor, after considering the above factors, concurs with our Directors’ view that our Directors have the character, experience and integrity required of a director under Rules 3.08 and 3.09 of the Listing Rules.

CONNECTED TRANSACTIONS

During the Track Record Period, other than the transactions as set out in note 31 to the Accountant’s Report in Appendix I to this prospectus, we did not enter into any other connected transactions. As at the Latest Practicable Date, we did not have any connected transactions which will be continued or carried out by us after the Listing which will be subject to reporting, announcement and shareholders’ approvals requirements under the Listing Rules.

CONTROLLING AND SUBSTANTIAL SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Immediately following completion of the Global Offering and the Capitalisation Issue (taking no account of Shares which may be issued pursuant to the exercise of the Over-allotment Option), Merit Lead, which is wholly-owned by Mr. Lin, Mr. Qiu and Mr. Cai together will be interested in 51.45% of the issued share capital of our Company upon the Listing. Hence, each of them is considered as our Controlling Shareholder.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Global Offering and the Capitalisation Issue (but without taking into account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), the following persons will have an interest or short position 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:-

Name of shareholder	Capacity	Number of Shares	Approximate percentage of issued Shares
Merit Lead (<i>note 1</i>)	Beneficial owner	267,000,000 Shares (long position)	26.70%
Mr. Lin	Interest of a controlled corporation	267,000,000 Shares (long position)	26.70%
Mr. Qiu	Beneficial owner	135,000,000 Shares (long position)	13.50%
Mr. Cai	Beneficial owner	112,500,000 Shares (long position)	11.25%
Hong Kong Investments (<i>note 2</i>)	Beneficial owner	66,750,000 Shares (long position)	6.68%
Cheung Chi Mang	Interest of a controlled corporation	66,750,000 Shares (long position)	6.68%

Notes:-

1. Merit Lead is a company incorporated in the BVI, the entire issued share capital of which is held by Mr. Lin. Accordingly, Mr. Lin is deemed to be interested in these Shares held by Merit Lead under the SFO.
2. Hong Kong Investments is a company incorporated in the BVI, the entire issued share capital of which is held by Cheung Chi Mang. Accordingly, Cheung Chi Mang is deemed to be interested in these Shares held by Hong Kong Investments.

CONTROLLING AND SUBSTANTIAL SHAREHOLDERS

Should the Over-allotment Option be exercised in full, Merit Lead will hold 25.7% interests in our Company, Mr. Lin will hold 25.7% interests in our Company through Merit Lead, Mr. Qiu will hold 13.1% interests in our Company and Mr. Cai will hold 10.8% interests in our Company.

Save as disclosed herein, our Directors are not aware of any person who will, immediately following the Global Offering and Capitalisation Issue (but without taking into account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), have an interest or short position 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 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 any other member of our Group.

COMPETING INTERESTS

As confirmed by our Directors, our Controlling Shareholders and their respective associates do not have any interests in any business, apart from the business operated by members of our Group, that competes or is likely to compete, directly or indirectly, with the business of our Group.

DEED OF NON-COMPETITION

To better safeguard our Group from any potential competition, each of the Covenantors has entered into a deed of non-competition with our Company whereby each of the Covenantors irrevocably and unconditionally, undertakes with our Company that with effect from the Listing Date and for as long as our Shares remain listed on the Stock Exchange and (i) the Covenantors collectively are, directly or indirectly, interested in not less than 30% of our Shares in issue; or (ii) the relevant Covenantor remains as our executive Director, each of the Covenantors shall, and shall procure that its/his respective associates shall:-

- (a) not 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 activities of our Group or any business activities which our Group may undertake in the future;
- (b) not take any direct or indirect action which constitutes an interference with or a disruption to the business activities of our Group including, but not limited to, solicitation of customers, suppliers and staff of our Group;
- (c) keep our Board informed of any matter of potential conflicts of interests between the relevant Covenantor (including its/his associates) and our Group, in particular, a transaction between any of the relevant Covenantor (including its/his associates) and our Group; and
- (d) provide as soon as practicable upon our Company's request a written confirmation in respect of compliance by it with the terms of the deed of non-competition and their respective consent to the inclusion of such confirmation in our Company's annual report and all such information as may be reasonably requested by the Company for its review.

CONTROLLING AND SUBSTANTIAL SHAREHOLDERS

In addition, each of the Covenantors hereby irrevocably and unconditionally, undertakes that if any new business opportunity relating to any products and/or services of our Group (the “**Business Opportunity**”) is made available to it/him or its/his associates (other than members of our Group), it or he will direct or procure the relevant associate to direct such Business Opportunity to our Group with such required information to enable our Group to evaluate the merits of the Business Opportunity.

The relevant Covenantor shall provide or procure its/his associates to provide all such reasonable assistance to enable our Group to secure the Business Opportunity. If he or it (or his/its associates) plans to participate or engage in any new activities or new business which may, directly or indirectly, compete with the existing business activities of our Group, he or it shall give our Company a first right of refusal to participate or engage in the Business Opportunity and will not participate or engage in these activities unless with the prior written consent of our Company. None of the Covenantors and their respective associates (other than members of our Group) will pursue the Business Opportunity until our Group decides not to pursue the Business Opportunity because of commercial reasons. Any decision of our Company will have to be approved by our independent non-executive Directors taking into consideration the prevailing business and financial resources of our Group, the financial resources required for the Business Opportunity and, where necessary, any expert opinion on the commercial viability of the Business Opportunity.

Each of the Covenantors further irrevocably and unconditionally, undertakes that it or he will (i) provide to our Group all information necessary for the enforcement of the undertakings contained in the deed of non-competition; and (ii) confirm to our Company on an annual basis as to whether it or he has complied with such undertakings.

The deed of non-competition will cease to have any effect on the earliest of the date on which:-

- (a) our Company becomes wholly-owned by any of the Covenantor and/or its/his associates;
- (b) the aggregate beneficial shareholding (whether direct or indirect) of the Covenantors and/or its/ his associates in the Shares in issue falls below 30% of the number of Shares in issue and the relevant Covenantor shall cease to be our executive Director; or
- (c) the Shares cease to be listed on the Stock Exchange.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having taken into account of the following factors, our Directors are satisfied that our Group can carry on its business independently of our Controlling Shareholders following the Listing:-

Management independence

Our Group’s management and operational decisions are made by our Board and a team of senior management. Our Board consists of six members, comprising three executive Directors and three independent non-executive Directors. Each of our Directors is aware of his fiduciary duties as a Director of our Company which requires, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and

CONTROLLING AND SUBSTANTIAL SHAREHOLDERS

his personal interests. In the event that there is a potential conflict of interests 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. Further, the independent non-executive Directors will bring independent judgment to the decision making process of our Board. The senior management team possesses in-depth experience and understanding of the industry in which our Group is engaged. In this regard, our Directors are of the view that our Group can be managed independently notwithstanding that Mr. Lin and Mr. Qiu, being Controlling Shareholders, are our executive Directors.

Operational independence

The organisational structure of our Group is made up of a number of departments, comprising managerial, administrative and finance department, sales and marketing department, procurement department, production department, quality control department and research and product development department. Each department takes a specific role in our Group's operations. There are internal control procedures to ensure effective operation of our Group's business. Furthermore, our Group has its own production lines and its own sources of independent suppliers and customers. Accordingly, our Group can carry out its business operations independently.

Financial independence

Our Directors are of the view that our Group does not unduly rely on the advances from our Controlling Shareholders and related parties for its business operations. As at 31 December 2011, 2012 and 2013 the total outstanding amount of loans and advances due from our Controlling Shareholders were approximately RMB71.5 million, RMB158,000 and nil, respectively, and the total outstanding amount of loans and advances due to our Controlling Shareholders were approximately RMB5.4 million, RMB10.4 million and RMB8.3 million, respectively, all of which had been fully settled as at the Latest Practicable Date. The loans and advances from our Controlling Shareholders and their associates were primarily used for general working capital. Our Directors believe that our Group is capable of obtaining financing from external sources without reliance on our Controlling Shareholders. Furthermore, our Group has its own finance department and has established its own financial accounting system independent of our Controlling Shareholders. Our Group has its own bank accounts, makes its tax registrations and has employed a sufficient number of financial accounting and treasury personnel. Accordingly, our Directors consider that our Group is capable of operating independently from a financial perspective.

NON-DISPOSAL UNDERTAKINGS GIVEN BY OUR CONTROLLING SHAREHOLDERS

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has, jointly and severally, undertaken with our Company and the Stock Exchange that each of them shall not and shall procure that the relevant registered holder(s) shall not:—

- (a) in the period commencing on the date of by reference to which disclosure of the shareholding of our Controlling Shareholders is made in this prospectus and ending on the

CONTROLLING AND SUBSTANTIAL SHAREHOLDERS

date which is six months from the Listing Date (the “**First Six-Month 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 in respect of which it/he is shown by this prospectus to be the beneficial owner(s); and

- (b) in the period of six months commencing on the date on which the First Six-Month Period expires, 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 if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, our Controlling Shareholders would cease to be our Controlling Shareholders of our Company, i.e. they cease to control 30% or more of the voting power at general meetings of our Company.

Further, each of our Controlling Shareholders has, jointly and severally, undertaken with our Company and the Stock Exchange that within a period commencing on the date by reference to which disclosure of the shareholding of our Controlling Shareholders is made in this prospectus and ending on the date on which is 12 months from the Listing Date, he or it shall:—

- (a) when he or it pledges or charges any securities beneficially owned by he or it in favour of an authorised institution (as defined under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, immediately inform our Company of such pledge or charge together with the number of securities so pledged or charged; and
- (b) when he or it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged securities will be disposed of, immediately inform our Company of such indications.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Name	Age	Position	Date of appointment	Date of joining our Group	Principal responsibilities
Mr. Lin Qingxiong (林清雄)	47	Chairman and Executive Director	29 April 2013	founder	Overseeing our Group's overall development and strategy
Mr. Qiu Zhiqiang (邱志強)	45	Executive Director	29 April 2013	founder	Overseeing the daily operation of our Group including overseeing our sales department and procurement department
Mr. Deng Qinghui (鄧慶輝)	42	Executive Director	30 July 2013	11 March 2010	Overseeing the administration and human resources matters of our Group
Mr. Yu Yubin (俞毓斌)	42	Independent non-executive Director	27 March 2014	27 March 2014	Supervising our Group's compliance and corporate governance matters, providing independent judgement to our Board
Mr. Ma Chongqi (馬崇啟)	49	Independent non-executive Director	27 March 2014	27 March 2014	Supervising our Group's compliance and corporate governance matters, providing independent judgement to our Board
Mr. Chan Sui Wa (陳瑞華)	39	Independent non-executive Director	27 March 2014	27 March 2014	Supervising our Group's compliance and corporate governance matters, providing independent judgement to our Board

Executive Directors

Mr. Lin Qingxiong (林清雄) (also known as Lin Shiti (林詩體)), aged 47, is our chairman and executive Director. Mr. Lin co-founded Hongtai (China) with Mr. Qiu and an Independent Third Party in 2004. Mr. Lin is responsible for the overall development and strategy of our Group and has played an important role in establishing our Group's presence in the PRC textile and clothing industry. Mr. Lin has over 10 years of experience in the textile and clothing industry in the PRC. Prior to founding Hongtai (China) in 2004, Mr. Lin founded Shishi Gang Yi Dyeing Finishing & Wearing Co., Ltd. (石獅市港溢染整織造有限公司) which was engaged in the textile, clothing and dyeing industry, in

DIRECTORS AND SENIOR MANAGEMENT

July 2001, where he acted as the director and vice general manager until April 2009. Shishi Gang Yi Dyeing Finishing & Wearing Co., Ltd. is one of our suppliers since 2006 and during the Track Record Period. Mr. Lin disposed of his 27% equity interest in Shishi Gang Yi Dyeing Finishing & Wearing Co., Ltd. in May 2009 to an Independent Third Party because Mr. Lin decided to focus on the business development of our Group. Mr. Lin was appointed as the standing director of the first council of China Chamber of International Commerce Shishi Chamber of Commerce (中國國際商會石獅市商會首屆理事會) in December 2005. In December 2011, he was appointed as the vice standing president of the third council of Shishi Textile & Garments Commerce Chamber (石獅市紡織服裝商會第三屆理事會). Mr. Lin was appointed the president of the second council of Shishi Hongshan Chamber of Commerce (石獅鴻山商會第二屆理事會) in November 2012 and the vice president of Shishi Federation of Industry & Commerce (石獅市工商業聯合會(總商會)) in May 2013.

Mr. Qiu Zhiqiang (邱志強), aged 45, is our executive Director and the general manager of Hongtai (China). Mr. Qiu was one of the co-founders of Hongtai (China) in 2004. Mr. Qiu is primarily responsible for the daily operation of our Group and overseeing our sales department and procurement department. Mr. Qiu has about 24 years of experience in the textile and clothing industry. From 1989 to 2003, he worked in the production, development and sales of textile products in the Philippines. Mr. Qiu became a member of Textile Producers Association of the Philippines, Inc. (菲律賓紡織同業公會) in October 1996. Mr. Qiu had engaged in the development of the textile industry and sales and development of textile products in the Philippines. In October 1996, he was appointed as the member of the Philippine Cotton Goods Wholesalers Association. Mr. Qiu was appointed as the committee member of the first council of Shishi Youth Chamber of Commerce (石獅市青年商會第一屆理事會) in 2011. He was primarily responsible for the sales and procurement of textile products.

Mr. Deng Qinghui (鄧慶輝), aged 42, is our executive Director, the vice general manager of Hongtai (China) and the head of our administration and human resources department. Mr. Deng completed a computer information management course in Peking University in July 2004. Mr. Deng joined our Group in March 2010. Prior to joining our Group, Mr. Deng was the human resources manager of Xingye Leather Technology Co., Ltd. (興業皮革科技股份有限公司), a company engaging in the leather industry in the PRC and listed on the Shenzhen Stock Exchange (Stock code: 002674) in 2012, from 2006 to 2007. From September 2007 to June 2009, Mr. Deng was the human resources director of Fujian Fuma Food Group Limited (福建福馬食品集團有限公司) which carried out food production business in the PRC. Mr. Deng obtained the qualification of National Corporate Trainer (企業培訓師) in the PRC in 2007. He was also awarded as the “Advanced Worker of the Human Resources of the National Textile Industry” (“全國紡織業人力資源工作先進工作者”) by the China National Textile and Apparel Council (國家紡織人才交流培訓中心) in 2013.

Independent non-executive Directors

Mr. Yu Yubin (俞毓斌), aged 42, was appointed as our independent non-executive Director on 27 March 2014. Mr. Yu graduated with a bachelor’s degree in English from Fujian Normal University in June 1999. Mr. Yu is currently a practicing lawyer at Titan & Partners and prior to joining Titan & Partners in July 2009. He was a teacher at the senior section of Fujian Jinjiang Yang Zheng Secondary School (福建晉江養正中學高中部) from August 1992 to June 2003. Mr. Yu then worked in Xingye Leather Technology Co., Ltd. (興業皮革科技股份有限公司) from 2003 to 2009.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Ma Chongqi (馬崇啟), aged 49, was appointed as our independent non-executive Director on 27 March 2014. Mr. Ma graduated from Tianjin Polytechnic University with a major in textile engineering (紡織工程) (formerly known as Tianjin Institute of Textile Science and Technology) in July 1987. Mr. Ma has been a professor at Tianjin Polytechnic University since October 2010. Mr. Ma has been teaching at Tianjin Polytechnic University since July 1987 as an assistant lecturer from July 1988 to September 1993, a lecturer from October 1993 to September 2000 and an assistant professor from October 2000 to September 2010. Mr. Ma is currently a member of the first expert committee of the China Wool Textile Association (中國毛紡織行業協會第一屆專家委員會) and a standing director of the fourth council of the China Wool Textile Association (中國毛紡織行業協會第四屆理事會).

Mr. Chan Sui Wa (陳瑞華), aged 39, was appointed as our independent non-executive Director on 27 March 2014. Mr. Chan has over 13 years of experience in auditing, finance and accounting. Mr. Chan graduated with a bachelor's degree in business administration from the Hong Kong University of Science & Technology in November 1997 and obtained a master's degree in corporate governance from the Hong Kong Polytechnic University in October 2011. Mr. Chan is currently a member of both of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Secretaries and Administrator. Mr. Chan is also a fellow member of Association of Chartered Certified Accountants. In November 2011, Mr. Chan joined Good Concept International Limited (明創國際有限公司), a company engaging in the provision of financial advisory and company secretarial service, and is currently its financial consultant. Mr. Chan worked at Cacola Furniture International Limited, a company engaging in the home and office furniture business and listed on the Singapore Exchange (Stock code: D2U), as its group financial controller and joint company secretary from November 2006 to June 2009 and as its group financial controller from September 2010 to October 2011. From 2004 to 2006, Mr. Chan was the financial officer at Luxking Group Holdings Ltd (力王集團控股有限公司), a company engaging in the supply of adhesive tape products and listed on the Singapore Exchange (Stock code: L34). Mr. Chan was a senior auditor at PricewaterhouseCoopers, an accounting firm, from 2000 to 2003, a trainee accountant at KP Cheng & Co, an accounting firm, from 1999 to 2000 and Accountant II at Kwan Wong Tan & Fong, an accounting firm from June 1997 until the merger of that firm with Deloitte Touche Tohmatsu on 1 August 1997. He held the position of staff Accountant I at Deloitte Touche Tohmatsu from August 1997 to December 1998.

Save as disclosed in this prospectus, each of our Directors confirmed that he (i) did not hold any directorships in the last three years prior to the Latest Practicable Date in public companies, the securities of which are listed on any securities market in Hong Kong or overseas; (ii) does not hold any other positions with us or other members of our Group; and (iii) does not have any relationship with other Directors, senior management or Controlling Shareholders, if any, of our Company or any interest in our Shares within the meaning of Part XV of the SFO.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of our Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as at the Latest Practicable Date.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Name	Age	Position	Date of appointment	Date of joining our Group	Principal responsibilities
Mr. Zhang Wenwang (張文旺)	50	Vice general manager of Hongtai (China) and head of production department	23 February 2011	23 February 2011	In charge of our production department
Ms. Liu Xuemin (劉學敏)	53	Chief engineer of Hongtai (China) and head of research and development department	23 February 2011	23 February 2011	In charge of our research and development department
Mr. Siu Kai Chun (蕭啟晉)	45	Chief financial officer and company secretary of our Group	15 May 2013	15 May 2013	Financial management and company secretary works

Biographies of each member of the senior management team are set forth below:-

Mr. Zhang Wenwang (張文旺), aged 50, is the vice general manager of Hongtai (China) and the head of our production department. Mr. Zhang obtained a bachelor's degree from Tianjin Institute of Textile Science and Technology (天津紡織工學院) (now known as Tianjin Polytechnic University (天津工業大學)) with a major in textile engineering (紡織工程) in July 1983. Prior to joining our Group in 2011, Mr. Zhang had worked as the chief engineer of several enterprises in the PRC. In December 1995, Mr. Zhang was qualified as a senior engineer (高級工程師). Mr. Zhang was a member of Shanxi Province Enterprise Technology Innovation Committee (山西省企業技術創新專家委員會).

Ms. Liu Xuemin (劉學敏), aged 53, is the chief engineer of Hongtai (China) and the head of our research and development department. Ms. Liu obtained a bachelor's degree from Tianjin Institute of Textile Science and Technology (天津紡織工學院) (now known as Tianjin Polytechnic University (天津工業大學)) with a major in textile engineering (紡織工程) in July 1983. Prior to joining our Group in 2011, Ms. Liu had worked in the research and product development of several enterprises in the PRC. In December 1995, Ms. Liu was qualified as a senior engineer (高級工程師). Ms. Liu was appointed as a member of China Textile Engineering Society Cotton Textile Professional Committee Wearing Technology Group (中國紡織工程學會棉紡織專業委員會織造學組) in September 2003.

Mr. Siu Kai Chun (蕭啟晉) (formerly Siu Kwok Yee (蕭國義)), aged 45, is the chief financial officer and company secretary of our Group. Mr. Siu joined us in May 2013 and is primarily

DIRECTORS AND SENIOR MANAGEMENT

responsible for the overall financial management, corporate governance, investors relationship and financial operations of our Group. Mr. Siu has over 17 years of experience in auditing, finance and accounting. Mr. Siu graduated from the City University of Hong Kong with a bachelor's degree in business studies in December 1994 and completed the executive master of business administration programme at Lingnan (University) College, Sun Yat-sen University (中山大學嶺南(大學)學院), Guangzhou, China in November 2003. Mr. Siu is currently a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Mr. Siu is also an associate member of the Institute of Chartered Accountants in England and Wales. Prior to joining our Group, Mr. Siu was a senior manager at Ernst & Young Transactions Limited from June 2012 to May 2013. Mr. Siu was the financial controller from June 2003 to March 2005 and the chief financial officer from April 2005 to March 2012 at CHT (Holdings) Ltd., a company engaging in the manufacture and sale of adhesive tapes, respectively. Mr. Siu also worked as a senior auditor at Ernst & Young from 2000 to 2003, a senior accountant at Debbie Morgan Trading Limited in 1999 and a tax accountant and auditor at PricewaterhouseCoopers from 1994 to 1998.

BOARD COMMITTEES AND OTHER COMMITTEE

Audit Committee

An audit committee was established by our Company on 27 March 2014 with written terms of reference in compliance with Rule 3.21 of the Listing Rules. The primary duties of our audit committee are to review and approve our Group's financial reporting process and internal control system. Our audit committee comprises all independent non-executive Directors, namely, Mr. Chan Sui Wa, Mr. Yu Yubin and Mr. Ma Chongqi. Mr. Chan Sui Wa is the chairman of our audit committee.

Remuneration Committee

A remuneration committee was established by our Company on 27 March 2014 with written terms of reference in compliance with Rule 3.25 of the Listing Rules. The primary duties of our remuneration committee include reviewing and determining the terms of remuneration packages, bonuses and other compensation payable to Directors and senior management of our Group. Our remuneration committee is chaired by Mr. Ma Chongqi, an independent non-executive Director, and other members are Mr. Chan Sui Wa and Mr. Yu Yubin, who are also independent Non-executive Directors.

Nomination Committee

A nomination committee was established by our Company on 27 March 2014 with written terms of reference in compliance with paragraph A.5.1 of Appendix 14 of the Listing Rules. The primary duties of our nomination committee are to make recommendations to our Board on the appointment of Directors and the senior management of our Group. The members of our nomination committee are Mr. Chan Sui Wa, Mr. Yu Yubin and Mr. Ma Chongqi. Mr. Yu Yubin is the chairman of our nomination committee.

DIRECTORS AND SENIOR MANAGEMENT

Regulatory Compliance Committee

A Regulatory Compliance Committee was established by our Company on 26 February 2014, which is led by Mr. Qiu and consists of our senior management, Mr. Deng Qinghui and Mr. Siu Kai Chun. The committee directly reports to our Board and is primarily responsible for ensuring that our business operations and activities are in compliance with the relevant laws and regulations.

DIRECTORS' REMUNERATION

The aggregate amount of fees, salaries, housing allowances, other allowances, benefits in kind (including contribution to the pension scheme on behalf of our Directors) and discretionary bonuses paid by us to our Directors for the years ended 31 December 2011, 2012 and 2013 were approximately RMB364,000, RMB396,000 and RMB378,000, respectively.

The aggregate amount of fees, salaries, housing allowances, other allowances, benefits in kind (including contribution to the pension scheme on behalf of our Directors) and discretionary bonuses paid to the five highest paid individuals of our Group for the years ended 31 December 2011, 2012 and 2013 were approximately RMB563,000, RMB651,000 and RMB940,000, respectively.

During the Track Record Period, no remuneration was paid by us to, or receivable by, 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 as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. In addition, none of our Directors has waived any emoluments.

Save as disclosed above, no other payments have been paid, or are payable, by our Group to our Directors during the Track Record Period.

Under the arrangements currently in force, the aggregate remuneration of our Directors (including our independent non-executive Directors) payable in respect of the year ending 31 December 2014 is estimated to be approximately RMB548,000.

SHARE OPTION SCHEME

We have conditionally adopted a Share Option Scheme pursuant to which selected participants may be granted options to subscribe for Shares as incentives or rewards for their service rendered to our Group and any entity in which any member of our Group holds any equity interest. Our Directors believe that the implementation of the Share Option Scheme enables our Group to recruit and retain high calibre executives and employees. The principal terms of the Share Option Scheme are summarised under the paragraph headed “Statutory and General Information — D. Other information — 1. Share Option Scheme” in Appendix V to this prospectus.

DIRECTORS AND SENIOR MANAGEMENT

COMPLIANCE ADVISER

We intend to appoint Guotai Junan Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us in the following circumstances:

- (i) before 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) if we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or if the business activities, developments or results of our Group deviate from any forecast, estimate or other information in this prospectus; and
- (iv) if the Stock Exchange makes an inquiry of our Group under Rule 13.10 of the Listing Rules.

The term of appointment of the compliance adviser shall commence on the Listing Date and end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year ending 31 December 2015.

SHARE CAPITAL

The authorised and issued share capital of our Company is as follows:-

Number of Shares comprised in the authorised share capital *HK\$*

<u>10,000,000,000</u>	Shares		<u>1,000,000,000</u>
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Assuming that the Over-allotment Option is not exercised, the share capital of our Company immediately following the Global Offering will be as follows:-

			<i>HK\$</i>
10,000	Shares in issue as at the date of this prospectus		1,000
749,990,000	Shares to be issued under the Capitalisation Issue		74,999,000
<u>250,000,000</u>	Shares to be issued under the Global Offering		<u>25,000,000</u>
<u>1,000,000,000</u>	Shares		<u>100,000,000</u>

Assuming that the Over-allotment Option is exercised, the share capital of our Company immediately following the Global Offering will be as follows:-

			<i>HK\$</i>
10,000	Shares in issue as at the date of this prospectus		1,000
749,990,000	Shares to be issued under the Capitalisation Issue		74,999,000
250,000,000	Shares to be issued under the Global Offering		25,000,000
<u>37,500,000</u>	Shares to be issued upon exercise of the Over-allotment in full		<u>3,750,000</u>
<u>1,037,500,000</u>	Shares		<u>103,750,000</u>

ASSUMPTIONS

The above tables assume that the Global Offering has become unconditional and the issues of Shares pursuant to the Global Offering and the Capitalisation Issue are made. They take no account of any Shares which may be allotted and issued upon the exercise of any options that may be granted under the Share Option Scheme; or any Shares which may be allotted and issued or repurchased by our Company pursuant to the Issuing Mandate and the Repurchase Mandate.

RANKING

The Offer Shares, including the Shares issuable pursuant to the Over-allotment Option, will rank *pari passu* with all Shares in issue or to be issued as mentioned in this prospectus and will qualify for all dividends or other distributions declared, made or paid after the date of this prospectus save for the entitlement under the Capitalisation Issue.

SHARE CAPITAL

ISSUING MANDATE

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to allot or issue and deal with unissued Shares with an aggregate nominal value of not more than:

- (a) 20 per cent. of the total nominal amount of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue; and
- (b) the total nominal amount of Shares repurchased by our Company pursuant to the mandate referred to in the paragraph headed “Share Capital — Repurchase mandate” of this prospectus.

This mandate will expire:-

- at the conclusion of the next annual general meeting of our Company; or
- at the expiration of the period within which our Company required by the Articles of Association or any applicable laws of the Cayman Islands to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of our Shareholders in general meeting, whichever is the earliest.

Particulars of this general mandate are set forth in the paragraph headed “Statutory and General Information — A. Further information about our Company and its subsidiaries — 3. Resolutions in writing of all our Shareholders passed on 27 March 2014” in Appendix V to this prospectus.

REPURCHASE MANDATE

Subject to the Global Offering becoming unconditional, our Directors have been granted a general mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10 per cent. of the total nominal amount of the Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue (excluding Shares that may be allotted and issued pursuant to exercise of the Over-allotment Option or the Share Option Scheme).

This mandate only relates to repurchases made on the Main Board, or on any other stock exchange on which the Shares are listed (and which are recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules is set forth in the paragraph headed “Statutory and General Information — A. Further information about our Company and its subsidiaries — 6. Repurchase of Share by our Company” in Appendix V to this prospectus.

SHARE CAPITAL

This mandate will expire:-

- at the conclusion of the next annual general meeting of our Company; or
- at the expiration of the period within which our Company is required by its Articles of Association or any applicable laws of the Cayman Islands to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

Particulars of this general mandate are set forth in the paragraph headed “Statutory and General Information — A. Further information about our Company and its subsidiaries — 3. Resolutions in writing of all our Shareholders passed on 27 March 2014” in Appendix V to this prospectus.

SHARE OPTION SCHEME

Subject to the Global Offering becoming unconditional, our Company have approved and adopted the Share Option Scheme. For detailed information of the Share Option Scheme, please refer to the paragraph headed “Statutory and General Information — D. Other information — Share Option Scheme” in Appendix V to this prospectus.

FINANCIAL INFORMATION

You should read the following discussion and analysis of our Group's financial condition and results of operations together with our consolidated financial statements as at and for each of the years ended 31 December 2011, 2012 and 2013 and the accompanying notes included in the Accountant's Report set out in Appendix I to this prospectus. The Accountant's Report has been prepared in accordance with 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" of this prospectus.

OVERVIEW

We principally engage in the production and sales of fabrics and yarns in the PRC. We currently offer five series of fabrics: (i) interwoven fabric with multi-fibres series; (ii) slub series; (iii) blended fabric series; (iv) stretch fabric series; and (v) pure cotton series. Our fabric products are principally used in the manufacturing of apparel including casual wear and business trousers, shorts, shirts and outer suit jackets. All of our products are tailor-made according to customers' specifications.

We commenced our yarns business in May 2012. The yarns we produce are cotton yarns. We also use the yarns we produce for our fabric production. For the years ended 31 December 2012 and 2013, approximately 33.9% and 14.6%, respectively, of the yarns we produced were used for our fabrics production.

As at the Latest Practicable Date, we have two production facilities, namely, Shishi Production Facilities and Hubei Production Facilities. The Shishi Production Facilities first commenced production in June 2006 and are used for production of fabrics with reed width of up to 1.9 metres and yarns while the Hubei Production Facilities is our new production facilities. Our Hubei Production Facilities will be implemented in three phases and the first phase of which commenced operation in June 2013. Our Hubei Production Facilities can be used for production of fabrics with reed width of up to 2.3 metres and yarns after the completion of the construction of the three phases.

From January 2011 to December 2011, we also engaged in the production and sales of apparel. However, as the financial performance of the apparel business had not been up to our management's expectation, we discontinued and sold our apparel business to an Independent Third Party in December 2011.

During the Track Record Period, we directly sold all our products to customers in the PRC. We did not enter into any distribution agreements with our customers. Our fabrics customers include trading companies and branded apparel manufacturers, and our yarns customers are fabrics weaving manufacturers. Majority of our customers are located in Fujian Province.

Revenue from our continuing business increased from approximately RMB262.1 million in 2011 to approximately RMB405.3 million in 2012 and further to approximately RMB791.5 million in 2013. Our gross profit margin from continuing business increased from 16.2% for the year ended 31

FINANCIAL INFORMATION

December 2011 to 18.7% for the year ended 31 December 2012 and remained relatively stable at 18.7% for the year ended 31 December 2013. Our net profit margin from continuing business decreased from 8.9% for the year ended 31 December 2011 to 8.6% for the year ended 31 December 2012 but increased to 9.5% for the year ended 31 December 2013.

BASIS OF PRESENTATION OF OUR FINANCIAL INFORMATION

Immediately prior to and after (i) the equity transfer of Mr. Lin's, Mr. Qiu's and Mr. Cai's respective entire equity interests in Hongtai (China) to Hongtai (Hong Kong) at a total consideration of HK\$10 million on 11 June 2010 ("**2010 Reorganisation**"); and (ii) the Reorganisation, the principal business of our Group remained under the control of Mr. Lin, Mr. Qiu and Mr. Cai. The principal business of our Group is conducted through Hongtai (China) including its subsidiaries, Hongsheng Hubei and Hongtai (Hubei). Hongtai (China) was wholly owned by Mr. Lin, Mr. Qiu and Mr. Cai previously. Pursuant to the 2010 Reorganisation and the Reorganisation, the principal business of our Group has been transferred to and held by our Company. Our Company has not been involved in any other business prior to the Reorganisation and do not meet the definition of a business. The 2010 Reorganisation and the Reorganisation were merely reorganisations of the business of our Group with no significant change in management of such business and the ultimate owners of our business. Accordingly, the consolidated financial information of the companies now comprising our Group is presented using the carrying values of the principal business of our Group for the years ended 31 December 2011, 2012 and 2013.

Our consolidated balance sheets, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows have been prepared to present our results of operations, financial position and cash flows of the companies now comprising our Group as if the current group structure has been in existence throughout the Track Record Period, or since the companies' respective dates of incorporation or establishment, where there is a shorter period.

As at 31 December 2011, 2012 and 2013, our Group had net current liabilities of approximately RMB30.6 million, RMB111.0 million and RMB104.4 million, respectively. The net current liabilities position during the Track Record Period indicated the existence of an uncertainty that may cast doubt about our Group's ability to continue our business as a going concern. Our Directors have been making effort to ensure that our Group has sufficient financial resources. Taking into account the funds generated internally from our operation and also our unutilised loan facilities of approximately RMB165.4 million available to our Group as at 31 December 2013, our Directors believe that our Group will be able to meet its debts and commitments as they fall due within the next 12 months after 31 December 2013 and will continue as going concern and therefore prepare the financial information set forth in this prospectus on a going concern basis.

FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our financial condition and results of operations have been and will continue to be affected by a number of factors, including those discussed below, some of which are beyond our control.

FINANCIAL INFORMATION

General economic conditions and the growth in disposal income of the PRC residents

China's economic growth and its increasing domestic demand for consumer goods are major drivers for the growth of the textile industry in China. According to the National Bureau of Statistics of China, the nominal GDP of China increased from RMB31,404.5 billion in 2008 to RMB51,894.2 billion in 2012, representing a CAGR of approximately 13.4% during the period. China's per capita nominal GDP also increased from RMB23,708 in 2008 to RMB38,420 in 2012, representing a CAGR of approximately 12.8% during the period.

Along with the continuous growth in the economy and the trend towards urbanisation, the income levels of households have increased. The increase in the household income has strengthened the purchasing power of the PRC residents. According to the National Bureau of Statistics of China, the per capita annual disposable income of urban and rural residents in the PRC increase from RMB15,781 and RMB4,761, respectively, in 2008 to RMB24,565 and RMB7,917, respectively, in 2012, representing a CAGR of approximately 11.7% and 13.6% during the period. We believe that the increase in the purchasing power of the PRC residents will drive sentiment towards the purchase of consumer products, including apparel and textiles which is expected to positively affect our operation results. We grew rapidly during the Track Record Period, with revenue from our continuing business increasing from approximately RMB262.1 million in 2011 to approximately RMB405.3 million in 2012, and further to approximately RMB791.5 million in 2013.

Production capacity and production volume

Our operation results had been affected by our production capacity expansions during the Track Record Period. The following table sets forth the number of production machinery, the designed annual production capacity, the actual production volume and the average utilisation rate of our Shishi Production Facilities and Hubei Production Facilities, respectively, during the Track Record Period:-

Shishi Production Facilities

	As at 31 December		
	2011	2012	2013
Number of air-jet looms (for fabrics production)	280	280	280
Number of production lines (for yarns production)	—	6	6
Designed annual production capacity^(note 1)			
— <i>Fabrics (km)</i>	22,604	22,798	22,798
— <i>Yarns (spindles)^(note 2)</i>	—	30,000	30,000
— <i>Yarns (tonnes)</i>	—	7,080	7,080
Actual production volume for the year			
— <i>Fabrics (km)</i>	18,320	19,750	21,557
— <i>Yarns (tonnes)</i>	—	3,890	6,406
Average utilisation rate for the year (%)^(note 3)			
— <i>Fabrics</i>	81.0	86.6	94.6
— <i>Yarns</i>	—	84.6 ^(note 4)	90.5

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Notes:-

- (1) The designed annual production capacity is calculated based on (i) speed and efficiency of our equipment and machinery; and (ii) number of days worked for the year. For the purpose of this prospectus, it is assumed that all production facilities operate 24 hours per day for the number of days per year after deducting the respective scheduled or estimated downtime for maintenance and repair. In particular, for the calculation of designed annual production capacity of yarns, it is assumed that yarns of 25 counts are used as standardisation for all yarns.
- (2) For the purpose of this prospectus, the production speed of each spindle is 30 metres per minute. The actual number of rotors of our yarns is 3,000 with a production speed of 300 metres per minute and therefore equivalent to 30,000 spindles.
- (3) The average utilisation rate is determined based on the actual production volume divided by the designed annual production capacity, which is calculated based on the assumptions as disclosed in note (1) above.
- (4) Our yarns business commenced in May 2012. As such, the designed annual production capacity used to calculate the average utilisation rate for the year ended 31 December 2012 is based on a period of 230 days of operation.

Hubei Production Facilities

As at 31 December 2013

Number of air-jet looms (for fabrics production)	288
Designed annual production capacity for fabrics (km) <i>(note 1)</i>	23,449
Actual production volume of fabrics (km)	11,161
Average utilisation rate (%) <i>(note 2)</i>	92.9

Notes:-

- (1) The designed annual production capacity is calculated based on (i) speed and efficiency of our equipment and machinery; and (ii) number of days expected to work for the year. For the purpose of this prospectus, it is assumed that all production facilities operate 24 hours per day for the number of days per year after deducting the respective estimated downtime for maintenance and repair.
- (2) The average utilisation rate is determined based on the actual production volume divided by the designed annual production capacity, which is calculated based on the assumptions as disclosed in note (1) above. The first phase of our Hubei Production Facilities commenced operation in June 2013, and the whole first phase of our Hubei Production Facilities was completed in July 2013. As such, the designed annual production capacity used to calculate the average utilisation rate for the year ended 31 December 2013 is based on the operation of 40 air-jet looms put in operation since June 2013 for a period of 196 days and the operation of 248 air-jet looms put in operation since July 2013 for a period of 179 days.

We believe our expansion of production capacity and production volume allow us to benefit from economies of scale in various ways, including lower fixed average unit costs for our products and higher market recognition and awareness as compared to smaller manufacturers in the industry. However, depreciation cost from our continuing business and finance cost for the borrowings may increase significantly in the foreseeable future due to the continuing construction of our Hubei Production Facilities. For the years ended 31 December 2011, 2012 and 2013, the depreciation cost from our continuing business was approximately RMB12.0 million, RMB19.4 million and RMB32.1

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million, respectively. For the years ended 31 December 2011, 2012 and 2013, our finance cost was approximately RMB9.1 million, RMB15.7 million and RMB17.0 million, respectively. Please refer to the paragraph headed “Business — Production facilities” of this prospectus for detailed information.

Pricing of our products and product mix

Changes in the prices and product mix of our fabrics and yarns products sold to our customers affect our financial position and operation results. Our fabrics products are classified into five series primarily according to their features in aspects including textures and style. They have different gross profit margins, level of demand and corresponding selling prices. The gross profit margin of our fabrics products was generally higher than the gross profit margin of yarns products for the years ended 31 December 2012 and 2013.

The following table sets forth the average unit selling prices of interwoven fabric with multi-fibres series, which accounted for the largest portion of the revenue generated from fabrics, and cotton yarns during the Track Record Period:-

	Year ended 31 December		
	2011	2012	2013
	<i>RMB/metre</i>	<i>RMB/metre</i>	<i>RMB/metre</i>
Fabrics			
Interwoven fabric with multi-fibres series	16.7	18.9	19.7
	<i>RMB/tonne</i>	<i>RMB/tonne</i>	<i>RMB/tonne</i>
Yarns			
Cotton yarns	N/A	20,230	19,725

Note:-

Average unit selling prices represent revenue divided by sales volume for the year.

Our sales, to a certain extent, are driven by the fashion trend and the ability to provide products which fit the market preferences and fashion trend. We continuously adjust our product mix, taking into account the conditions in the market for our raw materials and our yarn products from time to time. We actively manage our purchase of raw materials with a view to control our cost of raw materials and to ensure sufficient supply of raw materials for our production. During the Track Record Period, we strived to manage our cost of sales to stay at a stable level or to rise at a slower rate than the prices of our products. We also commenced our yarns business in May 2012.

As a result, our gross profit margins increased from 16.2% for the year ended 31 December 2011 to 18.7% for the year ended 31 December 2012 and maintained at the same level for the year ended 31 December 2013. We will continue to monitor and optimise our pricing and product mix in response to changes in market conditions, consumer preferences and fashion trend in order to maximise our gross profit margin.

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The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the average unit selling price of interwoven fabric with multi-fibres series during the Track Record Period, on our profit after tax for the years during the Track Record Period, assuming all other factors affecting our profit remain unchanged.

Hypothetical fluctuations on average unit selling price of interwoven fabric with multi-fibres series

	Increase 5%	Increase 10%	Increase 20%	Decrease 5%	Decrease 10%	Decrease 20%
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Change in profit after tax						
Year ended 31 December 2011	8,718	17,436	34,872	(8,718)	(17,436)	(34,872)
Year ended 31 December 2012	11,279	22,558	45,116	(11,279)	(22,558)	(45,116)
Year ended 31 December 2013	20,662	41,324	82,648	(20,662)	(41,324)	(82,648)

Note:

The maximum fluctuation in the average unit selling price of interwoven fabric with multi-fibres on a year-on-year basis during the Track Record Period was 13.2%. Given that the maximum fluctuation of the same is within the range of 20%, our Directors are of the view that it is prudent to use 5%, 10% and 20% in the above sensitivity analysis.

The highest change in the average unit selling price of interwoven fabric with multi-fibres series on a year-on-year basis during the Track Record Period was approximately 13.2% which would result in the change of profit after tax of approximately RMB23.0 million, RMB29.8 million and RMB54.5 million, respectively, for the years ended 31 December 2011, 2012 and 2013.

Seasonality

There is seasonal fluctuation in our sales. Generally, demand for our products is relatively higher in the fourth quarter due to the higher demand by our customers during the period before the Chinese New Year holiday whereas our sales around the Chinese New Year holiday are usually lower. In addition, there are other factors relevant to seasonality which may affect our sales, such as weather conditions, the timing of launch of new products and the timing of delivery of products.

Cost of raw materials

Our primary raw materials used for production of our fabrics products are cotton yarns. For the years ended 31 December 2011, 2012 and 2013, the cost of raw materials used for production accounted for 81.4%, 80.1% and 79.1%, respectively, of our total cost of production of fabrics. Our principal raw materials for producing yarns are raw cotton. For the years ended 31 December 2012 and 2013, the cost of raw materials used for production accounted for 88.9% and 87.9%, respectively, of our total cost of production of yarns.

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The following table sets forth our average unit purchase prices of cotton yarns and raw cotton during the Track Record Period:-

	Year ended 31 December		
	2011	2012	2013
	RMB/tonne	RMB/tonne	RMB/tonne
Cotton yarns	30,507	31,875	28,900
Raw cotton	—	14,924	15,930

Note:

Average unit purchase prices of relevant raw materials are calculated as the weighted average by the relevant purchase cost of raw materials divided by the relevant quantity of the raw materials purchased for the year.

Among the raw materials we used in the production of fabrics and yarns, cost of cotton yarns accounted for the largest proportion. For the years ended 31 December 2011, 2012 and 2013, cost of cotton yarns accounted for 66.7%, 58.8% and 51.5%, respectively, of our total cost of production of fabrics. The average unit purchase price of cotton yarns remained relatively stable in 2011 and 2012. The decrease of the average unit purchase price of cotton yarns from RMB31,875 per tonne for the year ended 31 December 2012 to RMB28,900 per tonne for the year ended 31 December 2013 was mainly due to the decrease in the proportion of purchase of specific yarns in 2013.

Raw cotton is the major raw materials for the production of cotton yarns. As we sourced all our raw cotton in the PRC, any fluctuation in the cotton prices in the PRC will generally affect the profitability and operation result of our Group. We commenced our yarns business in May 2012. We commenced purchasing raw cotton in 2012 and therefore our yarns business was not materially affected by the fluctuations in raw cotton price in 2011. Based on the CC Index 328 as set forth in the paragraph headed “Industry Overview — Cotton textile market in the PRC — Cotton yarns — Production and prices of cotton” of this prospectus, the average prices of cotton produced in the PRC were relatively stable since January 2012 and remained at approximately RMB19,000 per tonne. Similarly, our average unit purchase price of raw cotton remained relatively stable for the years ended 31 December 2012 and 2013 (being the two years in the Track Record Period during which we carried out our yarns business). Our average unit price of raw cotton for 2012 and 2013 is lower than the average cotton price from the CC Index 328 is primarily because the raw cotton we generally purchased is of lower grade.

Despite the higher cotton price of approximately RMB28,000 per tonne in 2011 based on the CC Index 328 as compared to that in 2012, our average purchase price of cotton yarns remained relatively stable in 2011 and 2012. It is primarily because the cotton yarns we use in our production include various types of yarns such as specific yarns, which carry different prices owing to different specification. Our average unit purchase price of cotton yarns in 2011 and 2012 is higher than the price of 32 counts cotton yarns in the PRC of approximately RMB25,900 per tonne and RMB25,740 per tonne as set forth in the paragraph headed “Industry Overview — Cotton textile market in the PRC — Cotton yarns — Prices of cotton yarns” of this prospectus. The 32 counts cotton yarn is a type of cotton yarn commonly used by fabric manufacturers of the PRC. However, we use a variety of yarns including specific yarns which generally carry higher prices, and the average unit purchase price may not necessarily be in line with the 32 counts cotton yarns.

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We did not engage in any hedging activity nor enter into any future contract to manage price fluctuations of our raw materials, including the prices of raw cotton and cotton yarns, during the Track Record Period, because the increase in the cost of raw materials is generally reflected in the average unit selling prices of our fabrics products.

While we generally do not use long-term purchase contracts to limit our exposure to fluctuations in the prices of our raw materials, nor is there any price adjustment clause where our customers will compensate us for unexpected increase in the prices of raw materials after placing the purchase orders. We try to manage the impact of such fluctuations on our profitability through adjustments to the unit selling prices of our products from time to time according to prevailing market prices of yarn products and movements in our raw material costs, with a view to pass on any increase in the cost of our raw materials to our customers to an extent that it is commercially practicable.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the average unit purchase price of cotton yarns, and the average unit purchase price of raw cotton on our profit after tax for the years during the Track Record Period, assuming all other factors affecting our profit remain unchanged.

(a) *Hypothetical fluctuations on average unit purchase price of cotton yarns*

	Increase by 5% RMB'000	Increase by 10% RMB'000	Increase by 20% RMB'000	Decrease by 5% RMB'000	Decrease by 10% RMB'000	Decrease by 20% RMB'000
Change in profit after tax						
Year ended						
31 December 2011	(8,035)	(16,070)	(32,140)	8,035	16,070	32,140
Year ended						
31 December 2012	(6,384)	(12,768)	(25,536)	6,384	12,768	25,536
Year ended						
31 December 2013	(10,443)	(20,886)	(41,772)	10,443	20,886	41,772

Note:

The maximum fluctuation in the average unit purchase prices of cotton yarns on a year-on-year basis during the Track Record Period was 9.3%. Given that the maximum fluctuation of the same is within the range of 20%, our Directors are of the view that it is prudent to use 5%, 10% and 20% in the above sensitivity analysis.

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The highest change in the average unit purchase price of cotton yarns on a year-on-year basis during the Track Record Period was approximately 9.3% which would result in the change of profit after tax of approximately RMB14.9 million, RMB11.9 million and RMB19.4 million, respectively, for the years ended 31 December 2011, 2012 and 2013.

(b) *Hypothetical fluctuations on average unit purchase price of raw cotton*

	Increase by 5% RMB'000	Increase by 10% RMB'000	Increase by 20% RMB'000	Decrease by 5% RMB'000	Decrease by 10% RMB'000	Decrease by 20% RMB'000
Change in profit after tax						
Year ended						
31 December 2012	(1,505)	(3,010)	(6,020)	1,505	3,010	6,020
Year ended						
31 December 2013	(2,183)	(4,366)	(8,732)	2,183	4,366	8,732

Note:

The maximum fluctuation in the average unit purchase prices of raw cotton on a year-on-year basis during the Track Record Period was 6.7%. Given that the maximum fluctuation of the same is within the range of 20%, our Directors are of the view that it is prudent to use 5%, 10% and 20% in the above sensitivity analysis.

The highest change in the average unit purchase price of raw cotton on a year-on-year basis during the Track Record Period was approximately 6.7% which would result in the change of profit after tax of approximately RMB2.0 million and RMB2.9 million, respectively, for the years ended 31 December 2012 and 2013.

Breakeven analysis

The following table sets forth the percentage of fluctuation of each of the average selling price of interwoven fabrics with multi-fibres series, the average purchase prices of raw cotton and cotton yarns that will cause us to incur a loss before taxation for the year ended 31 December 2013, assuming that all other factors remain unchanged:-

	Decrease in average unit selling price	Increase in average unit purchase price
Interwoven fabrics with multi-fibre series	18.8%	N/A
Cotton yarns	N/A	37.2%
Raw cotton	N/A	177.8%

In addition to the fluctuation of the average unit selling price of our products and the average unit purchase price of the raw materials, the occurrence of certain events disclosed in the section headed "Risk Factors" of this prospectus may also cause us to incur a loss.

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Taxation

Pursuant to the PRC EIT Law, a unified EIT rate of 25% is imposed upon both domestically-invested enterprises and foreign-invested enterprises. In accordance with the *Notice of the State Council 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) (the “**EIT Notice**”), as at January 1, 2008, the enterprises that previously enjoy “2-year exemption and 3-year half payment”, “5-year exemption and 5-year half payment” of the enterprise income tax and other preferential treatments in the form of periodic tax deductions and exemptions may, after the implementation of the PRC EIT Law, 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, its preferential time period shall be calculated from 2008.

Hongtai (China) is a wholly foreign invested entity of manufacturing nature. In accordance with Income Tax Law of the People’s Republic of China 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》) (the “**Foreign Enterprise Income Tax Law**”) which was annulled on January 1, 2008, the same date when the PRC EIT Law entered into force, Hongtai (China) enjoyed the “2-year exemption and 3-year half payment” of the enterprise income tax preferential treatment, that is, Hongtai (China) was exempted from enterprise income tax for two years starting from its first profit making year since its establishment and followed by a 50% tax relief for the next three years.

Hongtai (China)’s first profit making year was 2007. According to the Foreign Enterprise Income Tax Law and the EIT Notice, Hongtai (China) was therefore entitled to a reduced tax rate of 12.5% from 1 January 2009 to 31 December 2011 and was subject to a tax rate of 25.0% from 1 January 2012 onwards.

The effective tax rate for the years ended 31 December 2011, 2012 and 2013 was approximately 12.5%, 26.0% and 27.6%, respectively. Any increase in the effective tax rate will increase in the income tax expenses and result in negative impact on our operation results.

Competition

Our Directors are of the view that the PRC textile industry is highly competitive and fragmented and we do not enter into any long-term sales agreement with our customers as at the Latest Practicable Date. Our customers may source the fabrics and yarns products from other suppliers. If we cannot provide the fabrics and yarns products with high quality at a competitive price, our customers may not continue to purchase our products and our financial position and operation results will be adversely affected.

Discontinuance of apparel business

Our operation results were affected by our discontinuance of apparel business during the Track Record Period. We commenced the production and sales of apparel in the PRC in January 2011 and

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discontinued this business segment in December 2011 mainly because the financial performance of the apparel business had not been up to our management's expectation. During the year ended 31 December 2011, the profit for the year from the discontinued operation amounted to approximately RMB5.7 million. Please refer to the paragraph headed "Business — Apparel business" of this prospectus for detailed information.

Interest rates

We are exposed to interest rate risk arising from bank and other borrowings and finance lease arrangement during the Track Record Period. For the years ended 31 December 2011, 2012 and 2013, (i) the weighted average effective interest rate on borrowings from banks and other financial institutions was 7.76%, 10.30% and 10.76% per annum, respectively; (ii) the weighted average effective interest rate on other borrowings was 13.49%, 13.35% and 13.35%, respectively; and (iii) the effective interest rate range of the finance lease arrangements was 9.13% to 11.07%. We expect to partly finance (i) the construction of our Hubei Production Facilities; and (ii) the development and operation of our business by borrowings from banks and other financial institutions. Significant increase in the interest rate will result in the increase in our finance costs. For detailed information on the impact on our post-tax profit arising from change in interest rate, please refer to note 3.1(a)(ii) to the Accountant's Report set forth in Appendix I to this prospectus.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our principal accounting policies are set forth in note 2 to the Accountant's Report set forth in Appendix I to this prospectus. Our consolidated financial statements were prepared in accordance with accounting policies which conform to IFRSs. Accounting methods, assumptions and estimates that underlie the preparation of our consolidated financial statements affect our financial condition and results of operations reported. Such assumptions and estimates are made based on historical cost basis. The results of which form the basis of judgement on our carrying amounts of assets and liabilities and our results may differ under different assumptions or conditions. We have identified below the accounting policies that we believe are the most critical to our consolidated financial statements and that involve the most significant estimate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. Our 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 our Group's activities, as described below.

(a) *Sales of goods*

Revenue from the sales of goods is recognised when the risk and reward of the goods has been transferred to the customer, which is usually when the customer has picked up the products from our warehouse or we have delivered the products to the customer's warehouse, the collectability of the related receivables is reasonably assumed and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

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(b) *Interest income*

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, our Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

(c) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

Property, plant and equipment

Buildings comprise mainly factories and offices. Plant and equipment classified as finance lease and all other property, plant and equipment are stated at historical cost less subsequent accumulated depreciation and accumulated impairment loss (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 our 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 profit or loss during the financial period in which they are incurred.

Construction-in-progress represents properties under construction and is stated at cost less accumulated impairment losses. This includes cost of construction and other direct costs. Construction-in-progress is not depreciated until such time as the assets are completed and are ready for operational use.

Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Buildings	20 years
- Machinery and equipment	10 years
- Office equipment, furniture and vehicles	5 years

The assets' depreciation methods, residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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 the proceeds with the carrying amount and are recognised within "Other income — net" in the profit or loss.

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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 and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling costs.

Financial assets

Our Group classifies its financial assets under the category of loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, cash and cash equivalents and restricted bank deposits) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Regular way purchases and sales of financial assets are recognised on the trade-date-the date on which our 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 are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and our Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Impairment of financial assets

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.

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

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asset is reduced and the amount of the loss is recognised in the profit or loss. 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 profit or loss.

Trade, notes and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade, notes and other payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade, notes and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings and borrowings costs

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 profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless we have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Current and deferred income tax

The income tax expense for the year comprises current and deferred income tax.

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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 our 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 liabilities are not recognised if they arise from the initial recognition of goodwill, the 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 on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by us 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 tax assets and liabilities relate to income tax 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.

Finance leases

We lease certain plant and equipment under finance lease. Leases of plant and equipment where we have substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

Sale and leaseback transactions with a call option that is set at a significant discount to the expected fair value when it becomes exercisable and other factors indicate that the seller needs the asset to use on an ongoing basis (seller/lessee effectively controls the asset) are treated as secured borrowings instead of finance leases.

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SUMMARY OF RESULTS OF OPERATIONS

The selected financial information from our consolidated statements of comprehensive income for the years ended 31 December 2011, 2012 and 2013 set forth below are derived from our Accountant's Report included in Appendix I to this prospectus, and should be read in conjunction with the Accountant's Report and this "Financial Information" section.

Summary of Consolidated Statements of Comprehensive Income

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
<i>Continuing business</i>			
Revenue	262,072	405,286	791,518
Cost of sales	<u>(219,570)</u>	<u>(329,681)</u>	<u>(643,364)</u>
Gross profit	42,502	75,605	148,154
Selling expenses	(484)	(1,411)	(2,189)
Administrative expenses	(7,587)	(13,807)	(31,477)
Other income - net	<u>173</u>	<u>1,121</u>	<u>4,634</u>
Operating profit	34,604	61,508	119,122
Finance income	1,074	1,308	1,368
Finance costs	<u>(9,104)</u>	<u>(15,722)</u>	<u>(17,000)</u>
Finance costs - net	<u>(8,030)</u>	<u>(14,414)</u>	<u>(15,632)</u>
Profit before income tax	26,574	47,094	103,490
Income tax expense	<u>(3,309)</u>	<u>(12,257)</u>	<u>(28,516)</u>
Profit for the year from continuing business	23,265	34,837	74,974
<i>Discontinued business</i>			
Profit for the year from discontinued business	<u>5,718</u>	<u>—</u>	<u>—</u>
Profit and total comprehensive income for the year, attributable to owners of the Company	<u>28,983</u>	<u>34,837</u>	<u>74,974</u>
Earnings per share			
(Basic and diluted expressed in RMB per share)	<u>2,898</u>	<u>3,484</u>	<u>7,497</u>

Note: The earnings per share as presented above is calculated using the weighted average number of ordinary shares of 10,000 shares for each of the years ended 31 December 2011, 2012 and 2013. It has not taken into account the proposed capitalisation issue of 749,990,000 shares pursuant to the Shareholders' resolutions passed on 27 March 2014 because the proposed capitalisation issue has not become effective as at the date of this prospectus.

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PRINCIPAL COMPONENTS OF CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Revenue

Our revenue is mainly derived from the sale of our fabrics and yarns products and all of our revenue is derived from our operations in the PRC.

The following table sets forth a breakdown of our revenue by business segment during the Track Record Period:-

	Year ended 31 December					
	2011		2012		2013	
	<i>RMB'000</i>	<i>% to total revenue</i>	<i>RMB'000</i>	<i>% to total revenue</i>	<i>RMB'000</i>	<i>% to total revenue</i>
Continuing business						
Fabrics	262,072	100.0	360,449	88.9	680,352	86.0
Yarns ^(Note 1)	—	—	44,837 ^(Note 3)	11.1	111,166 ^(Note 3)	14.0
Total	<u>262,072</u>	<u>100.0</u>	<u>405,286</u>	<u>100.0</u>	<u>791,518</u>	<u>100.0</u>
Discontinued business						
Apparel ^(Note 2)	<u>49,010</u>	<u>N/A</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

Notes:-

1. We commenced our yarns business in May 2012.
2. We carried out the apparel business from January 2011 to December 2011.
3. Intra-group sales of yarns we produced are excluded.

The following table sets forth a breakdown of the revenue by nature of customers during the Track Record Period:-

	Year ended 31 December		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Apparel manufacturers	215,876	266,464	401,777
Trading companies	46,196	94,198	279,390
Fabrics weaving companies	—	44,624	110,351
Total	<u>262,072</u>	<u>405,286</u>	<u>791,518</u>

Our fabric products are classified into five series primarily according to their features. During the Track Record Period, we only produced one type of yarns, namely the cotton yarns, which can be used as the raw materials for the production of our fabrics products. The following table sets forth a breakdown of the revenue, the sales volume and the average unit selling prices by product series during the Track Record Period:-

Note:-

Average unit selling prices represent revenue divided by sales volume for the year.

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The following table sets forth the number of customers under each product series in fabrics business segment during the Track Record Period:-

	Year ended 31 December		
	2011	2012	2013
Interwoven fabric with multi-fibres series	292	322	348
Slub series	42	20	21
Blended fabric series	36	10	17
Stretch fabric series	9	22	14
Pure cotton series	<u>5</u>	<u>1</u>	<u>1</u>
Total	<u>384</u>	<u>375</u>	<u>401</u>

Note:

Given that certain customers may purchase more than one fabric series, the classification of the customers under each product series will be based on the largest quantity sold to such customers in a particular product series during the years indicated.

The increase in the revenue from our continuing business from approximately RMB405.3 million for the year ended 31 December 2012 to RMB791.5 million for the year ended 31 December 2013 was mainly due to (i) the increase in the sales volume of fabric products from approximately 18,946.0 km approximately to 34,599.0 km; and (ii) the operation of our yarns business for the whole year of 2013. The increase in the revenue from approximately RMB262.1 million in 2011 to approximately RMB405.3 million in 2012 was principally attributable to (i) the increase in our sales volume of our fabrics products from approximately 15,467.3 km in 2011 to approximately 18,946.0 km in 2012; and (ii) the commencement of our yarns business in May 2012.

The increase in the sales volume of fabrics throughout the Track Record Period was mainly due to the expansion of our production capacity followed by the increase in sales volume of our interwoven fabric with multi-fibres series which were well-received by our customers. The increase in the sales volume of our interwoven fabric with multi-fibres series was principally attributable to the following factors:-

1. Our ability to offer increasing types of products under interwoven fabric with multi-fibres series enabled us to cater more needs from our customers. The number of types of products under our interwoven fabric with multi-fibres series sold to our customers also kept increasing during the Track Record Period. We offered 67, 110 and 322 types, respectively, of products under interwoven fabric with multi-fibres series to our customers for the years ended 31 December 2011, 2012 and 2013.
2. Our success in broadening the customer base in the interwoven fabric with multi-fibres series as a result of our sales effort allowed us to alleviate our reliance on a small group of customers and to broaden our revenue stream. The total number of customers under fabrics business segment during the Track Record Period decreased from 384 in 2011 to 375

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in 2012 but increased to 401 in 2013 whereas the number of customers under the interwoven fabric with multi-fibres series, which contributed the largest portion to our revenue from continuing business during the Track Record Period, increased from 292 in 2011 to 322 in 2012 and further to 348 in 2013.

In view of the above, we strategically focused on the sales of interwoven fabric with multi-fibres series while the revenue generated from such series accounted for at least 76.0% of the total revenue generated by the fabrics business segment during the Track Record Period.

Other than the increase in the sales volume, the average unit selling price of our fabric products also increased during the Track Record Period. The average unit selling price of our fabric products was principally affected by various factors including but not limited to (i) the average unit purchase prices of raw materials including cotton yarns; (ii) the production costs including the subcontracting dyeing charges; and (iii) the technical requirements of the products such as density, heavier weight, types and number of yarns utilised as required by our customers. For the years ended 31 December 2011 and 2012, higher technical requirements of the fabric products, the increase in the subcontracting dyeing charges and the average unit purchase prices of cotton yarns resulted in a general increase in the average unit selling price of our fabrics products during such period. The average unit selling price of the pure cotton series increased significantly from RMB13.1 for the year ended 31 December 2011 to RMB26.1 for the year ended 31 December 2012 because of the following reasons: (i) the increase in the sales of fabric products with higher technical requirements such as higher density, heavier weight, more types of yarns utilised and use of expensive yarns as required by our customers; and (ii) most of the fabric products sold under this series were dyed products resulting in higher average unit selling price due to the additional subcontracting dyeing charges.

The average unit selling prices of interwoven fabric with multi-fibres series and blended fabric series maintained relatively stable for the years ended 31 December 2012 and 2013. The increase in the average unit selling prices of slub series from RMB17.9 for the year ended 31 December 2012 to RMB18.9 for the year ended 31 December 2013 was principally due to the increase in the sales of such series of fabric products which involve more technical requirements such as requesting more types of yarns to be used for production and heavier weight. For the stretch fabric series, the average unit selling price decreased from RMB21.0 for the year ended 31 December 2012 to RMB19.9 for the year ended 31 December 2013. Such decrease was principally due to the decrease in the average of the unit purchase cost of raw material for the production of fabrics. For the pure cotton series, the average unit selling price decreased from RMB26.1 for the year ended 31 December 2012 to RMB22.3 for the year ended 31 December 2013. Such decrease was principally due to (i) the decrease in the proportion of sales of fabric products with higher technical requirements; and (ii) part of the fabrics products sold were grey fabrics for the year ended 31 December 2013 while most of fabrics products sold during the same period in 2012 were dyed fabrics.

Cost of sales

Our cost of sales primarily consists of raw material costs and direct labour and overhead costs.

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Continuing business

The following table sets forth our cost of sales of continuing business by business segments during the Track Record Period:-

	Year ended 31 December					
	2011		2012		2013	
	% to total cost of production		% to total cost of production		% to total cost of production	
	RMB'000		RMB'000		RMB'000	
Fabrics						
Raw materials used for production						
- Cotton yarns purchased	183,648	66.7	170,253	58.8	278,477	51.5
- Grey fabrics purchased	—	—	—	—	43,960	8.1
- Transfer from production of yarns	—	—	22,994	7.9	18,978	3.5
- Polyester yarns purchased	10,909	4.0	5,665	2.0	20,418	3.8
- Core yarns purchased	5,081	1.8	6,692	2.3	26,542	4.9
- CVC yarns purchased	14,337	5.2	14,988	5.2	14,969	2.8
- Other yarns and fibre	10,170	3.7	11,425	3.9	24,593	4.5
	<u>224,145</u>	<u>81.4</u>	<u>232,017</u>	<u>80.1</u>	<u>427,937</u>	<u>79.1</u>
Sub-contracting dyeing charges	12,315	4.5	17,293	6.0	51,897	9.6
Overhead						
- Utility expenses	11,289	4.1	13,523	4.7	20,485	3.8
- Depreciation	11,461	4.2	12,319	4.2	20,611	3.8
- Direct labour	10,291	3.7	10,822	3.7	15,795	2.9
- Others	5,662	2.1	3,652	1.3	4,528	0.8
Total cost of production	<u>275,163</u>	<u>100.0</u>	<u>289,626</u>	<u>100.0</u>	<u>541,253</u>	<u>100.0</u>
Adjusted for:						
- Change in finished goods and work in progress	(27,111)		416		4,981	
- Transfer to apparel	<u>(28,482)</u>		<u>—</u>		<u>—</u>	
Cost of sales of fabrics	<u>219,570</u>		<u>290,042</u>		<u>546,234</u>	

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	Year ended 31 December					
	2011		2012		2013	
	% to total		% to total		% to total	
	<i>cost of</i>		<i>cost of</i>		<i>cost of</i>	
	<i>RMB'000</i>	<i>production</i>	<i>RMB'000</i>	<i>production</i>	<i>RMB'000</i>	<i>production</i>
Yarns						
Raw materials used for production						
- Raw cotton	—	—	40,124	57.0	58,222	52.4
- Silk noil	—	—	22,064	31.3	38,673	34.8
- Others	—	—	445	0.6	783	0.7
	—	—	62,633	88.9	97,678	87.9
Overhead						
- Utility expenses	—	—	3,502	5.0	4,834	4.3
- Depreciation	—	—	3,702	5.2	6,656	6.0
- Direct labour	—	—	651	0.9	1,260	1.1
- Others	—	—	—	—	800	0.7
Total cost of production	—	—	70,488	100.0	111,228	100.0
Adjusted for:						
- Change in finished goods and work in progress	—		(7,855)		4,880	
- Transfer to fabrics	—		(22,994)		(18,978)	
Cost of sales of yarns	<u>—</u>		<u>39,639</u>		<u>97,130</u>	
Total cost of sales of continuing business	<u>219,570</u>		<u>329,681</u>		<u>643,364</u>	

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The following table sets forth our cost of sales of continuing business, combining cost of sales of both fabrics and yarns:-

	Year ended 31 December					
	2011		2012		2013	
	<i>% to total</i>		<i>% to total</i>		<i>% to total</i>	
	<i>cost of</i>		<i>cost of</i>		<i>cost of</i>	
	<i>RMB'000</i>	<i>production</i>	<i>RMB'000</i>	<i>production</i>	<i>RMB'000</i>	<i>production</i>
Raw materials						
- Cotton yarns	183,648	66.7	170,253	50.5	278,477	44.0
- Grey fabrics purchased	—	—	—	—	43,960	6.9
- Raw cotton	—	—	40,124	11.9	58,222	9.2
- Polyester yarns	10,909	4.0	5,665	1.7	20,418	3.2
- Core yarns	5,081	1.8	6,692	2.0	26,542	4.2
- Silk noil	—	—	22,064	6.5	38,673	6.1
- CVC yarns	14,337	5.2	14,988	4.4	14,969	2.4
- Others	10,170	3.7	11,870	3.6	25,376	4.0
	<u>224,145</u>	<u>81.4</u>	<u>271,656</u>	<u>80.6</u>	<u>506,637</u>	<u>80.0</u>
Sub-contracting dyeing charges	<u>12,315</u>	<u>4.5</u>	<u>17,293</u>	<u>5.1</u>	<u>51,897</u>	<u>8.2</u>
Overhead						
- Utility expenses	11,289	4.1	17,025	5.1	25,319	4.0
- Depreciation	11,461	4.2	16,021	4.7	27,267	4.3
- Direct labour	10,291	3.7	11,473	3.4	17,055	2.7
- Others	<u>5,662</u>	<u>2.1</u>	<u>3,652</u>	<u>1.1</u>	<u>5,328</u>	<u>0.8</u>
Total cost of production	<u>275,163</u>	<u>100.0</u>	<u>337,120</u>	<u>100.0</u>	<u>633,503</u>	<u>100.0</u>
Adjusted for:						
- Change in finished goods and work in progress	(27,111)		(7,439)		9,861	
- Transfer to apparel	<u>(28,482)</u>		<u>—</u>		<u>—</u>	
Total cost of sales of continuing business	<u>219,570</u>		<u>329,681</u>		<u>643,364</u>	

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Our cost of sales of continuing business increased from approximately RMB219.6 million for the year ended 31 December 2011 to approximately RMB329.7 million for the year ended 31 December 2012 and further to approximately RMB643.4 million for the year ended 31 December 2013. This was mainly attributable to the increase in the sales volume of fabrics and the commencement of our yarns business since May 2012.

Discontinued business

The following table set forth the cost of sales of our discontinued apparel business during the year ended 31 December 2011:-

	Year ended	
	31 December 2011	
	<i>% to cost of</i>	<i>sales of</i>
	<i>apparel</i>	<i>business</i>
	<i>RMB'000</i>	
Apparel		
Fabrics		
- Transferred from fabrics	28,482	69.6
- Purchased	3,532	8.6
	32,014	78.2
Direct labour	3,879	9.5
Utility expenses	354	0.9
Depreciation	534	1.3
Others	4,161	10.1
Total	40,942	100.0

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Gross profit and gross profit margins

Our gross profit was approximately RMB42.5 million, RMB75.6 million and RMB148.2 million, respectively, for the years ended 31 December 2011, 2012 and 2013. The following table sets forth an analysis of our gross profit and gross profit margin by business segments during the Track Record Period:-

	Year ended 31 December					
	2011		2012		2013	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%
Continuing business						
Fabrics						
Interwoven fabric with multi-fibres series	32,220	16.2	59,291	19.7	109,769	19.9
Slub series	4,142	18.2	4,166	19.4	8,118	18.8
Blended fabric series	4,891	15.2	2,781	16.0	5,701	17.1
Stretch fabric series	948	18.7	3,107	20.1	5,918	19.7
Pure cotton series	301	11.3	1,062	20.0	4,612	20.2
Sub-total	42,502	16.2	70,407	19.5	134,118	19.7
Yarns	—	—	5,198	11.6	14,036	12.6
Total	42,502	16.2	75,605	18.7	148,154	18.7
Discontinued business						
Apparel	8,068	16.5	—	—	—	—

Since we principally manufacture our fabrics products under each series according to our customers' specifications, there is no standard selling price for each of our fabrics products. If customer requires more types of yarns or certain specific yarns or higher technical requirement such as higher density, heavier weight and dyeing, additional efforts may be needed to source those yarns and additional time may be required for conducting researches on manufacturing the required fabric product which depends on its complexity and technical requirement. Hence, instead of simply transferring the cost of requisite raw materials to our customers, we may charge additional gross profit margins on those products depending on our negotiation with the customers and the sales volume of the fabric products required. As such, the fluctuation of the gross profit margin under each series principally depends on the proportion of the sales of fabric products with relatively higher technical requirement while, to the best knowledge and belief of our Directors, such sales may be affected by a number of factors including the fashion trend in the textile industry.

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Gross profit margin of our interwoven fabric with multi-fibres series remained relatively stable for the years ended 31 December 2012 and 2013. Gross profit margin of our interwoven fabric with multi-fibres series increased from 16.2% for the year ended 31 December 2011 to 19.7% for the year ended 31 December 2012. Such increase was primarily because some customers required fabrics products with heavier weight.

Gross profit margin of our slub series remained relatively stable for the years ended 31 December 2012 and 2013. Gross profit margin of our slub series increased from 18.2% for the year ended 31 December 2011 to 19.4% for the year ended 31 December 2012. Such increase was primarily because some customers required fabric products involving relatively more types of yarns.

Gross profit margin of our blended fabric series increased from 16.0% for the year ended 31 December 2012 to 17.1% for the year ended 31 December 2013. Such increase was primarily because some customers required products of heavier weight and involving more types of yarns during the year ended 31 December 2013. Gross profit margin of our blended fabric series increased from 15.2% for the year ended 31 December 2011 to 16.0% for the year ended 31 December 2012. Such increase was primarily due to the products sold to some customers were relatively heavier in 2012.

Gross profit margin of our stretch fabric series remained relatively stable for the years ended 31 December 2012 and 2013. Gross profit margin of our stretch fabric series increased from 18.7% for the year ended 31 December 2011 to 20.1% for the year ended 31 December 2012. Such increase was primarily due to the increase in the number of customers who demanded more types of specific yarns for the fabrics required and heavier fabrics.

Gross profit margin of our pure cotton series remained relatively stable for the years ended 31 December 2012 and 2013. Gross profit margin of our pure cotton series increased significantly from 11.3% for the year ended 31 December 2011 to 20.0% for the year ended 31 December 2012. Such increase was primarily due to the increase in the sales of pure cotton fabric products with higher technical requirements such as higher density, heavier weight, more types of yarns used and the use of expensive yarns and dyeing as required by some of our major customers of pure cotton series.

Our average gross profit margin was maintained at relatively high level mainly attributable to the following reasons:-

- (i) We have developed fabrics equipped with certain value-added functions and methods in relation to the production process for our fabrics. Some of our developed fabrics and methods have been patented and used in the production of and applied in our products. We believe that (i) our developed fabrics enable us to provide fabrics with high quality and charged higher selling price to our customers; and (ii) our developed methods enable us to reduce the production costs.
- (ii) We principally supply fabrics according to the specification and requirement by our customers instead of mass production of any specific type of fabrics. This business model allows us charge higher selling price to our customers by provision of tailor-made fabrics.

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- (iii) Our production processes of yarns and fabrics are highly automated. This enables us to avoid employing massive number of workers for production resulting in lower our fixed labour costs.
- (iv) We commenced our yarns business since May 2012 and a portion of yarns produced was supplied for our own needs at cost. We believe that the cost of yarns for the production of fabrics can be lowered through this arrangement as we have the flexibility to use our own yarns for production if necessary and appropriate.
- (v) We strategically focus on providing tailor-made products to those customers who look for fabrics and yarns products with high quality and specific requirements. This focus enables us to charge higher selling prices to our customers resulting in higher gross profit margin of our products.

Selling expenses

Selling expenses were approximately RMB0.5 million, RMB1.4 million and RMB2.2 million, respectively, for the years ended 31 December 2011, 2012 and 2013, which represented 0.2%, 0.3% and 0.3%, respectively, of our revenue from continuing business. The following table sets forth the breakdown of our selling expenses during the Track Record Period:-

	Year ended 31 December					
	2011		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%
Staff costs	320	66.1	767	54.4	957	43.8
Advertising and promotion expenses	157	32.4	436	30.9	200	9.1
Transportation expenses ^(Note 1)	—	—	—	—	771	35.2
Others ^(Note 2)	7	1.5	208	14.7	261	11.9
Total	484	100.0	1,411	100.0	2,189	100.0

Notes:-

- “Transportation expenses” primarily represents transportation and delivery costs for (i) delivering products to those customers who are not situated near our production facilities; and (ii) transferring inventories between our production facilities in Shishi and Hubei.
- “Others” principally represents office expenses and entertainment and travelling expenses incurred by our sales department.

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Administrative expenses

Administrative expenses were approximately RMB7.6 million, RMB13.8 million and RMB31.5 million, respectively, for the years ended 31 December 2011, 2012 and 2013, which represented 2.9%, 3.4% and 4.0%, respectively, of our revenue from continuing business. The following table sets forth the breakdown of our administrative expenses during the Track Record Period:-

	Year ended 31 December					
	2011		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%
Staff and welfare expenses	4,094	54.0	4,207	30.4	7,494	23.9
Depreciation and amortisation	641	8.4	3,574	25.9	5,380	17.1
Other taxes and levies	1,063	14.0	1,894	13.7	3,442	10.9
Professional charges	192	2.5	823	6.0	289	0.9
Professional fees for the Listing	—	—	—	—	9,424	29.9
Utility expenses	343	4.5	519	3.8	671	2.1
Business development and entertainment expenses	132	1.7	364	2.6	1,136	3.6
Others ^(Note)	1,122	14.9	2,426	17.6	3,641	11.6
Total	7,587	100.0	13,807	100.0	31,477	100.0

Note:-

“Others” principally represents insurance, motor expenses and office expenses.

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Other income — net

Other income — net were approximately RMB0.2 million, RMB1.1 million and RMB4.6 million, respectively, for the years ended 31 December 2011, 2012 and 2013. Government subsidies received primarily represent the government grants to us for our success in energy-saving and technological improvement fund regarding our fabric project. The following table sets forth the breakdown of our other income — net during the Track Record Period:-

	Year ended 31 December					
	2011		2012		2013	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Government subsidies received	162	93.6	934	83.3	5,030	108.5
Amortisation of deferred income of government grants relating to assets	—	—	49	4.4	292	6.3
Others ^(Note)	11	6.4	138	12.3	(688)	(14.8)
Total	173	100.0	1,121	100.0	4,634	100.0

Note:-

“Others” mainly represents miscellaneous income or expenses, such as donation.

Finance income

Our finance income primarily comprises the interest income from bank deposits during the Track Record Period. The finance income was approximately RMB1.1 million, RMB1.3 million and RMB1.4 million, respectively, for the years ended 31 December 2011, 2012 and 2013, which represented 0.4%, 0.3% and 0.2%, respectively, of our total revenue from continuing business.

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Finance costs

Our finance costs were approximately RMB9.1 million, RMB15.7 million and RMB17.0 million, respectively, for the years ended 31 December 2011, 2012 and 2013, which represented 3.5%, 3.9% and 2.1%, respectively, of our revenue from continuing business. The following table sets forth the breakdown of our finance costs during the Track Record Period:-

	Year ended 31 December					
	2011		2012		2013	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Interest expense on borrowings from banks and other financial institutions	8,696	95.5	11,722	74.6	12,518	73.6
Interest expense on finance leases and other borrowings	1,808	19.9	5,163	32.8	4,640	27.3
Less: capitalised interest expense	<u>(2,369)</u>	<u>(26.0)</u>	<u>(2,554)</u>	<u>(16.2)</u>	<u>(1,181)</u>	<u>(6.9)</u>
Net interest expense on borrowings	8,135	89.4	14,331	91.2	15,977	94.0
Bank charges	<u>969</u>	<u>10.6</u>	<u>1,391</u>	<u>8.8</u>	<u>1,023</u>	<u>6.0</u>
Total	<u>9,104</u>	<u>100.0</u>	<u>15,722</u>	<u>100.0</u>	<u>17,000</u>	<u>100.0</u>

Tax

Cayman Islands

Our profits are not subject to any taxation in the Cayman Islands.

BVI

Our profits are not subject to any taxation in the BVI.

Hong Kong

We had no taxable profit as we did not derive any profit in Hong Kong during the Track Record Period.

PRC

EIT is provided on the assessable income of entities of our Group incorporated in the PRC. Pursuant to the PRC EIT Law, the EIT is unified at 25% for all types of entities effective from 1 January 2008. Hongtai (China), a subsidiary of our Company was qualified as a foreign investment

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manufacturing enterprise and was entitled to full tax exemption for years ended 31 December 2007 and 2008 and 50% tax reduction for years ended 31 December 2009, 2010 and 2011. Since 2012, the applicable income tax rate for Hongtai (China) is 25%. According to the PRC EIT Law, starting from 1 January 2008, a 10% withholding tax will be levied on the immediate holding company established out of the PRC when their PRC subsidiary declares dividends out of their profits earned after 1 January 2008. A lower withholding tax rate of 5% may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding company.

No deferred income tax liabilities for unremitted earnings of our PRC subsidiaries that was earned from 1 January 2008 to 31 December 2013 have been recognised as there is no plan of distribution of dividends from such earnings in the foreseeable future. We intend to reinvest such earnings in the PRC permanently.

The effective income tax rate was 12.5%, 26.0% and 27.6%, respectively, for the years ended 31 December 2011, 2012 and 2013. For reconciliation of the applicable EIT rate to the effective tax rate for the years ended 31 December 2011, 2012 and 2013, please refer to note 24 to the Accountant's Report set forth in Appendix I to this prospectus.

Dividends

We did not declare any dividend for the years ended 31 December 2011, 2012 and 2013.

Discontinued business

We engaged in the business of manufacturing and sales of apparel in 2011. The operation was discontinued in the same year.

The following table sets forth an analysis of the result of our discontinued business:-

	2011 <i>RMB'000</i>
Revenue	49,010
Cost of sales	<u>(40,942)</u>
Gross profit	8,068
Selling and administrative expenses	<u>(1,534)</u>
Profit before income tax	6,534
Income tax expense	<u>(816)</u>
Profit for the year and total comprehensive income	<u><u>5,718</u></u>

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PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year Ended 31 December 2013 Compared to Year Ended 31 December 2012

Revenue

Our revenue increased by 95.3% from approximately RMB405.3 million for the year ended 31 December 2012 to approximately RMB791.5 million for the year ended 31 December 2013. Such significant increase in the revenue was mainly due to the following factors:

- (i) revenue of our fabrics products increased from approximately RMB360.4 million in 2012 to RMB680.4 million in 2013. Such increase in the revenue of our fabrics products was primarily due to (1) our ability to meet customers' requirements and specifications, market preference and fashion trend so as to offer a wide range of fabrics products to our customers. The types of our fabrics products offered to our customers increased significantly from 158 types in 2012 to 441 types in 2013; and (2) the commencement of operation of our Hubei Production Facilities in June 2013 which further expanded our designed annual production capacity for fabrics from 22,798 km as at 31 December 2012 to 46,247 km as at 31 December 2013 in order to support the increase in purchase orders;
- (ii) revenue of our yarns products increased from approximately RMB44.8 million in 2012 to RMB111.2 million in 2013. Such increase in the revenue of our yarns products was primarily due to the commencement of yarns business in May 2012 while the results of such business was recorded for the whole year ended 31 December 2013;
- (iii) our success in widening the customer base of both fabrics and yarns products. The number of customers of fabrics and yarns products increased from 375 and 28 in 2012 to 401 and 41 in 2013 respectively;
- (iv) we strategically focus on providing a large variety of tailor-made products instead of mass production of a few standardised products. We have strong research and development capabilities which enable us to respond promptly to changes in market preference and trend by provision of tailor-made products to our customers. Our Directors believe that this flexibility and our target positioning in the market differentiates us from the domestic enterprises which mainly engage in mass production; and
- (v) although the PRC textile market is highly competitive, our Directors consider that our growth in the sales of fabric and yarns products in 2013 was broadly in line with the growth in the PRC textile market as a whole from approximately RMB3,478.1 billion in 2008 to an estimate of approximately RMB7,282.4 billion in 2015 as set forth in the paragraph headed "Industry Overview — Textile market in the PRC — Production value of the textile market in the PRC" of this prospectus. Our Directors believe that higher growth was primarily due to our success in offering a variety of fabrics with different features and specifications according to our customers' needs.

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Cost of sales

The increase in cost of sales by 95.1% from approximately RMB329.7 million for the year ended 31 December 2012 to approximately RMB643.4 million for the year ended 31 December 2013 was mainly due (i) the increase in the use of raw materials as a result of our business expansion; and (ii) the increase in the subcontracting dyeing charges as a result of our customers' requirement for such fabrics products.

Since the commencement of operation of our Hubei Production Facilities, which was originally scheduled to operate in March 2013, was delayed to June 2013, we purchased grey fabrics of approximately RMB44.0 million in 2013 from third parties in order to reduce our production measures to satisfy our then customers' need. This was only a temporary arrangement to cater for the aforesaid situation and such arrangement was ceased in the third quarter of 2013 and we currently do not have any intention to do the same in the future.

Gross profit and gross profit margin

The increase in gross profit by 96.0% from approximately RMB75.6 million for the year ended 31 December 2012 to approximately RMB148.2 million for the year ended 31 December 2013 was mainly due to (i) the increase in the sales of interwoven fabric with multi-fibres series given that the gross profit generated from such series accounted for more than 80% of the total gross profit of the fabrics business segment for year ended 31 December 2013; and (ii) the increase in the sales of yarns products as a result of the full operation for the year ended 31 December 2013 while such business segment commenced in May 2012.

Although we recorded significant growth in the revenue and gross profit in 2013 as compared to the same in 2012, the gross profit margin remained relatively stable at approximately 18.7% for the years ended 31 December 2012 and 2013. The gross profit margin of fabrics business also remained at a similar level for the years ended 31 December 2012 and 2013. The gross profit margin of our yarns business increased from approximately 11.6% for the year ended 31 December 2012 to approximately 12.6% for the year ended 31 December 2013. It was primarily because our yarns business was still at the preliminary stage in 2012 resulting in lower gross profit margins during such period.

Selling expenses

The increase in selling expenses by 57.1% from approximately RMB1.4 million for the year ended 31 December 2012 to approximately RMB2.2 million for the year ended 31 December 2013 was mainly due to the incurrence of transportation expenses of approximately RMB0.8 million in 2013 which primarily represented delivery cost for those customers who are not situated near our production facilities and transfer of inventories between our Shishi Production Facilities and our Hubei Production Facilities, the operation of which commenced in June 2013.

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Administrative expenses

The increase in administrative expenses by 128.0% from approximately RMB13.8 million for the year ended 31 December 2012 to approximately RMB31.5 million for the year ended 31 December 2013 was mainly due to (i) the professional fees for the Listing of approximately RMB9.4 million was recognised in 2013 while no such fee was recognised in 2012; and (ii) there was an increase in the wage rate and the number of our administrative staff.

Other income — net

The significant increase in other income — net by 318.2% from approximately RMB1.1 million for the year ended 31 December 2012 to approximately RMB4.6 million for the year ended 31 December 2013 was mainly due to the increase in government subsidies received in relation to the encouragement of developing domestic enterprise of approximately RMB1.0 million and technological improvement fund in relation to our fabric project of approximately RMB3.4 million.

Finance income

The increase in finance income by 4.6% from approximately RMB1.3 million for the year ended 31 December 2012 to approximately RMB1.4 million for the year ended 31 December 2013 was mainly due to the increase in the average balance of bank and restricted bank deposits for the year ended 31 December 2013.

Finance costs

The increase in finance costs by 8.1% from RMB15.7 million for the year ended 31 December 2012 to approximately RMB17.0 million for the year ended 31 December 2013 was mainly due to the increase in the average balance of borrowings in order to meet our needs of working capital as a result of our business expansion as well as to finance the construction of our Hubei Production Facilities.

Income tax expense

The increase in income tax expense by 132.7% from approximately RMB12.3 million for the year ended 31 December 2012 to approximately RMB28.5 million for the year ended 31 December 2013 primarily was due to the increase in the net profit before tax from approximately RMB47.1 million in 2012 to approximately RMB103.5 million in 2013. The effective tax rate increased from 26.0% for the year ended 31 December 2012 to 27.6% for the year ended 31 December 2013 mainly due to the increase in expense not deductible for the Listing.

Profit and total comprehensive income for the year attributable to owners of our Company

The increase in profit for the year from continuing business and total comprehensive income and profit for the year attributable to owners of the company by 115.2% from approximately RMB34.8 million for the year ended 31 December 2012 to approximately RMB75.0 million for the year ended 31 December 2013 was in line with the increase in the revenue and gross profit for the same year with the reasons stated above.

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Year Ended 31 December 2012 Compared to Year Ended 31 December 2011

Revenue

The increase in revenue by 54.6% from approximately RMB262.1 million for the year ended 31 December 2011 to approximately RMB405.3 million for the year ended 31 December 2012 was primarily due to (i) the increase in the revenue of our interwoven fabric with multi-fibres series as a result of the increase in the sales volume of such series upon the full year operation of our expanded production capacity; (ii) the commencement of yarns business in May 2012. The increase in the sales volume of interwoven fabric with multi-fibres series was primarily due to the increase in the number of types of fabrics offered under such series from 67 for the year ended 31 December 2011 to 110 for the year ended 31 December 2012 which were for the purpose of satisfying our customers' need and our success in widening the customer base of such series from 292 customers for the year ended 31 December 2011 to 322 customers for the year ended 31 December 2012.

Cost of sales

The increase in cost of sales by 50.1% from approximately RMB219.6 million for the year ended 31 December 2011 to approximately RMB329.7 million for the year ended 31 December 2012 was primarily due to (i) the increase in the quantities and types of raw materials used for production, which was in line with the increase in the sales volume of fabrics during the same period; and (ii) new types of raw materials including raw cotton and silk noil were used in the production and sales of yarns which was commenced in May 2012.

Gross profit and gross profit margin

The increase in gross profit by 77.9% from RMB42.5 million for the year ended 31 December 2011 to RMB75.6 million for the year ended 31 December 2012 was primarily due to (i) the increase in the sales volume of interwoven fabric with multi-fibres series, which accounted for approximately 80.0% of the total gross profit in 2012; and (ii) the gross profit generated from the sales of yarns upon the commencement of our yarns business since May 2012. The increase in gross profit margin from 16.2% for the year ended 31 December 2011 to 18.7% for the year ended 31 December 2012 was primarily due to the increase in the sales volume of our interwoven fabric with multi-fibres series, the gross profit margin of which increased from 16.2% in 2011 to 19.7% in 2012. The increase in the overall gross profit margin was primarily because the average unit purchase price of cotton yarns remained relatively stable during the year.

Gross profit margin of our yarns business was approximately 11.6% for the year ended 31 December 2012.

Selling expenses

The increase in selling expenses significantly by 191.5% from approximately RMB0.5 million for the year ended 31 December 2011 to approximately RMB1.4 million for the year ended 31 December 2012 was primarily due to the increase in our advertising and promotion expenses for our domestic promotion campaigns and the increase in the wage rate and the number of our marketing and sales personnel.

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Administrative expenses

The increase in administrative expenses by 82.0% from approximately RMB7.6 million for the year ended 31 December 2011 to approximately RMB13.8 million for the year ended 31 December 2012, was primarily due to the increase in (i) depreciation and amortisation for office equipment; (ii) other taxes and levies; and (iii) professional charges.

Other income — net

The significant increase in other income — net by approximately 548.0% from approximately RMB0.2 million for the year ended 31 December 2011 to RMB1.1 million for the year ended 31 December 2012 was primarily due to the increase in government subsidies received in relation to our productivity.

Finance income

The increase in finance income by 21.8% from approximately RMB1.1 million for the year ended 31 December 2011 to approximately RMB1.3 million for the year ended 31 December 2012 was primarily due to the increase in the average balance of bank and restricted bank deposits during the year ended 31 December 2012.

Finance costs

The increase in finance costs by 72.7% from approximately RMB9.1 million for the year ended 31 December 2011 to approximately RMB15.7 million for the year ended 31 December 2012 was primarily due to (i) the increase in the weighted average effective interest rates on borrowings from banks and other financial institutions from 7.76% in 2011 to 10.30% in 2012 notwithstanding the slight decrease in borrowings from banks and other financial institutions from approximately RMB128.7 million as at 31 December 2011 to approximately RMB111.7 million as at 31 December 2012; and (ii) the increase in the finance leases and other borrowings from approximately RMB18.0 million as at 31 December 2011 to approximately RMB40.2 million as at 31 December 2012. The aforesaid increase in other borrowings is to meet our needs of working capital as a results of our business expansion and to finance the construction of our Hubei Production Facilities.

Income tax expense

The increase in income tax expense by 270.4% from approximately RMB3.3 million for the year ended 31 December 2011 to approximately RMB12.3 million for the year ended 31 December 2012 was mainly due to the increase in the effective tax rate from 12.5% for the year ended 31 December 2011 to 26.0% for the year ended 31 December 2012. Such increase was primarily because the income tax rate for Hongtai (China) was restored to 25% in 2012 upon the expiry of 50% tax relief while Hongtai (China) was entitled to the income tax rate of 12.5% in 2011.

Profit and total comprehensive income for the year attributable to owners of our Company

Due to the factors above, the profit for the year and the total comprehensive income for the year attributable to owners of the Company increased from approximately RMB29.0 million in 2011 to approximately RMB34.8 million in 2012.

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LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are to satisfy our working capital needs and our capital expenditure needs. Since our establishment, our working capital needs and capital expenditure requirements have been principally financed through a combination of shareholders' equity, cash generated from operations, bank borrowing and other borrowings.

Net Current Liabilities and Working Capital

The following table sets forth our current assets, current liabilities, current ratio, quick ratio, gearing ratio and debt to equity ratio as at 31 December 2011, 2012, 2013 and 28 February 2014, being the latest practicable date for the purpose of determining our indebtedness and the breakdown of our capital expenditures during the Track Record Period:

	As at 31 December			As at 28 February
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)
Current assets				
Inventories	57,471	62,533	75,647	92,239
Trade and other receivables	155,906	88,015	167,228	206,395
Cash and cash equivalents	498	7,278	47,922	60,879
Restricted bank deposits	<u>61,497</u>	<u>48,954</u>	<u>32,799</u>	<u>42,647</u>
Total current assets	<u>275,372</u>	<u>206,780</u>	<u>323,596</u>	<u>402,160</u>
Current liabilities				
Borrowings	132,073	132,686	182,727	191,432
Trade and other payables	68,915	65,436	156,379	163,705
Notes payables	100,450	111,848	70,498	79,998
Current income tax liabilities	<u>4,495</u>	<u>7,789</u>	<u>18,432</u>	<u>20,832</u>
Total current liabilities	<u>305,933</u>	<u>317,759</u>	<u>428,036</u>	<u>455,967</u>
Net current liabilities	<u>(30,561)</u>	<u>(110,979)</u>	<u>(104,440)</u>	<u>(53,807)</u>
Current ratio	90.0%	65.1%	75.6%	88.2%
Quick ratio	71.2%	45.4%	57.9%	68.0%
Gearing ratio	109.1%	88.3%	103.5%	120.9%
Debt to equity ratio	67.5%	57.7%	73.3%	83.1%

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	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Capital expenditures			
<i>Shishi Production Facilities</i>			
- Land and buildings	46,801	29,247	8,678
- Plant and equipment	<u>15,751</u>	<u>56,008</u>	<u>1,507</u>
	<u>62,552</u>	<u>85,255</u>	<u>10,185</u>
 <i>Hubei Production Facilities</i>			
- Land and buildings	—	51,625	105,798
- Plant and equipment	<u>—</u>	<u>17,781</u>	<u>90,749</u>
	<u>—</u>	<u>69,406</u>	<u>196,547</u>
	<u>62,552</u>	<u>154,661</u>	<u>206,732</u>

As at 31 December 2011, 2012 and 2013 and 28 February 2014, we recorded net current liabilities of approximately RMB30.6 million, RMB110.0 million, RMB104.4 million and RMB53.8 million, respectively, and our current ratio as at 31 December 2011, 2012 and 2013 and 28 February 2014 was approximately 90.0%, 65.1%, 75.6% and 88.2%, respectively.

Reasons for recording net current liabilities during the Track Record Period

Our Directors consider that our net current liabilities recorded during the Track Record Period was mainly due to our significant investments made for the construction of our production facilities:-

(i) Construction of our Shishi Production Facilities

We commenced the construction of our Shishi Production Facilities in February 2004 and the total gross investment amount was approximately RMB318.9 million up to 28 February 2014. Given our relatively short history and small size of operations, we had relied primarily on capital contribution from our shareholders and short-term borrowings to finance the purchase of property, plant and equipment (including but not limited to the production machineries). For the years ended 31 December 2011, 2012 and 2013, we incurred capital expenditure of approximately RMB62.6 million, RMB85.3 million and RMB10.2 million, respectively, in this respect.

(ii) Construction of first phase of our Hubei Production Facilities

To further expand our business, we commenced the construction of the first phase of our Hubei Production Facilities in October 2012, the total gross investment amount of which

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up to 28 February 2014 was approximately RMB268.5 million comprising RMB155.4 million land and buildings and RMB113.1 million for other property, plant and equipment. We incurred capital expenditure of approximately RMB69.4 million and RMB196.5 million, respectively, in 2012 and 2013. The capital expenditure incurred for the first phase of our Hubei Production Facilities included the expenditure on the construction, purchase of machinery and equipment and any final furnishing work, repairment and maintenance works. We primarily relied on short-term borrowings to finance such investment which caused our net current liabilities to increase from approximately RMB30.6 million as at 31 December 2011 to more than RMB100.0 million as at 31 December 2012 and 2013.

Our net current liabilities increased from approximately RMB30.6 million as at 31 December 2011 to approximately RMB111.0 million as at 31 December 2012. Such increase was primarily due to (i) the payments for the capital expenditure in relation to the construction of our Hubei Production Facilities which commenced in October 2012; and (ii) the purchase of machinery for the yarns production lines at our Shishi Production Facilities, which commenced operation in May 2012.

Our net current liabilities decreased from approximately RMB111.0 million as at 31 December 2012 to approximately RMB104.4 million as at 31 December 2013. Such decrease was primarily due to (i) the improvement on the performance of our fabrics and yarns business; and (ii) obtaining a long-term loan of RMB50.0 million from the local government in Hubei to finance our operation.

Net current liabilities position subsequent to 31 December 2013

Based on our unaudited management accounts, our net current liabilities decreased to approximately RMB53.8 million as at 28 February 2014 from approximately RMB104.4 million as at 31 December 2013. The decrease was primarily due to our draw-down in February 2014 of a long-term government loan in the amount of RMB50.0 million granted by the local finance bureau in Huangmei County in November 2013, the maturity date of which is 31 December 2016, to replenish our working capital; and (ii) the success of our fabrics and yarns business as demonstrated by the sales volume of fabrics and yarns amounting to approximately 4,505.9 km and 574.2 tonnes, respectively, for the two months ended 28 February 2014.

Given that we primarily financed the construction of our production facilities by short-term borrowings during the Track Record Period, our net current liabilities reached approximately RMB210.3 million as at 30 June 2013. After taking a series of measures as particularised in the paragraph headed “Measures to improve the net current liabilities position” of this section below and the improvement on our operational performance during the Track Record Period, our net current liabilities decreased significantly from approximately RMB210.3 million as at 30 June 2013 to approximately RMB104.4 million as at 31 December 2013 and further to approximately RMB53.8 million as at 28 February 2014.

Based on the forecast prepared by our management and without taking into consideration of the net proceeds from our Global Offering, we expect to continue recording a net current liabilities position in the foreseeable future and at least until third quarter of 2014.

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Measures to improve the net current liabilities position

We historically financed our operations by funds from our shareholders, borrowings from banks and other financial institutions, finance lease liabilities, other borrowings and cash inflows generated from our operating activities. In view of our financial position and having regards to the root causes for our net current liabilities, we have taken and will continue to take the following measures to improve our liquidity and finance our capital requirements:-

- (i) We review our expansion plan and the capital requirements from time to time and reschedule our expansion plan if necessary.

Given that one of the major factors causing our net current liabilities position during the Track Record Period was due to our capital expenditures incurred for the construction of the production facilities in Hubei and Shishi, our Directors have decided to re-schedule and postpone our plan to commence the construction of the second phase and third phase of our Hubei Production Facilities in June 2015 and June 2016, respectively. In case our Company moves into a financial position of net current assets (without taking into account of the net proceeds to be received from Global Offering) prior to 2015, we may use the allocated net proceeds for the construction of aforesaid production facilities prior to 2015 according to a revised time of construction.

We will keep monitoring our financial position subsequent to the operation of our second phase of our Hubei Production Facilities. Although we currently plan to start the construction of third phase of Hubei Production Facilities in June 2016, we may further alter the construction time of such phase if, amongst others, our financial position become adversely and materially changed.

- (ii) We will secure long-term loans as far as possible.

In order to reduce our over reliance on short-term borrowings to finance our expansion of production facilities which is one of the principal reasons for our net current liabilities position during the Track Record Period, we will try our best endeavour to secure long-term loans from our principal banks as well as other authorised financial institutions or bodies in the PRC.

We take the following measures to maintain sufficient cash flow for our business operation in view of our relatively low accumulated cash balance available for use:-

- (i) We will continue to maintain stable relationship with our principal banks in the PRC and our good credit history with an aim to obtain favourable terms for our existing and new loan facilities, roll-over of our existing short-term loans and obtain long-term loans to replace our existing short-term loans.
- (ii) We will negotiate with banks to revolve our short-term loans. As at 28 February 2014, we obtained letters of intents or confirmations from certain lenders to roll over our short-term loans of an aggregate facility amount of RMB175.0 million upon their expiry and the renewed expiry of such short-term loans will be one year.

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(iii) We will monitor our cash flow situation closely and adopt a more conservative approach on further capital commitment, investments and acquisitions (if any).

(iv) We currently have no intention to declare dividend or make other types of distribution for the year ending 31 December 2014.

Expected financial resources of the Group

We expect to finance our operation and capital requirement by utilising our following financial resources:-

Loan facilities

As at 28 February 2014, we obtained loan facilities of approximately RMB448.2 million and the following table sets forth further information of such facilities:

Date of obtaining	Nature of loan facilities	Contractual maturity date	Facility amount (RMB' million)	Unutilised balance of the loan facilities (RMB' million)	Repayable in 2014 (RMB' million)	Repayable in 2015 (RMB' million)	Confirmation from lender for renewal upon maturity
Dec 2012	Loan facility granted by a finance company	19 Dec 2014	15.0	5.0	10.0	—	No
Feb 2013	Short-term loan granted by a finance company	1 Mar 2014	5.0	—	5.0	—	Yes
Mar 2013	Loan facility granted by a commercial bank	21 Mar 2018	59.0	—	24.0	25.0	No (Note 1, 5)
Mar 2013	Loan facility granted by a commercial bank	7 Mar 2014	70.0	25.0	32.0	—	Yes (Note 5)
Apr 2013	Short-term loan granted by a commercial bank	15 Apr 2014	100.0	85.6	—	—	Yes (Note 5)
May 2013	Loan granted by a commercial bank	30 May 2017	34.2	—	6.5	8.4	No
Sep 2013	Loan facility granted by a local credit cooperatives	16 Sep 2016	50.0	—	50.0	—	No (Note 2)
Sep 2013	Long-term government loan granted by local finance bureau in Huangmei County	14 Sep 2016	50.0	—	—	—	No (Note 3(a), 3(b))
Oct 2013	County region economic principal level loan granted by local finance bureau in Huangmei County	23 Oct 2014	5.0	—	5.0	—	No (Note 3(a), 3(c))
Nov 2013	Long-term government loan granted by local finance bureau in Huangmei County	31 Dec 2016	50.0	—	—	—	No (Note 3(a), 3(d))
Jan 2014	Loan facility granted by a local credit cooperatives	8 Jan 2015	10.0	—	—	10.0	No (Note 4)
	Total		<u>448.2</u>	<u>115.6</u>	<u>132.5</u>	<u>43.4</u>	

Notes:-

- This loan facility is revolving in nature according to the relevant loan agreement.
- This loan facility is revolving in nature with a revolving period of three years and an interest rate of 0.81% per month. This loan facility is secured by mortgage of all our land use right and property of our Hubei Production Facilities.
- (a) These loan facilities are granted by the local finance bureau of Huangmei County for the purpose of our business development. Each of the two government loans of RMB50.0 million is interest bearing at 3% per annum and in the event of default in repayment, we would be charged with a penalty at rate of 0.05% per day. The government loan of RMB5.0 million is interest free.

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- (b) The government loan granted by the local finance bureau in Huangmei County in September 2013 was drawn down in full in three batches in September, October and November 2013, respectively.
- (c) The government loan granted by the local finance bureau in Huangmei County in October 2013 was drawn down in October 2013.
- (d) The government loan granted by the local finance bureau in Huangmei County in November 2013 was drawn down in full in two batches in February 2014.

According to IAS 20, the benefit of government loans at a below-market rate of interest is treated as government grants and such loans should be recognised and measured in accordance with IAS 39 Financial Instruments: Recognition and Measurement. Our Directors have carried out an assessment using the market interest rate of 8.7% per annum for long-term loans obtained from independent commercial banks on similar terms. No adjustment has been made given that the impact in relation to the discounting is not material to our consolidated financial statements.

- 4. This loan facility is granted for the purpose of purchase of raw materials. The interest rate is 8.64% per annum. This loan facility is secured by a guarantee given by an independent third party enterprise which we understand whose principal business includes provision of guarantee.
- 5. The loan facilities include borrowing and issue of bank acceptance notes. The difference between the facility amount and the sum of the unutilised balance of the loan facilities and the amount repayable in 2014 refers to the amount of bank acceptance notes issued, which is repayable in six months after the issue.

As confirmed by our Directors, during the Track Record Period and up to 28 February 2014, we had not encountered any material difficulty or obstacle in obtaining financing and loan facilities from commercial banks and revolving the loans granted under the loan facilities upon their respective expiry, nor received any notice from commercial banks for early payment of outstanding loans. We expect to continue obtaining proceeds from bank and other loans and we do not expect that we will encounter any material difficulty in securing loans from banks and other financial institutions. There were no restrictive covenants relating to our loan facilities as at 28 February 2014. As at 28 February 2014, we had obtained written confirmations from three of our lenders in relation to RMB175.0 million of our short-term loan facilities that they will roll over our respective loan facilities upon maturity. In addition, two of the loans obtained from two financial institutions with facilities amount of RMB109.0 million is revolving in nature with contractual maturity date after 2015. The total loan facilities which will roll over for one year upon their respective expiry amounted to approximately RMB284.0 million as at 28 February 2014.

As at 28 February 2014, we had two long-term government loans granted by the local finance bureau in Huangmei County and one long-term loan facility granted by a local credit cooperative, which is a financial institution subject to the supervision of CBRC. Our Directors advised that we obtained loan facilities from local finance bureau and a local credit cooperative, instead of commercial banks, because of the following major commercial considerations including (a) the finance costs incurred for loan facilities offered by the local finance bureau and the local credit cooperative are in general lower than such offered by commercial banks in the PRC; and (b) we are not required to provide any collateral or guarantee from Controlling Shareholders in order to obtain the loan facilities from the local finance bureau and the local credit cooperative in the PRC.

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Expected cash flows from operating activities

We expect to generate more stable stream of cash flows from operating activities upon full operation of the first phase of our Hubei Production Facilities. The first phase of Hubei Production Facilities commenced operation in June 2013 and 40 air-jet looms for fabrics production were put into production as at 30 June 2013. Additional 248 air-jet looms had been added for fabrics production in the third quarter of 2013 which further increase our total production capacity. As a result of the increased production capacity, we believe we are able to capture more business opportunities and secure more sales thereby generating more cash flows from our operation.

We generated net cash flows from our operating activities of approximately RMB60.4 million for the year ended 31 December 2013. Since we will take a conservative approach to retain our working capital for fulfilment of our coming financial obligation and capital requirement, we target to generate stable cash flow from our operating activities for the year ending 31 December 2014 which will not be materially less than the respective amount generated for the year ended 31 December 2013.

Net proceeds from the Global Offering

Net proceeds of the Global Offering we expect to receive are estimated to be approximately HK\$163.0 million (assuming that the Over-allotment Option is not exercised and an Offer Price of HK\$0.72 per Offer Share, being the midpoint of the stated Offer Price range of HK\$0.62 to HK\$0.82 per Offer Share). We intend to allocate 60% of net proceeds for the construction of the second phase of our Hubei Production Facilities while such amount of net proceeds may remain unused and be kept in interest-bearing bank accounts with licensed banks in Hong Kong or PRC until 2015 in view of the current scheduled time of construction of the second phase of our Hubei Production Facilities. In case we move into a financial position of net current assets (without taking into account of the net proceeds from the Global Offering) prior to 2015, we may use the allocated net proceeds for the construction of aforesaid production facilities prior to 2015 according to a revised time of construction.

If the Offer Price is fixed at HK\$0.62, being the low end of the stated Offer Price range, our proceeds will instead be decreased by approximately HK\$24.3 million assuming the Over-allotment Option is not exercised. The use of proceeds will be reduced proportionately.

Fulfilment of our financial obligation

Based on our expected financial resources, we have the following plans to fulfil our financial obligation:-

As at 28 February 2014, our total outstanding indebtedness amounted to approximately RMB322.3 million, in which the total current portion comprised (i) borrowings from banks and other financial institutions and loans from government amounted approximately RMB168.9 million including the loan granted by a local credit cooperatives of RMB10.0 million repayable in January 2015 and two loans granted by two commercial banks in the total amount of RMB26.4 million repayable in two months ended 28 February 2015. As such, the loans repayable in 2014 amounted to approximately RMB132.5 million as at 28 February 2015; (ii) finance lease liabilities of approximately RMB4.7 million; and (iii) secured other borrowings of approximately RMB17.9 million.

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As at 28 February 2014, we had unutilised loan facilities of approximately RMB115.6 million. We intend to use such unutilised short-term loan facilities for repayment of loans and monthly finance lease commitment as well as financing the recurring working capital needs.

After the repayment of the revolving loans granted by the financial institutions, the unutilised loan facilities granted by such financial institutions will be renewed to approximately RMB284.0 million and the new expiry date will be ranged from 2 March 2015 to 21 March 2018. We intend to use such renewed loan facilities to repay other borrowings and finance lease liabilities as well as finance the recurring working capital requirement.

Issuance of bank acceptance notes

As at 28 February 2014, we had utilised the loan facilities to issue bank acceptance notes of approximately RMB37.4 million, repayable in 2014. We intend to use the renewed revolving loans to repay such loan amount.

Amounts due to related parties

As at 31 December 2013, we had amounts due to related parties of approximately RMB8.3 million and all the outstanding balance had been fully settled as at Latest Practicable Date.

Payables for purchase of property, plant and equipment

As at 31 December 2013, we had payables for purchase of property, plant and equipment of approximately RMB28.0 million repayable in 2014 primarily in relation to the amount payable to the contractor for the construction of the first phase of our Hubei Production Facilities. We intend to use the renewed revolving loans and internal generated cash to repay such payable amount.

Capital commitment

As at 31 December 2013, we had no capital commitment.

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Projected capital expenditures

Based on our current business plan, our projected capital expenditure for the years ending 31 December 2014, 2015 and 2016 is as follows:-

	Year ending 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Hubei Production Facilities			
Land and buildings	1,000	48,000	48,000
Property, plant and equipment	100	110,000	194,000
Shishi Production Facilities			
Property, plant and equipment	100	—	—
	<u>1,200</u>	<u>158,000</u>	<u>242,000</u>

We expect to incur capital expenditure of approximately RMB1.2 million for the year ending 31 December 2014 in respect of purchasing of some ancillary facilities and equipment or final furnishing works, repairment and maintenance works of the first phase of our Hubei Production Facilities. We intend to use our internal generated cash to finance such capital expenditure.

We intend to use 60% of the net proceeds with approximately HK\$97.8 million (equivalent to approximately RMB78.2 million) (assuming the Offer Price of HK\$0.72 per Offer Share, being the midpoint of the stated Offer Price range of HK\$0.62 to HK\$0.82 per Offer Share) to finance part of the projected capital expenditure which represents the estimated investment amount of the second phase of our Hubei Production Facilities for the year ending 31 December 2015. For the remaining portion of the projected capital expenditure of approximately RMB79.8 million, we intend to use internal resources and/or borrowings to fulfil such remaining amount. The projected capital expenditure for the year ending 31 December 2016 represents the estimated investment amount of the third phase of our Hubei Production Facilities and we intend to use internal resources and/or borrowings to finance such capital expenditure.

Our Directors confirmed that we had not experienced any material default in payment of any trade and non-trade payables and borrowings when they become due nor had we breached any terms of the loan agreements during the Track Record Period.

Updates to be published after Listing

In light of net current liabilities during the Track Record Period and such position is expected to continue in the foreseeable future, we will after Listing:-

- (i) make voluntary announcement on a quarterly basis to keep the public informed of our net current liabilities position and current ratio;

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- (ii) make an announcement on any change of our expansion plan and investment amount as stated in this prospectus; and
- (iii) include an update on the status of the expansion of our Hubei Production Facilities in our annual financial report.

Working Capital

Taking into account the financial resources available to us, including the internally generated funds, the available loan facilities and net proceeds from the Global Offering, the Sole Sponsor concurs with our Directors' view that we have available sufficient working capital for our present requirements for at least the next 12 months from the date of this prospectus.

Cash Flows

The following table is a condensed summary of our consolidated statements of cash flows for the years indicated:-

	Year ended 31 December		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from operating activities	57,308	75,017	60,420
Net cash used in investing activities	(54,695)	(17,560)	(139,777)
Net cash (used in)/generated from financing activities	<u>(7,080)</u>	<u>(50,677)</u>	<u>120,001</u>
Net (decrease)/increase in cash and cash equivalents	(4,467)	6,780	40,644
Cash and cash equivalents at beginning of the year	<u>4,965</u>	<u>498</u>	<u>7,278</u>
Cash and cash equivalents at end of the year	<u><u>498</u></u>	<u><u>7,278</u></u>	<u><u>47,922</u></u>

Cash flow generated from operating activities

For the year ended 31 December 2013, we generated net cash from operating activities of approximately RMB60.4 million, mainly reflecting our profit before income tax of approximately RMB103.5 million, which was positively adjusted for (i) depreciation of property, plant and equipment of approximately RMB32.1 million; (ii) the finance costs of approximately RMB17.0 million due to the increase in bank and other borrowings to meet our needs of working capital as a result of business expansion; (iii) increase in trade and other payables of approximately RMB65.1 million as a result of business expansion as partially offset by (i) the increase in inventories of approximately RMB13.1 million and the increase in trade and other receivables of approximately RMB83.0 million due to the business expansion of the Group; (ii) decrease in notes payable of approximately RMB41.4 million due to a higher portion of our purchases were settled by means of trade payables; and (iii) payment of income tax of approximately RMB18.8 million.

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For the year ended 31 December 2012, we generated net cash from operating activities of approximately RMB75.0 million, primarily reflecting our profit before income tax of approximately RMB47.1 million, which was positively adjusted principally for (i) the depreciation of property, plant and equipment of approximately RMB19.4 million mainly due to the net addition in cost of property, plant and equipment mainly for yarns products of approximately RMB135.6 million in 2012; (ii) the finance costs of approximately RMB15.7 million due to the increase in the weighted average effective interest rate and the increase in the finance lease and other borrowings to meet our needs of working capital as a result of the business expansion; and (iii) increase in the notes payables of approximately RMB52.7 million due to the increase in the purchase of raw materials near the end of 2012, as partially offset by (i) the finance income of approximately RMB1.3 million due to the increase in the average balances of the bank and restricted bank deposits; (ii) the increase in the inventories of approximately RMB5.1 million due to the increase in the sales of fabrics during the year and the commencement of yarns business in May 2012; (iii) the increase in the trade and other receivables of approximately RMB37.0 million due to more sales of fabrics and yarns near the end of 2012 but remained unsettled; (iv) the decrease in the trade and other payables principally due to the decrease in advance payments from third parties customers and related parties and (v) the payment of income tax of approximately RMB8.3 million.

For the year ended 31 December 2011, we generated net cash from operating activities of approximately RMB57.3 million, primarily reflecting our profit before income tax of approximately RMB33.1 million, which was positively adjusted principally for (i) the depreciation of property, plant and equipment of approximately RMB12.5 million; (ii) the finance costs of approximately RMB9.1 million due to the increase in the weighted average effective interest rate and the increase in bank and other borrowings to meet our needs of working capital as a result of the business expansion; and (iii) increase in the trade and other payables and notes payable of approximately RMB24.1 million and RMB32.3 million respectively due to the increase in the purchase of raw materials and advanced payment from our customers, as partially offset by (i) the finance income of approximately RMB1.1 million due to the increase in the average balances of the bank and restricted bank deposits; (ii) the increase in the inventories of approximately RMB38.7 million due to the increase in the purchase of raw materials in order to cope with the increase in the sales of fabrics products; (iii) the increase in the trade and other receivables of approximately RMB13.0 million due to the increase in the sales of fabrics products and (iv) the payment of income tax of approximately RMB1.1 million.

Cash flow used in investing activities

For the year ended 31 December 2013, we recorded net cash used in investing activities of approximately RMB139.8 million mainly due to the purchase of property, plant and equipment of approximately RMB148.9 million for construction of our Hubei Production Facilities as partially offset by (i) repayments of advances to third parties of approximately RMB4.9 million; (ii) cash received from government grants for purchase of non-current assets of approximately RMB2.7 million in relation to the technological improvement fund regarding our fabric project; and (iii) interest received of approximately RMB1.4 million as a result of the increase in the average balance of the bank and restricted bank deposits for the year ended 31 December 2013.

For the year ended 31 December 2012, we recorded net cash used in investing activities of approximately RMB17.6 million. This was primarily due to (i) the purchase of property, plant and equipment of approximately RMB119.3 million for the yarns business which was commenced in the May 2012 and Hubei Production Facilities; (ii) the payments for leasehold land and land use right of

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approximately RMB19.0 million in relation to Hubei Production Facilities; and (iii) the advances granted to shareholders, mainly for Mr. Lin and a related party of approximately RMB90.6 million and RMB6.2 million respectively, as partially offset by (i) the cash received from government grant of approximately RMB14.6 million as the subsidy to our purchase of leasehold land for Hongsheng (Hubei); and (ii) the repayment of advances to shareholders and a related party of approximately RMB161.9 million and RMB39.4 million respectively.

For the year ended 31 December 2011, we recorded net cash used in investing activities of approximately RMB54.7 million. This was primarily due to (i) the purchase of property, plant and equipment of approximately RMB62.6 million in relation to the purchase of the construction of office building and a new warehouse in our Shishi Production Facilities; and (ii) advances granted to shareholders, mainly for Mr. Lin of approximately RMB234.0 million, as partially offset by (i) the proceeds from disposal of property, plant and equipment of RMB0.9 million in relation to the disposal of the equipment regarding apparel business; (ii) the repayment of advances to third parties, shareholders and a related party of approximately RMB51.5 million, RMB166.9 million and RMB21.5 million respectively.

Cash flow (used in)/generated from financing activities

For the year ended 31 December 2013, we generated net cash from financing activities of approximately RMB120.0 million. This was mainly due to (i) the proceeds from borrowings and notes payables of approximately RMB360.3 million; (ii) the proceeds from borrowings from shareholders of approximately RMB59.6 million; and (iii) net decrease of restricted bank deposits of approximately RMB16.2 million as partially offset by (i) repayments of borrowings and notes payables of approximately RMB248.8 million; (ii) repayments of borrowings from shareholders of approximately RMB53.7 million; and (iii) interest and bank charges paid of approximately RMB12.4 million.

For the year ended 31 December 2012, we recorded net cash used in financing activities of approximately RMB50.7 million. This was primarily due to (i) the repayments of borrowings and notes payables of approximately RMB246.8 million; (ii) the repayment of borrowings from shareholders of approximately RMB116.7 million; and (iii) the interest and bank charges paid of approximately RMB10.6 million as a result of the drawn on bank and other borrowings to meet our needs of working capital, as partially offset by (i) the proceeds from borrowings and notes payables of approximately RMB189.1 million; (ii) the net decrease of restricted bank deposits of approximately RMB12.5 million; and (iii) the proceeds from borrowing from shareholders of approximately RMB121.7 million.

For the year ended 31 December 2011, we recorded net cash used in financing activities of approximately RMB7.1 million. This was primarily due to (i) the repayments of borrowings and notes payables of approximately RMB167.5 million; (ii) the net increase of restricted bank deposits of approximately RMB16.6 million; and (iii) the repayment of borrowings from shareholders of approximately RMB158.0 million, as partially offset by (i) the proceeds from borrowings and notes payables of approximately RMB199.2 million; and (ii) the proceeds from borrowing from shareholders of approximately RMB143.1 million.

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SUMMARY OF CONSOLIDATED BALANCE SHEETS

The selected financial information from our consolidated balance sheets as at 31 December 2011, 2012 and 2013 set forth below are derived from our Accountant's Report in Appendix I to this prospectus.

Summary of Consolidated Balance Sheets

	As at 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
ASSETS			
Non-current assets			
Leasehold land and land use rights	6,437	25,221	24,690
Property, plant and equipment	186,772	302,995	477,469
Deferred income tax assets	<u>1,125</u>	<u>443</u>	<u>1,380</u>
	<u>194,334</u>	<u>328,659</u>	<u>503,539</u>
Current assets			
Inventories	57,471	62,533	75,647
Trade and other receivables	155,906	88,015	167,228
Cash and cash equivalents	498	7,278	47,922
Restricted bank deposits	<u>61,497</u>	<u>48,954</u>	<u>32,799</u>
	<u>275,372</u>	<u>206,780</u>	<u>323,596</u>
Total assets	<u><u>469,706</u></u>	<u><u>535,439</u></u>	<u><u>827,135</u></u>
EQUITY			
Capital and reserve attributable to owners of the Company			
Share capital	—	—	1
Other reserves	109,729	113,382	130,266
Retained earnings	<u>39,343</u>	<u>70,527</u>	<u>136,651</u>
Total equity	<u><u>149,072</u></u>	<u><u>183,909</u></u>	<u><u>266,918</u></u>
LIABILITIES			
Non-current liabilities			
Borrowings	14,701	19,214	85,361
Other payables	—	—	29,875
Deferred income	<u>—</u>	<u>14,557</u>	<u>16,945</u>
	<u>14,701</u>	<u>33,771</u>	<u>132,181</u>

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	As at 31 December		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current liabilities			
Borrowings	132,073	132,686	182,727
Trade and other payables	68,915	65,436	156,379
Notes payables	100,450	111,848	70,498
Current income tax liabilities	<u>4,495</u>	<u>7,789</u>	<u>18,432</u>
	<u>305,933</u>	<u>317,759</u>	<u>428,036</u>
Total liabilities	<u>320,634</u>	<u>351,530</u>	<u>560,217</u>
Total equity and liabilities	<u>469,706</u>	<u>535,439</u>	<u>827,135</u>

ANALYSIS OF SELECTED ITEMS OF THE CONSOLIDATED BALANCE SHEETS

Inventories

Our inventories comprise raw materials, work in progress and finished goods. The raw materials which we use, such as cotton yarns and raw cotton are stored in our warehouses. The value of our inventories accounted for 20.9%, 30.2% and 23.4%, respectively, of our total current assets as at 31 December 2011, 2012 and 2013.

The following table is a summary of our balance of inventories as at 31 December 2011, 2012 and 2013:-

	As at 31 December		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials and packaging materials	17,700	15,323	38,298
Work-in-progress	18,071	17,579	19,887
Finished goods	<u>21,700</u>	<u>29,631</u>	<u>17,462</u>
Total	<u>57,471</u>	<u>62,533</u>	<u>75,647</u>

Raw materials and packaging materials principally represented raw materials of cotton yarn, polyester yarn, core yarn, CVC yarn, raw cotton, silk noil and others. Work-in-progress principally represented cotton yarns and fabric products during the production. Finished goods represented the fabrics under the five series and yarns.

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The balances of our raw materials and packaging materials and work-in-progress increased from approximately RMB15.3 million and RMB17.6 million, respectively, as at 31 December 2012 to approximately RMB38.3 million and RMB19.9 million, respectively as at 31 December 2013. Such increase was primarily due to the business expansion of our yarns and fabrics business. The balance of raw materials and packaging materials decreased from approximately RMB17.7 million as at 31 December 2011 to approximately RMB15.3 million as at 31 December 2012. Such decrease was primarily due to the decrease in the purchase price of major raw materials in the fourth quarter of 2012 if comparing the same in the period of 2011. The balance of work-in-progress maintained at similar level as at 31 December 2011 and 2012. The balance of finished goods decreased from approximately RMB29.6 million as at 31 December 2012 to approximately RMB17.5 million as at 31 December 2013. Such decrease was primarily due to the Group's effort on the sales of fabrics and yarns products in the fourth quarter of 2013 in view of Chinese New Year at the end of January 2014. The balance of finished goods increased from approximately RMB21.7 million as at 31 December 2011 to approximately RMB29.6 million as at 31 December 2012. Such increase was primarily due to the expansion of our fabrics business and the commencement of our yarns business in May 2012.

The adequacy of our inventories is reviewed by our management from time to time. Our policy on obsolete or damaged inventories is to write off such inventories when our management considers the obsolete or damaged inventories to have no residual value.

In addition, specific provisions on impairment of inventories would be made should our management decide that the current level of provision is inadequate. We had not made any provision or written off any inventory due to damage or obsolescence during the years ended 31 December 2011, 2012 and 2013, as we have not experienced any significant damage or loss in respect of our inventories throughout the said period. As at the Latest Practicable Date, all of our inventories in stock as at 31 December 2013 were subsequently consumed or sold.

The following table sets forth the average inventory turnover days during the Track Record Period:-

	Year ended 31 December		
	2011	2012	2013
Average inventory turnover days ^{Note}	63	66	39

Note:-

Average inventory turnover days is equal to the average of the beginning and ending inventory balance of the year divided by cost of sales of the year and multiplied by 365 days for a year.

The average inventory turnover days decreased from 66 days for the year ended 31 December 2012 to 39 days for the year ended 31 December 2013. Such decrease was primarily due to our efforts in the sales of fabrics and yarns products in 2013 resulting in faster consumption on the finished goods. Our average inventory turnover days remained steady between 63 and 66 days for the years ended 31 December 2011 and 2012.

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Trade and notes receivables

Majority of our sales are based on cash upon delivery and the remaining sales are made with credit terms. Major customers with good repayment history were normally offered credit terms of not more than three months.

We normally recognise trade receivables as allowance for doubtful debts when they are aged over one year or above under our accounting policy. No allowance for doubtful debts were recorded during the Track Record Period.

	As at 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Trade receivables			
- Related parties	4,493	—	—
- Third parties	<u>9,741</u>	<u>27,357</u>	<u>75,158</u>
	14,234	27,357	75,158
Notes receivables			
- Third parties	<u>—</u>	<u>10,000</u>	<u>29,930</u>
Total	<u>14,234</u>	<u>37,357</u>	<u>105,088</u>
Ageing of trade and notes receivables			
- Within 3 months	14,134	35,076	96,991
- 4 to 6 months	—	2,210	8,095
- Over 6 months	<u>100</u>	<u>71</u>	<u>2</u>
	<u>14,234</u>	<u>37,357</u>	<u>105,088</u>
Average trade and notes receivables turnover days ^{Note}	21	23	33

Note:-

Average trade and notes receivables turnover days is equal to the average of the beginning and ending balance of trade and notes receivables for the year divided by revenue for the year and multiplied by 365 days for a year.

The increase in trade and notes receivables from approximately RMB14.2 million as at 31 December 2011 to approximately RMB37.4 million as at 31 December 2012 was primarily attributable to the increase in the sales of fabrics products and the commencement of yarns business in May 2012. The increase in trade and notes receivables from approximately RMB37.4 million as at 31 December

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2012 to approximately RMB105.1 million as at 31 December 2013 was mainly due to the increase in the sales of fabrics and yarns products as a result of our business expansion following the commencement of our operation of Hubei Production Facilities in June 2013 and the full year operation of our yarns business in 2013.

After imposing tighter credit control for better management of working capital, the average trade and notes receivable turnover days remain relatively steady between 21 and 23 days in 2011 and 2012. The average trade and notes receivables turnover days increased from 23 days for the year ended 31 December 2012 to 33 days for the year ended 31 December 2013, mainly due to the increase in the sales of fabrics and yarns products recognised in the fourth quarter of 2013 which have not been settled prior to 31 December 2013.

As at the Latest Practicable Date, our trade and notes receivables of approximately 90.2% as at 31 December 2013 were settled subsequently.

Trade and notes payables

	As at 31 December		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Trade payables			
- Third parties	15,150	21,692	40,200
Bank acceptance notes	<u>100,450</u>	<u>111,848</u>	<u>70,498</u>
Total	<u>115,600</u>	<u>133,540</u>	<u>110,698</u>
Ageing of trade payables			
- Within 3 months	15,150	19,729	27,936
- 4 months to 12 months	—	1,963	12,174
- Over 12 months	<u>—</u>	<u>—</u>	<u>90</u>
	<u>15,150</u>	<u>21,692</u>	<u>40,200</u>
Average trade and notes payables turnover days ^{Note}	161	138	69

Note:-

Average trade and notes payables turnover days is equal to the average of the beginning and ending trade and notes payables balances for the year divided by cost of sales of year and multiplied by 365 days for a year.

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Trade payables

The increase in trade payables from approximately RMB15.2 million as at 31 December 2011 to approximately RMB21.7 million as at 31 December 2012 and further to approximately RMB40.2 million as at 31 December 2013 was mainly due to the increase in purchases of raw materials for preparation of higher production volume because of the increase in the sales secured.

Notes payables

Our notes payables decreased from approximately RMB111.8 million as at 31 December 2012 to approximately RMB70.5 million as at 31 December 2013 as a result of higher portion of our purchases were settled by means of trade payables. Our notes payables increased from approximately RMB100.5 million as at 31 December 2011 to approximately RMB111.8 million as at 31 December 2012 as a result of (i) the increase in the purchases of raw materials for fabrics products; and (ii) the use of the bank acceptance notes.

We are usually required to make advance payment or issue note payment to our suppliers before raw materials are received. For some of our purchases, our suppliers may allow a credit period on a case-by-case basis with an average credit period on purchase of goods of 30 days, and note payables term of up to 180 days.

During the year ended 31 December 2011 and the period from 1 January 2012 to 30 April 2012, bank acceptance notes of approximately RMB41.3 million and RMB25.3 million were issued to a related company and certain third party suppliers for financing purposes, respectively. As at 31 December 2011, 2012 and 2013, the outstanding notes in respect of these arrangements amounted to approximately RMB41.3 million, nil and nil, respectively. Detailed information of the financing arrangements are set forth in the paragraph headed “Business — Non-Compliant Bill Financing” of this prospectus.

Our trade and notes payables turnover days decreased from 161 days for the year ended 31 December 2011 to 138 days for the year ended 31 December 2012 and further to 69 days for the year ended 31 December 2013. Such decrease was primarily due to the cessation of issuing bank acceptance notes for the purpose of Non-Compliant Bill Financing in April 2012.

As at the Latest Practicable Date, our trade and notes payables as at 31 December 2013 of approximately 64.6% were subsequently settled.

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Other receivables

The following table sets forth the breakdown of other receivables as at 31 December 2011, 2012 and 2013:-

	As at 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Other receivables			
- Prepayments for purchase of raw materials	30,398	44,391	41,539
- Amounts due from related parties	104,759	158	—
- Amounts due from third parties	5,117	4,855	—
- Deductible value-added tax pending for validation	606	707	18,898
- Prepaid professional fees in respect of the initial public offering	—	—	1,234
- Others	792	547	469
Total	<u>141,672</u>	<u>50,658</u>	<u>62,140</u>

The decrease in other receivables from approximately RMB141.7 million as at 31 December 2011 to approximately RMB50.7 million as at 31 December 2012 was primarily due to the decrease in the amount due from related parties as a result of the repayment from Mr. Lin and Hong Tai Industrial in 2012. The increase in the other receivables from approximately RMB50.7 million as at 31 December 2012 to approximately RMB62.1 million as at 31 December 2013 was primarily due to the increase in the deductible value-added tax pending for validation of approximately RMB18.9 million in relation to purchase of production machineries for and construction of our Hubei Production Facilities.

During the years ended 31 December 2011 and 2012, we made loans to third parties and Hong Tai Industrial to fund their finance needs. The third parties include six corporations and two individuals, two of those corporations are our suppliers, one is our customer, one corporation is our customer and also our supplier and two are companies established by Mr. Lin's acquaintances. We have established good relationship with these corporate suppliers and customers and through our business relationship with these corporate suppliers and customers, and our Directors were confident about their financial status and credibility and granted such loans to them. For the companies which are established by Mr. Lin's acquaintances, to the best knowledge and belief of our Directors, Mr. Lin has acquainted with such acquaintances for more than five years and those companies are in the textile industry. Our Directors were confident about the financial status and credibility of those companies through the communication with them and their understanding on the background of those companies in the textile industry and Mr. Lin. Moreover, for the loans made to the two individuals, to the best knowledge of the Directors, those individuals are also doing business in the textile industry and Mr. Lin acquainted with them through business gatherings and these individuals have good network in the industry and credibility. Our Directors were not aware that such loan advancing activities were not in compliance with the relevant PRC laws and regulations at the time of conducting such activities.

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As at the Latest Practicable Date, approximately 92.3% of the prepayment for purchases of raw materials of approximately RMB41.5 million as at 31 December 2013 was subsequently realised to purchases.

Other payables

The following table sets forth the breakdown of other payables as at 31 December 2011, 2012 and 2013:-

	As at 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Non-current			
Payables for purchase of property, plant and equipment ^{Note}	—	—	29,875
Current			
Advanced payments from customers			
- Third parties	24,831	20,378	54,944
- Related party	6,472	—	—
	<u>31,303</u>	<u>20,378</u>	<u>54,944</u>
Amounts due to related parties	5,434	10,435	8,283
Amounts due to third parties	10,416	—	—
Salary and welfare payables	4,543	4,025	6,968
Payables for purchase of property, plant and equipment	—	6,488	27,967
Other tax payables	835	2,418	8,785
Accrued professional fees in respect of the initial public offering	—	—	2,285
Other payables	<u>1,234</u>	<u>—</u>	<u>6,947</u>
	<u>53,765</u>	<u>43,744</u>	<u>116,179</u>
Total	<u>53,765</u>	<u>43,744</u>	<u>146,054</u>

Note: According to IAS 39, non-current payable for purchase of property, plant and equipment should be discounted at current market rate of interest upon initial recognition. However, our Directors considered that the non-current payable for purchase of our property, plant and equipment is not subject to discounting on the basis that this was a modification of liability in accordance with IAS 39, which was resulted from subsequent renegotiation between us and the related vendors before the original payment due dates. Our Directors are of the view that no adjustment has been made.

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The decrease in other payables from approximately RMB53.8 million as at 31 December 2011 to approximately RMB43.7 million as at 31 December 2012 was primarily due to (i) the decrease in advance payments from third parties customers and related parties of RMB4.5 million and RMB6.5 million respectively; and (ii) no amounts due to third parties as at 31 December 2012. The increase in other payables from approximately RMB43.7 million as at 31 December 2012 to approximately RMB146.1 million as at 31 December 2013 was mainly due to (i) the increase in advanced payments from third party customers of approximately RMB34.5 million as a result of the increase in the sales orders obtained for our fabric and yarns business in the fourth quarter of 2013 while the products as required by such sales orders were still under preparation or production as at 31 December 2013 following with the commencement of the operation of our Hubei Production Facilities in June 2013 and the full year of operation of our yarns business in 2013. (ii) the increase in payables for purchase of property, plant and equipment of approximately RMB51.4 million in relation to the construction of our Hubei Production Facilities; (iii) increase in the other tax payables of approximately RMB6.4 million as a result of our business expansion; and (iv) increase in accrued professional fees in respect of the initial public offering of approximately RMB2.3 million. As at the Latest Practicable Date, approximately 87.9% of the advanced payments from the third parties customers of approximately RMB54.9 million as at 31 December 2013 was subsequently realised as sales.

OTHER KEY FINANCIAL RATIOS

	Year ended 31 December		
	2011	2012	2013
Return on equity (%) ^(Note 1)	19.4	18.9	28.1
Return on assets (%) ^(Note 2)	6.2	6.5	9.1
Interest coverage ^(Note 3)	3.8	3.9	7.0
	As at 31 December		
	2011	2012	2013
Current ratio (%) ^(Note 4)	90.0	65.1	75.6
Quick ratio (%) ^(Note 5)	71.2	45.4	57.9
Gearing ratio (%) ^(Note 6)	109.1	88.3	103.5
Debt to equity ratio (%) ^(Note 7)	67.5	57.7	73.3

Notes:-

- (1) Return on equity for the years ended 31 December 2011, 2012 and 2013 was calculated based on our total comprehensive income for the respective year divided by the total equity of the respective year and multiplied by 100%.
- (2) Return on assets for the years ended 31 December 2011, 2012 and 2013 was calculated based on our total comprehensive income for the respective year divided by our total assets of the respective year and multiplied by 100%.
- (3) Interest coverage ratio for the years ended 31 December 2011, 2012 and 2013 was calculated based on our operating profit for the respective year divided by our finance costs for the respective year.

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- (4) Current ratio as at 31 December 2011, 2012 and 2013 were calculated based on our current assets of the respective date divided by our current liabilities of the respective date and multiplied by 100%.
- (5) Quick ratio as at 31 December 2011, 2012 and 2013 were calculated based on our current assets minus inventories as at the respective date divided by our current liabilities as at the respective date and multiplied by 100%.
- (6) Gearing ratio as at 31 December 2011, 2012 and 2013 were calculated based on our total debts (being sum of our total borrowings and amounts due to related parties and third parties) as at the respective date divided by total equity as at the respective year and multiplied by 100%.
- (7) Debt to equity ratio as at 31 December 2011, 2012 and 2013 were calculated based on our net debts (being total debts net of cash and cash equivalents and restricted bank deposits) as at the respective date divided by total equity as at the respective year and multiplied by 100%.

Return on equity

Our return on equity maintained relatively stable for the years ended 31 December 2011 and 2012. The return on equity for the year ended 31 December 2013 was 28.1%. Such increase was primarily due to the increase in the sales of fabrics and yarns products resulted from an increase in our production capacity and utilisation rate.

Return on assets

Our return on assets maintained relatively stable for the years ended 31 December 2011 and 2012. The return on assets for the year ended 31 December 2013 was 9.1%. Such increase was primarily due to the same reasons set forth above for the increase in our return on equity ratio for the same period, as well as our use of financial leverage to support our production expansion and meet our working capital needs.

Interest coverage

The interest coverage increased from 3.9 for the year ended 31 December 2012 to 7.0 for the year ended 31 December 2013. This was mainly due to the increase in operating profit, attributable to the increase in the sales volume of fabrics and yarns products. The interest coverage maintained relatively stable in 2011 and 2012.

Current ratio

The decrease of our current ratio from 90.0% as at 31 December 2011 to 65.1% as at 31 December 2012 was primarily due to the significant decrease in the amount due from related parties from approximately RMB104.8 million to approximately RMB0.2 million.

The increase of our current ratio from 65.1% as at 31 December 2012 to 75.6% as at 31 December 2013 was mainly due to the increase in trade and other receivables of approximately RMB79.2 million and the increase in cash and cash equivalents of approximately RMB40.6 million as a result of business expansion.

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Quick ratio

Our quick ratio decreased from 71.2% as at 31 December 2011 to 45.4% as at 31 December 2012 and increased to 57.9% as at 31 December 2013. Our quick ratio demonstrated a similar trend as our current ratio and the reasons for the fluctuation are also similar to that for our current ratio.

Gearing ratio

Our gearing ratio decreased from 109.1% as at 31 December 2011 to 88.3% as at 31 December 2012. The decrease was mainly due to the increase in the total equity by RMB34.8 million or 23.4% for the year ended 31 December 2012; whereas the increase in total borrowing by only RMB5.1 million or 3.5% as at the year ended 31 December 2012. The increase in total equity was greater than the increase in total borrowing because (i) our repayment to amounts due to third parties of approximately RMB10.4 million during the year ended 31 December 2012; and (ii) the increase in total equity is mainly due to the increase in reserves which is consistent with the increase in net profit during these periods. Our gearing ratio increased from 88.3% as at 31 December 2012 to 103.5% as at 31 December 2013. Such increase was primarily due to the increase in the total borrowings to finance the construction of our Hubei Production Facilities and our needs of working capital.

Debt to equity ratio

Our debt to equity ratio decreased from 67.5% as at 31 December 2011 to 57.7% as at 31 December 2012. Our debt to equity ratio increased from 57.7% as at 31 December 2012 to 73.3% as at 31 December 2013. Such fluctuation was mainly due to the same reasons as above for our gearing ratio for the same period.

CAPITAL EXPENDITURES

Our capital expenditures principally consisted of expenditures on construction in progress (comprising plants and buildings) and machinery and equipment. For the years ended 31 December 2011, 2012 and 2013, we incurred capital expenditures amounting to approximately RMB62.6 million, RMB154.7 million and RMB206.7 million, respectively. The following table sets forth our historical capital expenditures during the Track Record Period:-

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Leasehold land and land use rights	—	18,998	—
Buildings	—	—	873
Machinery and equipment	5,375	20,168	3,401
Office equipment, furniture and vehicles	433	3,736	911
Construction in progress	56,744	111,759	201,547
	<u>62,552</u>	<u>154,661</u>	<u>206,732</u>

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The capital expenditure incurred for the year ended 31 December 2011 is primarily related to the construction of office building and a new warehouse in our Shishi Production Facilities. The capital expenditure incurred for the year ended 31 December 2012 is primarily related to the construction of our production facilities and workshops in our Shishi Production Facilities and acquisition of equipment and machinery as a result of the establishment of our Hubei Production Facilities. Significant increase of the capital expenditure by approximately RMB52.0 million or 33.7% for the year ended 31 December 2013 as compared to the same for the year ended 31 December 2012 was mainly due to the construction of our Hubei Production Facilities in 2013.

CAPITAL COMMITMENTS

Our Group outsourced the construction of plant and buildings under construction agreements and purchased machinery and equipment under non-cancellable finance lease contracts. Our Group's future aggregate minimum capital payments under these contracts were as follows:-

	As at 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Contracted but not provided for			
- Plants and buildings	12,155	109,243	—
- Machinery and equipment	—	69,817	—
	<u>12,155</u>	<u>179,060</u>	<u>—</u>

Projected capital expenditures

For the three years ending 31 December 2014, 2015 and 2016, our capital expenditures are expected to primarily consist of expenditures for construction of production facilities and workshops, acquisition of new equipment and machinery for our Hubei Production Facilities.

Based on our current plan, we estimate that an aggregate expected future capital expenditure of approximately RMB400.0 million will be required for the three years ending 31 December 2014 and 2016 to fund the expansion of our operations.

	Year ending 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Hubei Production Facilities			
Land and buildings	1,000	48,000	48,000
Property, plant and equipment	100	110,000	194,000
Shishi Production Facilities			
Land and buildings	—	—	—
Property, plant and equipment	<u>100</u>	<u>—</u>	<u>—</u>
	<u>1,200</u>	<u>158,000</u>	<u>242,000</u>

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INDEBTEDNESS

Our outstanding balance of borrowings from banks and other financial institutions, finance lease liabilities, other borrowings and loans from government as at 31 December 2011, 2012, 2013 and 28 February 2014, being the latest practicable date for the purpose of determining our indebtedness, were approximately RMB146.8 million, RMB151.9 million, RMB268.1 million and RMB322.3 million, respectively.

The following table is a summary of our indebtedness as at 31 December 2011, 2012 and 2013 and 28 February 2014:-

	As at 31 December			As at 28 February
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current				
Borrowings from banks and other financial institutions				
- secured	3,367	502	22,587	21,229
- unsecured	2,875	—	—	—
Loans from government - unsecured	—	—	50,000	100,000
Finance lease liabilities	—	5,546	1	—
Other borrowings - secured	8,459	13,166	12,773	9,624
	<u>14,701</u>	<u>19,214</u>	<u>85,361</u>	<u>130,853</u>
Current				
Borrowings from banks and other financial institutions				
- short term - secured	62,000	53,500	101,000	111,000
- short term - unsecured	55,000	52,000	44,930	45,030
- current portion of long term				
- secured	3,431	2,865	7,750	7,862
- current portion of long term				
- unsecured	2,076	2,876	—	—
Loan from government - unsecured	—	—	5,000	5,000
Finance lease liabilities	2,733	4,982	5,545	4,661
Other borrowings - secured	6,833	16,463	18,502	17,879
	<u>132,073</u>	<u>132,686</u>	<u>182,727</u>	<u>191,432</u>
Total	<u>146,774</u>	<u>151,900</u>	<u>268,088</u>	<u>322,285</u>

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The borrowings from banks and other financial institutions were secured by our leasehold land and land use rights, property, plants and equipment and trade receivables amounting to RMB77.0 million, RMB50.7 million, RMB159.2 million and RMB158.4 million, and were supported by guarantees from third parties and related parties jointly and severally totalling RMB66.8 million, RMB58.2 million, RMB64.0 million and RMB74.0 million, as at 31 December 2011, 2012, 2013 and 28 February 2014, respectively.

The finance lease arrangements are primarily related to finance leases to purchase equipment and machinery for the production of fabrics and yarns products. The carrying amounts of machinery and equipment under finance lease for the production of fabrics was approximately RMB8.5 million, nil, nil and nil, and for the production of yarns was approximately nil, RMB13.5 million, RMB13.0 million and RMB12.7 million, as at 31 December 2011, 2012, 2013 and 28 February 2014, respectively. The finance lease arrangements were guaranteed by certain third parties and our Shareholders.

Save as disclosed in this subsection, we did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, liabilities under acceptances or acceptance credits or any guarantee or other material contingent liability outstanding as at 28 February 2014.

As at 28 February 2014, we had cash and cash equivalents and restricted bank deposits amounting to RMB103.5 million. As at 28 February 2014, we had unutilised bank facilities of RMB115.6 million, which are all short-term facilities, expiring between 1 March 2014 and 19 December 2014. We had obtained written confirmations from certain of our lenders, which had agreed to renew certain of our short-term borrowings expiring within one year in the aggregate principal amount of RMB175.0 million.

Our Directors confirmed that we were in compliance with all loan covenants throughout the Track Record Period and up to the Latest Practicable Date. We expect to service our indebtedness and capital commitments and to meet our other presently known and foreseeable funding requirements through cash generated from our operations, net proceeds from the Global Offering and short-term borrowings and long-term loan facilities. If we cannot service our indebtedness and capital commitments and to meet our other funding requirements, we will delay the implementation of the second phase of the construction of our Hubei Production Facilities by suspending the construction of workshops, infrastructure, equipment and machinery until we secure sufficient financing. In such event, we may be required to scale back our planned capital expenditures, which may adversely affect our ability to achieve economies of scale and implement our planned growth strategy. As at 28 February 2014, we had no capital commitment.

Our Directors confirmed that all of the guarantees provided by the related parties and shareholders in favour of our Group for the borrowings will be released upon the Listing.

CONTINGENT LIABILITIES

As at 31 December 2013, we did not have significant contingent liabilities. Save as disclosed above, as at the Latest Practicable Date, we had not involved in any material legal proceeding, nor

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were we aware of any pending or potential material legal proceeding involving our Group. If our Group is involved in any material legal proceeding in the future, and based on information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated, we would then record a contingent liability.

CONTRACTUAL OBLIGATIONS AND OTHER OFF-BALANCE SHEET ARRANGEMENTS

Save as the capital commitments disclosed in the paragraphs headed “Financial Information — Capital Commitments” of this prospectus, and “Operating lease commitments” in Appendix I to this prospectus, we did not have any other contractual obligation nor any other off-balance sheet arrangement.

LISTING EXPENSES

All incremental costs that are directly attributable to the issue of new shares are recognised directly deducted from equity while any expenses attributable to listing of existing shares are charged to the profit and loss accounts in the period in which the expenses are incurred. The total expenses for the Listing are estimated to be approximately HK\$28.7 million (assuming an Offer Price of HK\$0.72 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$0.62 to HK\$0.82), of which approximately HK\$13.6 million is directly attributable to the issue of new Shares in the Global Offering and to be accounted for as a deduction from equity and approximately HK\$15.1 million is to be charged as administrative expenses to our profit and loss accounts in the period in which the expenses are incurred. The Listing expenses of approximately HK\$11.8 million were charged to our profit and loss account for the year ended 31 December 2013, and approximately HK\$3.3 million are expected to be charged to our profit and loss account after 31 December 2013, which will be reflected in our administrative expenses for the year ending 31 December 2014.

DISTRIBUTABLE RESERVES

Our Company was incorporated in the Cayman Islands on 29 April 2013. As at 31 December 2013, no distributable reserves were available for distribution to our Shareholders.

DIVIDEND AND DIVIDEND POLICY

No dividends have been declared or paid by our Company since its incorporation. In view of our current financial position, the continuous net current liabilities during the Track Record Period and the capital expenditure plan for the expansion of our Hubei Production Facilities, our Directors do not anticipate that our Group will distribute any dividend in the foreseeable future unless there is substantial improvement on our financial position.

The payment and the amount of any dividend, if paid, will depend on the results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that we may consider relevant. Holders of the Shares will be entitled to receive such dividends *pro rata* according to the amounts paid up or credited as paid up on the Shares. The declaration, payment, and amount of dividends will be subject to our discretion.

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Our PRC subsidiaries may pay dividends only out of its accumulated distributable profits, if any, determined in accordance with its articles of association, and the accounting standards and regulations in China. Our Directors intend to invest the earnings of our PRC subsidiaries from January 2008 to 31 December 2013 in the PRC permanently and there is no plan of distribution of such earnings in the foreseeable future. Furthermore, pursuant to the relevant PRC laws and regulations applicable to our subsidiary in the PRC, our PRC subsidiary is required to set aside a certain amount of its accumulated after-tax profits each year, if any, to fund statutory reserves. These reserves may not be distributed as cash dividends.

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 portion of profits will not be available to be reinvested in our operations. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

During the Track Record Period, Hongtai (China) did not declare and pay any dividends to its shareholders. Based on the current financial position of the Group, the continuous net current liabilities during the Track Record Period and also our capital expenditure for the business expansion in our Hubei Production Facilities, our Directors do not anticipate that our Group will distribute any dividend in the foreseeable future if there is no substantial improvement on the financial position of the Group.

Declaration of dividends is subject to the discretion of our Directors, depending on our results of operations, working capital, cash position, future operations, and capital requirements, as well as any other factors which our Directors may consider relevant. In addition, any declaration and payment as well as the amount of the dividend will be subject to the constitutional documents of our Company and the Companies Law. Any future declarations and payments of dividends may or may not reflect the historical declarations and payments of dividends of our Company and will be at the absolute discretion of our Directors.

DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

Our Directors confirmed that there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Sales volume of fabrics increased by approximately 21.6% from approximately 3,704.8 km for the two months ended 28 February 2013 to approximately 4,505.9 km for the two months ended 28 February 2014. Such increase was primarily due to the expansion of our production capacities through the commencement of operation of our Hubei Production Facilities in June 2013 so as to allow us to meet the increased sales volume of fabrics.

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Sales volume of yarns decreased by approximately 22.0% from approximately 736.6 tonnes for the two months ended 28 February 2013 to approximately 574.2 tonnes for the two months ended 28 February 2014. Such decrease was primarily due to a higher proportion of yarns, which were tailor-made according to the customer's specification, were to be delivered after February 2014 as a result of the earlier Chinese New Year holiday in 2014 despite that the confirmed sales orders increased by approximately 28.9% from 1,025.9 tonnes as at 28 February 2013 to 1,322.8 tonnes as at 28 February 2014. Earlier Chinese New Year holiday caused us to reschedule the production of certain yarns products to a later time resulting in the postponement of the delivery of the yarns products.

Based on our unaudited management accounts, as at 28 February 2014, we had unutilised balance of loan facilities amounting to approximately RMB115.6 million. Subsequent to 31 December 2013 and up to the Latest Practicable Date, we did not experience any significant change of pricing policy for our products and there was no material change in the unit cost of our raw materials. As far as we are aware, there was no material change in the general economic and market conditions in the textile industry in the PRC that had materially and adversely affected our business operations or financial conditions. However, as the estimated expenses for the Listing of approximately HK\$3.3 million, are expected to be charged to our profit and loss account for the year ending 31 December 2014, our financial results for the year ending 31 December 2014 would be adversely affected by such non-recurring expenses. In addition, as the construction of the first phase of our Hubei Production Facilities was substantially financed by borrowings, our Directors expect that the depreciation cost from our continuing business and the finance cost for borrowings may increase significantly in the foreseeable future which may in turn have material adverse impact on our profitability, financial condition and operation results. Our Directors confirm that save for the events disclosed in this paragraph, there have been no other material adverse changes in the financial or trading position or prospects of our Group subsequent to the Track Record Period and up to the date of this prospectus and there is no event since 31 December 2013 which would materially affect the information shown in the Accountant's Report set forth in Appendix I to this prospectus.

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UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an unaudited pro forma statement of adjusted consolidated net tangible assets of our Group attributable to the owners of our Company which is based on the audited consolidated net tangible assets of our Group attributable to the owners of our Company as at 31 December 2013 as shown in the Accountant's Report on the financial information for the years ended 31 December 2011, 2012 and 2013 of our Group, the text of which is set forth in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of our Company 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 Group.

	Audited consolidated net tangible assets of our Group attributable to the equity holders of our Company as at 31 December 2013 RMB'000 (Note 1)	Estimated net proceeds from the Global Offering RMB'000 (Note 2)	Unaudited pro forma adjusted net tangible assets attributable to the equity holders of our Company as at 31 December 2013 RMB'000 (Note 3)	Unaudited pro forma adjusted net tangible assets per share RMB HK\$ (Note 3) (Note 5)
Based on an Offer Price of HK\$0.62 per share	266,918	111,033	377,951	0.38 0.47
Based on an Offer Price of HK\$0.82 per share	266,918	149,833	416,751	0.42 0.52

Notes:

- (1) The audited consolidated net tangible assets attributable to the equity holders of our Company as at 31 December 2013 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of our Group attributable to the equity holders of our Company as at 31 December 2013 of RMB266,918,000.
- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer price of HK\$0.62 per Share and HK\$0.82 per Share after deduction of the underwriting fees and other related expenses payable by our Company.
- (3) The unaudited pro forma net tangible assets per Shares is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,000,000,000 Shares were in issue assuming that the Global Offering had been completed on 31 December 2013 but takes no account of any Share which would be allotted and issued or repurchased by our Company pursuant to the Issuing Mandate and the Repurchase Mandate and the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme.
- (4) No adjustment has been made to reflect any trading result or other transaction of our Group entered into subsequent to 31 December 2013.

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- (5) For the purpose of this unaudited pro forma adjusted net tangible assets, the balances stated in Renminbi are converted into Hong Kong dollars at a rate of RMB0.80 to HK\$1.00. 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.

PROPERTY INTERESTS AND PROPERTY VALUATION

Jones Lang Lasalle Corporate Appraisal and Advisory Limited, an independent property valuer, has valued our property interests as at 28 February 2014 and is of the opinion that the aggregate value of our property interests (including the property interest owned and occupied by us and the property interest for future development) as at such date amounted to approximately RMB299.4 million. The full text of the letter, summary of valuation and valuation certificates with regard to such property interests are set forth in Appendix III to this prospectus.

The statement below shows the reconciliation of aggregate amounts of leasehold land and land use rights and buildings as reflected on the audited consolidated financial statements as at 31 December 2013 with the valuation of these properties as at 28 February 2014 as set forth in Appendix III to this prospectus.

	RMB (million)
Net book value of property interests of the Group as at 31 December 2013	
Leasehold land and land use rights	24.7
Buildings	264.1
	<u>288.8</u>
Movement for the period from 1 January 2014 to 28 February 2014	
Add: addition during the period (unaudited)	—
Add: transfer from construction-in-progress during the period (unaudited)	0.7
Less: amortisation during the period (unaudited)	(0.1)
Less: depreciation during the period (unaudited)	<u>(2.2)</u>
Net book value as at 28 February 2014 (unaudited)	287.2
Valuation surplus (unaudited)	<u>12.2</u>
Valuation of properties as at 28 February 2014	<u><u>299.4</u></u>

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QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISKS

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. We are exposed to cash flow interest rate risk resulting from fluctuations in interest rate on our financial obligations. In particular, our variable-rate pledged bank deposits, bank balances and borrowings from banks and other financial institutions bear interest rates that are subject to adjustments by our lenders in accordance with changes in relevant PBOC regulations. Our management maintains our borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate borrowings from banks and other financial institutions at the end of the reporting period. No sensitivity is presented for variable-rate pledged bank deposits and bank balances as the impact are insignificant. For borrowings from banks and other financial institutions, the analysis is prepared assuming the amount of liability outstanding at the end of reporting period was outstanding for the whole year. A 1,000 basis point increase or decrease is used when reporting interest rate risk to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1,000 basis points higher/lower and all other variables were held constant, our net profit after tax for the years ended 31 December 2011, 2012 and 2013 would have decreased/increased by RMB180,000, RMB52,000 and RMB109,000, respectively.

Credit risk

Credit risk is primarily related to trade receivables from our customers and the risk of financial loss if a partner, customer or counterparty to a financial instrument fails to meet its contractual obligations. The credit risk on liquid funds is limited because the counterparties are banks with good reputation or high credit ratings.

To minimise the credit risk arising from trade receivables, our management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, we reviewed the recoverable amount of each receivable at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, our Directors consider that our credit risk is significantly reduced. Our Directors consider that we have no significant concentration of credit risk.

Liquidity risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they become due. Our approach to managing liquidity is to ensure that we will have sufficient liquidity to meet our

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liabilities when due. As such, we monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance our operations and mitigate the effects of fluctuation in cash flows. Our management monitors the utilisation of borrowings and ensures compliance with loan covenants.

Price risk

Price risk is primarily related to the changes in prices of key commodities that we purchase. We are exposed to price risks resulting from increases in the price of raw cotton and cotton yarns, which are the key commodities used as raw materials for our production of our yarn products. We monitor the changes in the market price of raw cotton and cotton yarns and make purchases of our raw materials when we consider the prices appropriate. We also maintain our inventory of raw materials at a lower level when the market prices of raw cotton and cotton yarns decrease continually within a certain period. Currently, we do not enter into any hedging to manage the risk of changes in prices of raw cotton and cotton yarns.

RELATED PARTY TRANSACTIONS

With respect to the related parties transactions set out in note 31 to the Accountant's Report in Appendix I to this prospectus, our Directors confirmed that these transactions were conducted on normal commercial terms and/or our terms that are not less favourable than terms available from Independent Third Parties which are considered fair and reasonable and in the interest of our Shareholders as a whole.

Our Directors confirmed that the non-trading related advances to related companies and the non-trading related advances to and from related parties as set out in note 31(b)(ii) to the Accountant's Report in Appendix I to this prospectus were in each case for general working capital purposes of the relevant recipient of such advances. All guarantees granted by our related parties for our Group's obligations under borrowings from banks and other financial institutions, finance leases and other borrowings will be released and all amounts due to/from related parties will be settled upon the Listing.

FUTURE PLANS AND PROCEEDS

FUTURE PLANS

For detailed information of our business strategies and future plans, please refer to the paragraph headed “Business — Our business strategies” of this prospectus.

USE OF PROCEEDS

The net proceeds of the Global Offering we expect to receive (after deduction of underwriting fees and estimated expenses payable by us in relation to the Global Offering and assuming that the Over-allotment Option is not exercised) are estimated to be approximately HK\$138.7 million, assuming an Offer Price of HK\$0.62 per Share, or approximately HK\$187.3 million, assuming an Offer Price of HK\$0.82 per Share, (or if the Over-allotment Option is exercised in full, approximately HK\$161.3 million, assuming an Offer Price of HK\$0.62 per Share, or approximately HK\$217.1 million, assuming an Offer Price of HK\$0.82 per Share).

Assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$0.72 per Offer Share, being the midpoint of the stated Offer Price range of HK\$0.62 to HK\$0.82 per Offer Share, the net proceeds of the Global Offering would be approximately HK\$163.0 million which we presently plan to use as follows:-

- approximately HK\$97.8 million, representing about 60% of the net proceeds from the Global Offering, will be used for the construction and building of production facilities, purchase of machinery and equipment for the second phase of our Hubei Production Facilities;
- approximately HK\$24.5 million, representing about 15% of the net proceeds from the Global Offering, will be used for sales and marketing activities, expanding our sales network, establishing additional sales offices and recruiting additional sales and marketing staff. Approximately HK\$10.0 million will be used for the establishment of our sales commercial centre in Hubei, approximately HK\$3.8 million will be used for the establishment of our sales offices in Guangzhou and Changshu and approximately HK\$10.7 million will be used for the establishment of our fabrics promotion centres;
- approximately HK\$16.3 million, representing about 10% of the net proceeds from the Global Offering, will be used to enhance our research and development capabilities, to develop new products and to enhance existing product testing and research equipment and to further our cooperation with accredited research institutions and universities. Approximately HK\$8.7 million will be used for the purchase of equipment for research and development, approximately HK\$6.6 million will be used for ancillary materials used for research and development and approximately HK\$1.0 million will be used for cooperation with research institutions and universities;
- approximately HK\$8.1 million, representing about 5% of the net proceeds from the Global Offering, will be used for promotion of our brand recognition and brand value

FUTURE PLANS AND PROCEEDS

through establishing fabrics promotion centres and participating in trade shows and industry exhibitions and advertising in industry magazines. Approximately HK\$4.0 million will be used for advertisements and marketing promotion and approximately HK\$4.1 million will be used for participation in industry exhibitions; and

- approximately HK\$16.3 million, representing about 10% of the net proceeds from the Global Offering, will be used for working capital and other general corporate purposes.

As explained in the paragraph headed “Financial Information — Liquidity and capital resources — Net current liabilities and working capital — Measures to improve the net current liabilities position” from pages 220 to 221 of this prospectus. Approximately 60% of the aforesaid net proceeds allocated for the construction of the second and third phase of our Hubei Production Facilities may remain unused and be kept in interest-bearing bank accounts with licensed banks in Hong Kong or PRC until 2015 in view of the current scheduled time of construction of the second phase of our Hubei Production Facilities. In case we move into a financial position of net current assets (without taking into account of the net proceeds from the Global Offering) prior to 2015, we may use the allocated net proceeds for the construction of aforesaid production facilities prior to 2015 according to a revised time of construction.

If the Offer Price is fixed at HK\$0.82 per Offer Share, being the high end of the stated Offer Price range, the net proceeds will be increased by approximately HK\$24.3 million. If the Offer Price is fixed at HK\$0.62 per Offer Share, being the low end of the stated Offer Price range, the net proceeds will be reduced by approximately HK\$24.3 million. To the extent our net proceeds are either more or less than expected, we will adjust our allocation of the net proceeds for the above purposes on a pro rata basis.

The additional net proceeds that we would receive if the Over-allotment Option were exercised in full would be approximately (i) HK\$29.8 million (assuming an Offer Price of HK\$0.82 per Offer Share, being the high end of the stated Offer Price range), (ii) HK\$26.2 million (assuming an Offer Price of HK\$0.72 per Offer Share, being the mid-point of the estimated Offer Price range) and (iii) HK\$22.6 million (assuming an Offer Price of HK\$0.62 per Offer Share, being the low end of the stated Offer Price range). If the Over-allotment Option is exercised in full, our Directors intend to apply the net proceeds from the issue of additional Shares to the above purpose on a pro-rata basis.

To the extent that the net proceeds to us from the Global Offering are not immediately applied to the above purposes, we will deposit the net proceeds into interest-bearing bank accounts with licensed banks and/or financial institutions in Hong Kong and/or the PRC.

UNDERWRITING

HONG KONG UNDERWRITERS

Sole Global Coordinator and Bookrunner

Guotai Junan Securities (Hong Kong) Limited

Lead Manager

Guotai Junan Securities (Hong Kong) Limited

Co-Managers

Ever-Long Securities Company Limited
Hong Kong International Securities Limited
Luk Fook Securities (HK) Limited
South China Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offer

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering the Hong Kong Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms.

The Hong Kong Underwriting Agreement is conditional upon and subject to, amongst others, the International Underwriting Agreement becoming unconditional and not having been terminated.

Subject to the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally agreed to subscribe or procure subscribers to subscribe for the Hong Kong Offer Shares which are not taken up under the Hong Kong Public Offer.

UNDERWRITING

Grounds for Termination

The Sole Global Coordinator, at its sole and absolute discretion, may, for itself and on behalf of the Hong Kong Underwriters, upon the giving of notice in writing to our Company and/or the other warrantors (including our Controlling Shareholders and all our executive Directors), terminate the Hong Kong Underwriting Agreement with immediate effect if any of the following events occurs, at or prior to 8:00 a.m. on the Listing Date:

- (a) there has come to the notice of the Sole Global Coordinator that:
 - (i) any statement, estimate, forecast or expression of opinion, intention or expectation contained in this prospectus, the Application Forms, or any other documents which have been approved by our Company issued or used by or on behalf of our Company in connection with the Global Offering (the “**Offer Documents**”) (including any supplement or amendment thereto) considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in its sole and absolute opinion to be material in the context of the Global Offering, was, when it was issued, or has become, untrue, incomplete, incorrect or misleading in any respect or that any forecast, expression of opinion, intention or expectation expressed in any Offer Documents is not, in the sole and absolute opinion of the Sole Global Coordinator, in all material respects, fair and honest and based on reasonable assumptions, when taken as a whole; or
 - (ii) any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission therefrom considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in its sole and absolute opinion to be material in the context of the Global Offering; or
 - (iii) any of the representations, warranties, indemnities, agreements and undertakings given by our Company or the other warrantors in the Hong Kong Underwriting Agreement or the International Underwriting Agreement is (or would when repeated be) untrue, inaccurate or misleading or having been breached and considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in its sole and absolute opinion to be material in the context of the Global Offering; or
 - (iv) any breach of any of the obligations or undertakings imposed upon any party (other than the Sole Global Coordinator or any of the Underwriters) to any of the Underwriting Agreements or the Price Determination Agreement; or
 - (v) any material adverse change or prospective material adverse change in the condition, business, assets and liabilities, properties, results of operations, in the financial or trading position or prospects of any member of our Group; or

UNDERWRITING

- (vi) approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares is refused or not granted, other than subject to customary conditions, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
 - (vii) our Company withdraws any of the Offer Documents (and/or any other documents used in connection with the contemplated subscription of the Offer Shares) or the Global Offering; or
 - (viii) any matter, event, act or omission which gives or is likely to give rise to any material liability of any of our Company or the other warrantors pursuant to the indemnities given by our Company or any of the other warrantors in the Hong Kong Underwriting Agreement; or
 - (ix) any person (other than the Hong Kong Underwriters) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents or to the issue of any of the Offer Documents; or
- (b) there shall develop, occur, exist or come into effect:
- (i) any change or development involving a prospective change in, or any event or series of events resulting or likely to result in or representing any change or development in local, national, regional or international financial, political, military, industrial, legal, economic, currency market, fiscal or regulatory or market matters or conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Renminbi against any foreign currencies) in or affecting Hong Kong, the PRC, the Cayman Islands, the BVI, the United States, the United Kingdom, the European Union (or any member thereof), Japan, Singapore or any other jurisdiction relevant to our Group (each a “Relevant Jurisdiction”); or
 - (ii) any new law or regulation or any change or development involving a prospective change in any existing law or regulation, or any change in the interpretation or application thereof by any court or other competent authority in or affecting any Relevant Jurisdiction; or
 - (iii) any event or series of events in the nature of force majeure (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, civil commotion, acts of war, riot, public disorder, acts of terrorism (whether or not responsibility has been claimed), acts of God, epidemic, outbreak of infectious disease (including without limitation Severe Acute Respiratory Syndrome, avian influenza A (H5N1) and swine influenza (H1N1)), in or affecting any of the Relevant Jurisdictions; or
 - (iv) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any of the Relevant Jurisdictions; or

UNDERWRITING

- (v) (A) any suspension or limitation on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the Nasdaq National Market, the London Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the Tokyo Stock Exchange, or (B) a general moratorium of commercial banking activities in any of the Relevant Jurisdictions declared by the relevant authorities, or a disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any of the Relevant Jurisdictions; or
- (vi) any adverse change or development or event involving a prospective adverse change in taxation or exchange controls (or the implementation of any exchange control), currency exchange rates or foreign investment regulations in any of the Relevant Jurisdictions; or
- (vii) any imposition of economic sanctions, in whatever form, directly or indirectly, by any of the Relevant Jurisdictions; or
- (viii) any adverse change or development or event involving a prospective adverse change in our Group's assets, liabilities, profit, losses, performance, condition, business, financial, earnings, trading position or prospects; or
- (ix) the commencement by any judicial or regulatory body or organisation of any public action against a Director or an announcement by any judicial or regulatory body or organisation that it intends to take any such action; or
- (x) other than with the approval of the Sole Global Coordinator, the issue or requirement to issue by our Company of a supplementary prospectus or offering document pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules in circumstances where the matter to be disclosed is, in the opinion of the Sole Global Coordinator materially adverse to the marketing for or implementation of the Global Offering; or
- (xi) a petition is presented for the winding up or liquidation of our Company or any of its subsidiaries, or our Company or any of its subsidiaries make any compromise or arrangement with our Company's or any of its subsidiaries' creditors or enter into a scheme of arrangement or any resolution is passed for the winding-up of our Company or any of its subsidiaries or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of our Company or any of its subsidiaries or anything analogous thereto occurs in respect of our Company or any of its subsidiaries; or
- (xii) a valid demand by any creditor for repayment or payment of any of our Company's indebtedness or those of any of its subsidiaries or in respect of which our Company or any of its subsidiaries are liable prior to its stated maturity, or any loss or damage sustained by our Company or any of its subsidiaries (howsoever caused and whether or not the subject of any insurance or claim against any person); or

UNDERWRITING

(xiii) any litigation or claim being threatened or instigated against our Company or any of its subsidiaries or our Controlling Shareholders,

and which, in any of the above cases and in the sole opinion of Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters):

- (1) is or may or will be or is likely to be materially adverse to, or materially and prejudicially affect, the business or financial or trading position or prospects of our Company or its subsidiaries as a whole; or
- (2) has or may have or will have or is likely to have a material adverse effect on the success of the Global Offering and/or make it impracticable or inadvisable for any part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offer or the Global Offering to be performed or implemented as envisaged; or
- (3) makes or may make or will or is likely to make it inadvisable or inexpedient to proceed with the Hong Kong Public Offer and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus.

Undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by our Company

In accordance with Rule 10.08 of the Listing Rules, our Company has undertaken to the Stock Exchange that, except pursuant to the Global Offering, the Capitalisation Issue, the Over-allotment Option or the grant of options or exercise of options granted or to be granted under the Share Option Scheme, at any time during the period commencing on the date on which the Shares first commence dealing on the Stock Exchange and ending on the expiry of the 6-month period after the Listing Date (the “**Period**”), our Company will not, without the prior approval of the Stock Exchange and unless in compliance with the requirements of the Listing Rules, allot or issue or agree to allot or issue any Shares or other securities convertible into equity securities of our Company (including warrants or other convertible securities), whether or not of a class already listed, or grant or agree to grant any options or rights over any Shares or other securities of our Company or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequence of ownership of any Shares or offer to or agree to do any of the foregoing to have any intention to do so (whether or not such issue of Shares or securities will be completed with the Period).

Undertakings by our Controlling Shareholders

In accordance with Rule 10.07(1) of the Listing Rules, our Controlling Shareholders have irrevocably and unconditionally undertaken to our Company and the Stock Exchange that they shall not and shall procure that the registered holders controlled by them shall not:-

- (a) in the period commencing on the date of by reference (the “**Reference Date**”) to which disclosure of the shareholding of our Controlling Shareholders is made in this prospectus and ending on the date which is six months from the Listing Date (the “**Six-Month**

UNDERWRITING

Period”), dispose of, nor enter into any agreement to dispose of, or otherwise create any options, rights, interests or encumbrances (save for using as security, including a pledge or a charge, in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan) in respect of, any of those securities of our Company in respect of which they are shown by this prospectus to be the beneficial owners (the “**Relevant Securities**”); and

- (b) in the period of six months commencing on the date on which the Six-Month Period expires, dispose of, or enter into any agreement to dispose of, or otherwise create any options, rights, interests or encumbrances (save for using as security, including a pledge or a charge, in favour of an authorised institution (as defined in the (Banking Ordinance, Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan) in respect of the Relevant Securities if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, they would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company.

In accordance with note 3 to rule 10.07(2) of the Listing Rules, our Controlling Shareholders have also irrevocably and unconditionally undertaken to our Company and the Stock Exchange that within the period commencing on the Reference Date and ending on the date which is 12 months from the Listing Date, they shall:-

- (a) when any of them pledge or charge any securities of our Company beneficially owned by any of them in favour of an authorised institution (as defined under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, immediately inform our Company in writing of such pledge or charge together with the number of securities so pledged or charged; and
- (b) when any of them receive indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged securities of our Company will be disposed of, immediately inform our Company in writing of such indications.

Undertakings pursuant to the Hong Kong Underwriting Agreement

Undertakings by our Company

Pursuant to the Hong Kong Underwriting Agreement, our Company has undertaken to each of the Sole Sponsor, the Sole Global Coordinator, Bookrunner and Lead Manager and the Hong Kong Underwriters that except pursuant to the Capitalisation Issue, the Global Offering, the Over-allotment Option and options which may be granted under any share option scheme of any member of our Group or with the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, our Company will not, at any time within the period commencing from the date of the Hong Kong Underwriting Agreement up to and including the date which is six months from the Listing Date (the “**First Six-Month Period**”), (a) offer, accept subscription for, pledge, issue, sell, lend, mortgage, assign, charge, contract to issue or sell, sell any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either

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directly or indirectly, conditionally or unconditionally, any such share capital or other securities of our Company or any interest therein (including, but not limited to, any securities that are convertible into or exchangeable for, or that represent the right to receive any such capital or securities or any interest therein; or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein; or (c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; (d) agree or contract to, or publicly announce any intention to enter into, any transaction described in (a) or (b) above; whether any such transaction described in (a) or (b) or (c) above is to be settled by delivery of Shares or other securities, in cash or otherwise.

Undertakings by our Controlling Shareholders

Pursuant to the Hong Kong Underwriting Agreement, each of our Controlling Shareholders has undertaken to each of our Company, the Sole Sponsor, the Sole Global Coordinator, the Bookrunner, the Lead Manager and the Hong Kong Underwriters that:

- (i) during the First Six-month Period, it shall not, and shall procure that the relevant registered holder(s) and its associates and companies controlled by it and any nominee or trustee holding in trust for it shall not, without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and unless pursuant to the stock borrowing arrangement that may be entered with the Sole Global Coordinator or its agent or otherwise in compliance with the requirements of the Listing Rules, (a) offer, pledge, charge (other than any pledge or charge of our Company's issued share capital after the Global Offering (assuming the Over-allotment Option is not exercised) in favour of an authorised institution as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan), sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any share capital or other securities of our Company or any interest therein (including, but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein); or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein; or (c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; or (d) agree or contract to, or publicly announce any intention to enter into, any transaction described in (a) or (b) or (c) above, whether any such transaction is to be settled by delivery of such capital or securities, in cash or otherwise;
- (ii) during the period of six months immediately following the expiry of the First Six-Month Period (the "**Second Six-Month Period**"), it will not enter into any of the transactions specified in (i)(a), (b) or (c) above or agree or contract to or publicly announce any intention to enter into any such transaction if, immediately following such transfer or disposal, it will cease to be a controlling shareholder (as defined in the Listing Rules) of our Company; and

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- (iii) until the expiry of the Second Six-Month Period, in the event that it enters into any such transactions or agrees or contracts to, or publicly announces any intention to enter into any such transactions, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

Pursuant to the Hong Kong Underwriting Agreement, each of our Controlling Shareholders has further undertaken to each of our Company, the Sole Sponsor, the Sole Global Coordinator, the Bookrunner, the Lead Manager and the Hong Kong Underwriters that, from the date of the Hong Kong Underwriting Agreement up to and including the expiry of the Second Six-month Period, it will:

- (i) when it pledges or charges any securities or interests in the securities of our Company, immediately inform our Company and the Sole Global Coordinator in writing of such pledge or charge together with the number of securities and nature of interest so pledged or charged; and
- (ii) if and when it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of our Company will be sold, transferred or disposed of, immediately inform our Company and the Sole Global Coordinator in writing of such indications.

Our Company will inform the Stock Exchange in writing as soon as it has been informed of any of the matters referred to above (if any) by any of our Controlling Shareholders and disclose such matters by way of a press announcement to be published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

Hong Kong Underwriters' interests in our Company

Save as disclosed in this prospectus and save for their interests and obligations under the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters is interested beneficially or otherwise in any shares in any member of our Group or has any right (whether legally enforceable or not) or option to subscribe for, or to nominate persons to subscribe for, any shares in any member of our Group.

The International Placing

In connection with the International Placing, it is expected that our Company will enter into the International Underwriting Agreement with, among others, the International Underwriters. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions set out therein, agree to subscribe for or purchase the International Placing Shares being offered pursuant to the International Placing or procure subscribers to subscribe or purchasers to purchase for such International Placing Shares.

Our Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Sole Global Coordinator on behalf of the International Underwriters at any time from the Listing Date until the date which is 30 days from the last date of lodging application under

UNDERWRITING

the Hong Kong Public Offer, to require our Company to allot and issue up to and not more than 37,500,000 additional new Shares (representing 15% of the total number of the Offer Shares initially available under the Global Offering) at the Offer Price to cover, among others, over-allocations in the International Placing.

Commission

The Hong Kong Underwriters will receive a commission of 3% of the aggregate Offer Price of the Hong Kong Offer Shares, out of which they will pay any sub-underwriting commission. In addition, the Sole Sponsor will receive a sponsorship and documentation fee in relation to the Global Offering. The underwriting commission and documentation fees, listing fees, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees together with printing and other expenses relating to the Global Offering, assuming an Offer Price of approximately HK\$0.72 per Offer Share (being the mid-point of the indicative Offer Price range of HK\$0.62 and HK\$0.82), are estimated to amount to approximately HK\$28.7 million in total (assuming that the Over-allotment Option is not being exercised).

Indemnity

Our Company and our Controlling Shareholders have agreed to indemnify the Hong Kong Underwriters against certain losses which they may suffer, including but not limited to losses arising from the performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offer as part of the Global Offering. The Global Offering comprises:

- (i) the Hong Kong Public Offer of 25,000,000 Offer Shares (subject to adjustment as mentioned below) in Hong Kong as described below in the paragraph headed “The Global Offering — Hong Kong Public Offer” below; and
- (ii) the International Placing of an aggregate of 225,000,000 International Placing Shares (subject to adjustment and the Over-allotment Option as mentioned below) to professional, institutional and private investors.

Investors may apply for Offer Shares under the Hong Kong Public Offer or apply for or indicate an interest for International Placing Shares under the International Placing, but may not do both.

The Offer Shares will represent approximately 25% of the enlarged issued share capital of our Company immediately after completion of the Global Offering and the Capitalisation Issue, without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 27.7% of the enlarged issued share capital immediately after completion of the Global Offering, the Capitalisation Issue and the exercise of the Over-allotment Option in full as set out in the paragraph headed “Over-allotment Option” below.

DETERMINATION OF THE OFFER PRICE

The Offer Price is expected to be fixed by the Price Determination Agreement to be entered into between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on or before the Price Determination Date, when the market demand for the Offer Shares will be ascertained. The Price Determination Date is currently expected to be on 15 April 2014 and, in any event, not later than 23 April 2014.

Prospective investors should be aware that the Offer Price to be determined on or before the Price Determination Date may be, but not expected to be, lower than indicative Offer Price range as stated in this prospectus. The Offer Price will not be more than HK\$0.82 per Offer Share and is expected to be not less than HK\$0.62 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 Hong Kong Public Offer.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, where it considers appropriate, based on the level of interest expressed by prospective professional, institutional and private investors during a book-building process, and with the consent of our Company, reduce the number of Offer Shares and/or the indicative 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 Hong Kong 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 last day for lodging

STRUCTURE OF THE GLOBAL OFFERING

applications under the Hong Kong Public Offer on 15 April 2014, cause there to be published in The Standard (in English) and the Hong Kong Economic Journal (in Chinese) and on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.textm.com notices of reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range. Upon issue of such a notice, the revised number of Offer Shares and/or the 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. Before submitting applications for the Hong Kong Offer Shares, applicants should have regarded to the possibility that any announcement of a reduction in the number of Offer Shares and/or the Offer Price range may not be made until the last day for lodging applications under the Hong Kong Public Offer. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Global Offering statistics as currently set forth 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 Journal (in Chinese) and on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.textm.com of a reduction in the indicative Offer Price range as stated in this prospectus on or before the morning of the last day for lodging applications under the Hong Kong Public Offer, the Offer Price, if agreed upon by the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus. If the number of Offer Shares and/or the Offer Price range is reduced, applicants under the Hong Kong Public Offer will be entitled to withdraw their applications, unless positive confirmations from the applicants to proceed are received.

If, for any reason, the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company are unable to enter into the Price Determination Agreement by the Price Determination Date, the Global Offering will not become unconditional and will not proceed.

Announcement of the Offer Price, together with indication of the level of interests in the International Placing and the results of application under the Hong Kong Public Offer and basis of allocation of the Hong Kong Offer Shares is expected to be published in The Standard (in English) and the Hong Kong Economic Journal (in Chinese) and on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.textm.com.

PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$0.82 per Offer Share and is expected to be not less than HK\$0.62 per Offer Share. Applicants under the Hong Kong Public Offer should pay, on application, the maximum price of HK\$0.82 per Offer Share and 1% brokerage, 0.005% Stock Exchange trading fee and 0.003% SFC transaction levy. That means a total of HK\$4,141.33 is payable for one board lot of 5,000 Shares. The Application Forms have tables showing the exact amount payable for certain numbers of Hong Kong Offer Shares. If the Offer Price, as finally determined in the manner as described above, is lower than the maximum price of HK\$0.82 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 money) will be made to applicants, without interest. Further details are set forth in the section headed "How to Apply for Hong Kong Offer Shares" of this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of the application for the Offer Shares pursuant to the Hong Kong Public Offer is conditional upon the following:

- the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on the Stock Exchange and such approval not subsequently having been revoked prior to the commencement of dealings in the Shares;
- the obligations of the Underwriters under the Underwriting Agreements becoming unconditional, and not being terminated in accordance with the terms thereof;
- the execution and delivery of the International Underwriting Agreement prior to or on the Price Determination Date; and
- the Offer Price having been determined and the execution of the Price Determination Agreement on or around the Price Determination Date.

In each case on or before the dates and times specified in such Underwriting Agreements (unless and to the extent such conditions are waived on or before such dates and times) and in any event not later than 30 days after the date of this prospectus.

If any of the conditions is not fulfilled or waived on or before the times specified above, the Global Offering will lapse and the application money will be returned to the applicants, without interest. The terms on which the application money will be returned to the applicants are set forth in the paragraph headed “Refund of your money” in the relevant Application Forms.

In the meantime, the application money will be held in one or more separate bank accounts with the receiving bank or other bank(s) in Hong Kong, licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

THE GLOBAL OFFERING

The Global Offering comprises the International Placing and the Hong Kong Public Offer. A total of initially 250,000,000 Offer Shares will be made available under the Global Offering, of which 225,000,000 International Placing Shares (subject to adjustment and the Over-allotment Option), representing 90% of the Offer Shares, will initially be conditionally placed with selected professional, institutional and private investors under the International Placing. The remaining 25,000,000 Hong Kong Offer Shares (subject to adjustment), representing 10% of the Offer Shares, will initially be offered to members of the public in Hong Kong under the Hong Kong Public Offer.

STRUCTURE OF THE GLOBAL OFFERING

The Hong Kong Public Offer is open to all members of the public in Hong Kong as well as to institutional and professional investors. The Hong Kong Underwriters have severally agreed to underwrite the Hong Kong Offer Shares under the terms of the Hong Kong Underwriting Agreement. The International Underwriters are expected to severally underwrite the International Placing Shares pursuant to the terms of the International Underwriting Agreement. Further details of the underwriting are set out in the section headed “Underwriting” of this prospectus.

Investors may apply for the Offer Shares under the Hong Kong Public Offer or indicate an interest for Offer Shares under the International Placing, but may not do both.

INTERNATIONAL PLACING

Our Company is expected to offer initially 225,000,000 International Placing Shares (subject to adjustment and the Over-allotment Option) at the Offer Price under the International Placing. The number of International Placing Shares expected to be initially available for application under the International Placing represents 90% of the total number of Offer Shares being initially offered under the Global Offering. The International Placing is expected to be fully underwritten by the International Underwriters subject to the Offer Price being agreed on or before the Price Determination Date.

It is expected that the International Underwriters, or selling agents nominated by them, on behalf of our Company, will conditionally place the International Placing Shares at the Offer Price with selected professional, institutional and private investors. Professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Private investors applying through banks or other institutions who sought the International Placing Shares in the International Placing may also be allocated the International Placing Shares.

Allocation of the International Placing Shares will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to acquire further Shares and/or hold or sell its Shares after the Listing. Such allocation is intended to result in a distribution of the International Placing Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and its shareholders as a whole. Investors to whom International Placing Shares are offered will be required to undertake not to apply for Shares under the Hong Kong Public Offer. Our Company, the Directors, the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Underwriters) are required to take reasonable steps to identify and reject applications under the Hong Kong Public Offer from investors who receive Shares under the International Placing, and to identify and reject indications of interest in the International Placing from investors who receive Shares under the Hong Kong Public Offer.

The International Placing is expected to be subject to the conditions as stated in the paragraph headed “Conditions of the Global Offering” of this section.

STRUCTURE OF THE GLOBAL OFFERING

HONG KONG PUBLIC OFFER

Our Company is initially offering 25,000,000 Hong Kong Offer Shares for subscription (subject to adjustment) by members of the public in Hong Kong under the Hong Kong Public Offer, representing 10% of the total number of Offer Shares being initially offered under the Global Offering. The Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters subject to the Offer Price being agreed on or before Price Determination Date. Applicants for the Hong Kong Offer Shares are required on application to pay the maximum Offer Price of HK\$0.82 per Share plus a 1% brokerage, a 0.005% Stock Exchange trading fee and a 0.003% SFC transaction levy.

The Hong Kong Public Offer is open to all members of the public in Hong Kong. An applicant for Shares under the Hong Kong Public Offer will be required to give an undertaking and confirmation in the application submitted by him/her/it that he/she/it has not applied for nor taken up any Shares under the International Placing nor otherwise participated in the International Placing. Applicants should note that if such undertaking and/or confirmation given by an applicant is breached and/or is untrue, such applicant's application under the Hong Kong Public Offer is liable to be rejected.

For allocation purposes only, the number of the Hong Kong Offer Shares will be divided equally into two pools: pool A and pool B. The Hong Kong Offer Shares in pool A will consist of 12,500,000 Shares and will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares in the value of HK\$5.0 million or less (excluding brokerage, Stock Exchange trading fee and SFC transaction levy thereon) or less. The Hong Kong Offer Shares available in pool B will consist of 12,500,000 Shares and will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares in the value of more than HK\$5.0 million (excluding brokerage, Stock Exchange trading fee and SFC transaction levy) 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 Hong Kong Offer Shares will be transferred to satisfy demand in the other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Offer Shares from any one pool but not from both pools and can only make applications to either pool A or pool B. Any application made for more than 100% of the Hong Kong Offer Shares initially available under pool A or pool B will be rejected.

Allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offer will be based solely on the level of valid applications received under the Hong Kong Public Offer. When there is over-subscription under the Hong Kong Public Offer, allocation of the Hong Kong Offer Shares may involve balloting, which would mean that some applicants may be allotted more Hong Kong Offer Shares than others who have applied for the same number of the Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

STRUCTURE OF THE GLOBAL OFFERING

BASIS OF ALLOCATION OF THE OFFER SHARES

The allocation of the Offer Shares between the International Placing and the Hong Kong Public Offer is subject to reallocation on the following basis:

- (a) if the number of Shares validly applied for under the Hong Kong Public Offer represents 15 times or more but less than 50 times the number of Shares initially available for subscription under the Hong Kong Public Offer, then Shares will be reallocated to the Hong Kong Public Offer from the International Placing, so that the total number of Shares available for subscription under the Hong Kong Public Offer will be increased to 75,000,000 Shares, representing 30% of the Offer Shares initially available for subscription under the Global Offering;
- (b) if the number of Shares validly applied for under the Hong Kong Public Offer represents 50 times or more but less than 100 times the number of Shares initially available for subscription under the Hong Kong Public Offer, then Shares will be reallocated to the Hong Kong Public Offer from the International Placing, so that the number of Shares available for subscription under the Hong Kong Public Offer will be increased to 100,000,000 Shares, representing 40% of the Offer Shares initially available for subscription under the Global Offering; and
- (c) if the number of Shares validly applied for under the Hong Kong Public Offer represents 100 times or more the number of Shares initially available for subscription under the Hong Kong Public Offer, then Shares will be reallocated to the Hong Kong Public Offer from the International Placing, so that the number of Shares available for subscription under the Hong Kong Public Offer will be increased to 125,000,000 Shares, representing 50% of the Offer Shares initially available for subscription under the Global Offering.

In all cases, the additional Shares reallocated to the Hong Kong Public Offer will be allocated equally between pool A and pool B and the number of Offer Shares allocated to the International Placing will be correspondingly reduced.

The Offer Shares to be offered in the Hong Kong Public Offer and the International Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Global Coordinator. The Sole Global Coordinator may at its discretion reallocate the Offer Shares from the International Placing to the Hong Kong Public Offer to satisfy valid applications under the Hong Kong Public Offer. In addition, if the Hong Kong Public Offer is not fully subscribed, the Sole Global Coordinator may also in its discretion reallocate to the International Placing all or any Hong Kong Offer Shares which are not subscribed.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, our Company is expected to grant to the Sole Global Coordinator (for itself and on behalf of the International Underwriters) the Over-allotment Option which will expire on a date which is the 30th day after last date of lodging application under the Hong Kong Public Offer. Pursuant to the Over-allotment Option, our Company may be required by the Sole

STRUCTURE OF THE GLOBAL OFFERING

Global Coordinator (for itself and on behalf of the International Underwriters) to allot and issue up to and not more than 37,500,000 additional new Shares (representing 15% of the total number of the Offer Shares initially available under the Global Offering) at the Offer Price to cover over-allocations in the International Placing. The Sole Global Coordinator (for itself and on behalf of the International Underwriters) may also cover such over-allocations by, among other means, purchasing Shares in the secondary market or through stock borrowing arrangements with Merit Lead Investments Limited or by a combination of these means or otherwise as may be permitted under the applicable laws and regulatory requirements. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations. If the Over-allotment Option is exercised in full, the additional 37,500,000 new Shares will represent approximately 3.61% of our Company's enlarged issued share capital immediately after completion of the Capitalisation Issue, the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised or expired, a press announcement will be made.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. In Hong Kong, the stabilisation price is not permitted to exceed the offer price.

In connection with the Global Offering, the Sole Global Coordinator, as the stabilising manager, or its affiliates or any person acting for it, for itself and on behalf of the Underwriters, may over-allocate Shares or effect transactions with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. The number of Shares that may be over-allocated will be up to, but not more than, an aggregate of 37,500,000 additional Shares, being the number of the Shares that may be issued under the Over-allotment Option. Such stabilising actions may include over-allocating International Placing Shares and covering such over allocations by exercising the Over-allotment Option or by making purchases in the secondary market or through stock borrowing arrangement with Merit Lead Investments Limited or through a combination of these means or otherwise. However, there is no obligation on the Sole Global Coordinator, its affiliates or any person acting for it to conduct any such stabilisation action. Such stabilisation action, if commenced, will be conducted at the absolute discretion of the Sole Global Coordinator, its affiliates or any person acting for it and may be discontinued at any time, and must be brought to an end after a limited period. Such transactions may be effected in compliance with all applicable laws and regulatory requirements.

Subject to and under the Securities and Futures (Price Stabilising) Rules of the SFO, the Sole Global Coordinator (for itself and on behalf of the Underwriters) may take all or any of the following actions ("**primary stabilising action**") with respect to any Shares during the stabilisation period, which should end on 14 May 2014, being the 30th day after the last date for lodging application under the Hong Kong Public Offer:

- (1) purchase, or agree to purchase, any of the Shares;

STRUCTURE OF THE GLOBAL OFFERING

- (2) offer or attempt to do anything as described in paragraph (1), for the sole purpose of preventing or minimising any reduction in the market price of the Shares. The Sole Global Coordinator (for itself and on behalf of the Underwriters) may also, in connection with any primary stabilising action, take all or any of the following actions:
- (a) for the purpose of preventing or minimising any reduction in the market price of the Shares:
 - (i) allocate a greater number of Shares than the number that is initially offered under the Global Offering; or
 - (ii) sell or agree to sell Shares so as to establish a short position in them;
 - (b) pursuant to an option or other right to purchase or subscribe for Shares, purchase or subscribe for or agree to purchase or subscribe for Shares in order to close out any position established under paragraph (a);
 - (c) sell or agree to sell any Shares acquired by it in the course of the primary stabilising action in order to liquidate any position that has been established by such action; and/or
 - (d) offer or attempt to do anything as described in paragraphs (a)(ii), (b) or (c).

Investors should be aware:

- that the Sole Global Coordinator (for itself and on behalf of the Underwriters) may, in connection with the stabilising action, maintain a long position in the Shares;
- that there is no certainty regarding the extent to which and the time period for which the Sole Global Coordinator will maintain such a long position;
- of possible impact in the case of liquidation of such a long position by the Sole Global Coordinator;
- that stabilising action cannot be taken to support the price of the Shares for longer than the stabilising period which begins on the Listing Date and ends on the 30th day after the last date for the lodging of applications under the Hong Kong Public Offer on 14 May 2014, and that after this date, when no further stabilising action may be taken, demand for the Shares, and therefore its price could fall;
- that the price of the Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilising action; and
- that stabilising 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 Shares.

STRUCTURE OF THE GLOBAL OFFERING

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilising) Rules will be made within seven days of the expiration of the stabilising period.

STOCK BORROWING ARRANGEMENT

In connection with the Global Offering, the Sole Global Coordinator may over-allocate up to and not more than an aggregate of 37,500,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means. In particular, for the purpose of covering such over-allocations, the Sole Global Coordinator may borrow up to 37,500,000 Shares from Merit Lead Investments Limited, equivalent to the maximum number of Shares to be issued on a full exercise of the Over-allotment Option, under the stock borrowing agreement to be entered into with Merit Lead Investments Limited.

Such stock borrowing arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the following requirements as set out in Rule 10.07(3) of the Listing Rules are complied with:

- the stock borrowing arrangement is fully described in this prospectus and must be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option;
- the maximum number of Shares to be borrowed from Merit Lead Investments Limited will be limited to the maximum number of Shares that may be issued upon full exercise of the Over-allotment Option;
- the same number of Shares so borrowed will be returned to Merit Lead Investments Limited or its nominees (as the case may be) within three business days after the last day on which the Over-allotment Option may be exercised or, if earlier, the date on which the Over-allotment Option is exercised in full;
- the borrowing of Shares pursuant to the stock borrowing arrangement will be effected in compliance with applicable Listing Rules, laws and other regulatory requirements; and
- no payments will be made to Merit Lead Investments Limited in relation to such stock borrowing arrangement.

HOW TO APPLY FOR HONG KONG OFFER SHARES

HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Placing Shares.

To apply for Hong Kong 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 Global Coordinator, 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.

WHO CAN APPLY FOR THE HONG KONG OFFER SHARES

You can apply for Hong Kong 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 U.S. person (as defined in Regulation S); and
- are not a legal or natural person of the PRC.

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 duly authorised under a power of attorney, the Sole Global Coordinator may accept it at its discretion and on any conditions it thinks fit, including evidence of the attorney's authority.

HOW TO APPLY FOR HONG KONG OFFER SHARES

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- an associate of any of the above;
- a connected person of our Company or will become a connected person of our Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Placing Shares or otherwise participate in the International Placing.

APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.hkeipo.hk.

For Hong Kong 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 am on 10 April 2014 until 12:00 noon on 15 April 2014 from:

- (a) any of the following offices of the Hong Kong Underwriters:

Guotai Junan Securities (Hong Kong) Limited

27th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

Ever-Long Securities Company Limited

18th Floor
Dah Sing Life Building
99-105 Des Voeux Road Central
Hong Kong

Hong Kong International Securities Limited

23rd Floor
Arion Commercial Centre
2-12 Queen's Road West
Hong Kong

Luk Fook Securities (HK) Limited

Unit 502-6, 5/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

South China Securities Limited

28/F
Bank of China Tower
No.1 Garden Road
Central
Hong Kong

(b) any of the following branches of Wing Lung Bank Limited:

	Branch name	Branch address
Hong Kong Island:	Head Office	45 Des Voeux Road Central
	Johnston Road Branch	118 Johnston Road
	Kennedy Town Branch	28 Catchick Street
	North Point Branch	361 King's Road
	Aberdeen Branch	201 Aberdeen Main Road
Kowloon:	Mongkok Branch	B/F Wing Lung Bank Centre, 636 Nathan Road
	Sham Shui Po Branch	111 Tai Po Road
	San Po Kong Branch	8 Shung Ling Street
	To Kwa Wan Branch	64 To Kwa Wan Road
New Territories:	Sheung Shui Branch	128 San Fung Avenue
	Tsuen Wan Branch	251 Sha Tsui Road
	Yuen Long Branch	37 On Ning Road

HOW TO APPLY FOR HONG KONG OFFER SHARES

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on 10 April 2014 until 12:00 noon on 15 April 2014 from the Depository Counter of HKSCC at 2nd Floor, 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 "Wing Lung Bank (Nominees) Limited — Wang Tai Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

- Thursday, 10 April 2014 - 9:00 a.m. to 5:00 p.m.
- Friday, 11 April 2014 - 9:00 a.m. to 5:00 p.m.
- Saturday, 12 April 2014 - 9:00 a.m. to 1:00 p.m.
- Monday, 14 April 2014 - 9:00 a.m. to 5:00 p.m.
- Tuesday, 15 April 2014 - 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on 15 April 2014, 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.

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:

- (a) undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Global Coordinator (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 Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (b) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (c) 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;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (d) 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;
- (e) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (f) agree that none of our Company, the Sole Global Coordinator, the Bookrunner, the Lead Manager, the Sole Sponsor, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (g) 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 Offer Shares under the International Placing nor participated in the International Placing;
- (h) agree to disclose to our Company, our Hong Kong Branch Share Registrar, the receiving bank, the Sole Global Coordinator, the Bookrunner, the Lead Manager, the Sole Sponsor, 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;
- (i) 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 Global Coordinator, the Bookrunner, the Lead Manager, the Sole Sponsor and 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;
- (j) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (k) agree that your application will be governed by the laws of Hong Kong;
- (l) represent, warrant and undertake that (i) you understand that the Hong Kong 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 Hong Kong 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;
- (m) warrant that the information you have provided is true and accurate;
- (n) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (o) 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 Hong Kong 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;
- (p) 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;
- (q) understand that our Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (r) (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 to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and
- (s) (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.

APPLYING BY USING HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in the paragraph headed "Who can apply for the Hong Kong Offer Shares" of this section, may apply through the **HK eIPO White Form** service for the 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 at www.hkeipo.hk. 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.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Time for Submitting Applications under the HK eIPO White Form

You may submit your application to 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 10 April 2014 until 11:30 a.m. on 15 April 2014 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on 15 April 2014 or such later time under the paragraph headed “Effect of Bad Weather Conditions on the Opening of the Applications Lists” of 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 Hong Kong 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 (Winding Up and Miscellaneous Provisions) 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 (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give electronic application instructions to apply for the Hong Kong 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).

HOW TO APPLY FOR HONG KONG OFFER SHARES

HKSCC can also input electronic application instructions for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Centre
2nd Floor, Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this 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 Hong Kong 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, the Sole Global Coordinator 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 Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (a) 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;
- (b) HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong 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 Hong Kong 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 Offer Shares under the International Placing;
 - (if the electronic application instructions are given for your benefit) 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;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- confirm that you understand that our Company, our Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong 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 Hong Kong 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 Global Coordinator, the Bookrunner, the Lead Manager, the Sole Sponsor, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, 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, our Hong Kong Branch Share Registrar, the receiving bank, the Sole Global Coordinator, the Bookrunner, the Lead Manager, the Sole Sponsor, 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 Hong Kong 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 (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- 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 Hong Kong 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 Hong Kong 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 (Winding up and Miscellaneous Provisions) Ordinance, and the Articles of Association; 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 Hong Kong 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 5,000 Hong Kong Offer Shares. Instructions for more than 5,000 Hong Kong 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 Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

- Thursday, 10 April 2014 - 9:00 a.m. to 8:30 p.m.⁽¹⁾
- Friday, 11 April 2014 - 8:00 a.m. to 8:30 p.m.⁽¹⁾
- Saturday, 12 April 2014 - 8:00 a.m. to 1:00 p.m.⁽¹⁾
- Monday, 14 April 2014 - 8:00 a.m. to 8:30 p.m.⁽¹⁾
- Tuesday, 15 April 2014 - 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 10 April 2014 until 12:00 noon on 15 April 2014 (24 hours daily, except on the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon on 15 April 2014, 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.

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 Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong 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 Hong Kong 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 Companies (Winding up and Miscellaneous Provisions) 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 (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

HOW TO APPLY FOR HONG KONG OFFER SHARES

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Branch Share Registrar, the receiving bank, the Sole Global Coordinator, the Bookrunner, the Lead Manager, the Sole Sponsor, 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.

WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong 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 Bookrunner, the Lead Manager, the Sole Sponsor, the Sole Global Coordinator 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 Hong Kong 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 with CCASS Phone System/CASS 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 15 April 2014.

HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong 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 **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

HOW TO APPLY FOR HONG KONG OFFER SHARES

- 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).

HOW MUCH ARE THE HONG KONG 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 5,000 Hong Kong Public Offer Shares. Each application or electronic application instruction in respect of more than 5,000 Hong Kong 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 participants of the Stock Exchange, 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, please refer to the paragraphs headed “Structure of the Global Offering — Determination of the offer price” and “Structure of the Global Offering — Price payable on application” of this prospectus.

EFFECT OF BAD WEATHER CONDITIONS ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or

HOW TO APPLY FOR HONG KONG OFFER SHARES

- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on 15 April 2014. 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 15 April 2014 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” of this prospectus, an announcement will be made in such event.

PUBLICATION OF RESULTS OF ALLOCATIONS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Placing, the level of applications in the Hong Kong Public Offer and the basis of allocation of the Hong Kong Offer Shares on 24 April 2014 in The Standard (in English) and the Hong Kong Economic Journal (in Chinese) and on our Company’s website at www.texitm.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 Hong Kong 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.texitm.com and the Stock Exchange’s website at www.hkexnews.hk by no later than 9:00 a.m. on 24 April 2014;
- from the designated results of allocations website at www.tricor.com.hk/ipo/results with a “search by ID” function on a 24-hour basis from 8:00 a.m. on 24 April 2014 to 12:00 midnight on 30 April 2014;
- by telephone enquiry line by calling 3691-8488 between 9:00 a.m. and 6:00 p.m. from 24 April 2014 to 29 April 2014 on a business day;
- in the special allocation results booklets which will be available for inspection during opening hours from 24 April 2014 to 25 April 2014 at all the receiving bank 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 Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering” of 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.

HOW TO APPLY FOR HONG KONG OFFER SHARES

CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED THE HONG KONG OFFER SHARES

You should note the following situations in which the Hong Kong Offer shares will not be allotted to you:

(a) If your application is revoked:

By completing and submitting an Application Form or giving electronic application instructions to HKSCC or to **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 (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) 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.

(b) If our Company, the Sole Global Coordinator or our or their respective agents exercise their discretion to reject your application:

Our Company, the Sole Global Coordinator, 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.

(c) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Offer Shares either:

- within three weeks from the closing date of the application lists; or

HOW TO APPLY FOR HONG KONG OFFER SHARES

- 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.

(d) **Other circumstances in which you will not receive any allotment:**

- 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) Hong Kong Offer Shares and International 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 Global Coordinator believe 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 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offer.

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\$0.82 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offer are not fulfilled in accordance with the paragraph headed "Structure of the Global Offering — Conditions of the Global Offering" of 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 24 April 2014.

DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong 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).

HOW TO APPLY FOR HONG KONG OFFER SHARES

No temporary document of title will be issued in respect of the Offer 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 Hong Kong 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 Hong Kong 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, the 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 24 April 2014. 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 25 April 2014 provided that the Global Offering has become unconditional and the right of termination described in the section headed “Underwriting” of 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

(a) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong 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 the Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on 24 April 2014 or such other date as notified by us in the newspapers.

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 Hong Kong Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on 24 April 2014, by ordinary post and at your own risk.

(b) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on 24 April 2014, 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 24 April 2014, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

(c) If you apply through a designated CCASS participant (other than a CCASS investor participant)

For Hong Kong Public Offer shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offer shares allotted to you with that CCASS participant.

(d) 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 Hong Kong Public Offer in the manner described in "Publication of Results of Allocations" above in this section. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on 24 April 2014 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(e) If you apply through the HK eIPO White Form service

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on 24 April 2014, 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 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on 24 April 2014 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.

(f) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong 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 24 April 2014, 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

HOW TO APPLY FOR HONG KONG OFFER SHARES

specified in the paragraph headed “Publication of Results of Allocations” above of this section on 24 April 2014. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on 24 April 2014 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 Hong Kong 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 Hong Kong 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 24 April 2014. Immediately following the credit of the Hong Kong 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 Hong Kong 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 24 April 2014.

ADMISSION OF THE OFFER SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Offer Shares and we comply with the stock admission requirements of HKSCC, the Offer 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 Offer 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 Offer 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 our Directors and to the Sole 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.



羅兵咸永道

10 April 2014

The Directors
Wang Tai Holdings Limited

Guotai Junan Capital Limited

Dear Sirs,

We report on the financial information of Wang Tai Holdings Limited (the "Company") and its subsidiaries (together, the "Group"), which comprises the consolidated balance sheets as at 31 December 2011, 2012 and 2013, the balance sheet of the Company as at 31 December 2013 and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2011, 2012 and 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 10 April 2014 (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 29 April 2013 as an exempted company with limited liability under the Company Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) 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 10 October 2013, the Company became the holding company of the subsidiaries now comprising the Group (the "Reorganisation").

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 or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company.

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 and its subsidiaries now comprising the Group 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. We have audited the Underlying Financial Statements in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board 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 (the “HKICPA”).

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 2013 and of the state of affairs of the Group as at 31 December 2011, 2012 and 2013 and of the Group’s results and cash flows for the Relevant Periods then ended.

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 2011, 2012 and 2013, and for each of the years ended 31 December 2011, 2012 and 2013 (the "Financial Information"):

(a) CONSOLIDATED BALANCE SHEETS

		As at 31 December		
	<i>Section II</i>	2011	2012	2013
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
ASSETS				
Non-current assets				
Leasehold land and land use rights	6	6,437	25,221	24,690
Property, plant and equipment	7	186,772	302,995	477,469
Deferred income tax assets	8	1,125	443	1,380
		<u>194,334</u>	<u>328,659</u>	<u>503,539</u>
Current assets				
Inventories	10	57,471	62,533	75,647
Trade and other receivables	11	155,906	88,015	167,228
Cash and cash equivalents	12	498	7,278	47,922
Restricted bank deposits	12	61,497	48,954	32,799
		<u>275,372</u>	<u>206,780</u>	<u>323,596</u>
Total assets		<u><u>469,706</u></u>	<u><u>535,439</u></u>	<u><u>827,135</u></u>
EQUITY				
Capital and reserve attributable to owners of the Company				
Share capital	13	—	—	1
Other reserves	14	109,729	113,382	130,266
Retained earnings		<u>39,343</u>	<u>70,527</u>	<u>136,651</u>
Total equity		<u><u>149,072</u></u>	<u><u>183,909</u></u>	<u><u>266,918</u></u>

	<i>Section II</i>	As at 31 December		
		2011	2012	2013
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
LIABILITIES				
Non-current liabilities				
Borrowings	15	14,701	19,214	85,361
Other payables	17	—	—	29,875
Deferred income	16	—	14,557	16,945
		<u>14,701</u>	<u>33,771</u>	<u>132,181</u>
Current liabilities				
Borrowings	15	132,073	132,686	182,727
Trade and other payables	17	68,915	65,436	156,379
Notes payables	18	100,450	111,848	70,498
Current income tax liabilities		<u>4,495</u>	<u>7,789</u>	<u>18,432</u>
		<u>305,933</u>	<u>317,759</u>	<u>428,036</u>
Total liabilities		<u><u>320,634</u></u>	<u><u>351,530</u></u>	<u><u>560,217</u></u>
Total equity and liabilities		<u><u>469,706</u></u>	<u><u>535,439</u></u>	<u><u>827,135</u></u>
Net current liabilities		<u><u>(30,561)</u></u>	<u><u>(110,979)</u></u>	<u><u>(104,440)</u></u>
Total assets less current liabilities		<u><u>163,773</u></u>	<u><u>217,680</u></u>	<u><u>399,099</u></u>

(b) BALANCE SHEET OF THE COMPANY

	<i>Section II</i>	As at 31 December
	<i>Note</i>	2013
		<i>RMB'000</i>
ASSETS		
Non-current assets		
Investment in a subsidiary	9	<u>241,413</u>
Current assets		
Other receivables	11	<u>1,234</u>
Total assets		<u><u>242,647</u></u>
EQUITY		
Capital and reserve attributable to owners of the Company		
Share capital	13	1
Other reserves	14	241,482
Accumulated losses		<u>(9,462)</u>
Total equity		<u><u>232,021</u></u>
Current liabilities		
Other payables	17	<u>10,626</u>
Total liabilities		<u><u>10,626</u></u>
Total equity and liabilities		<u><u>242,647</u></u>
Net current liabilities		<u><u>(9,392)</u></u>
Total assets less current liabilities		<u><u>232,021</u></u>

(c) CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	<i>Section II Note</i>	Year ended 31 December		
		2011 RMB'000	2012 RMB'000	2013 RMB'000
Continuing operations				
Revenue	5	262,072	405,286	791,518
Cost of sales	19	<u>(219,570)</u>	<u>(329,681)</u>	<u>(643,364)</u>
Gross profit		42,502	75,605	148,154
Selling expenses	19	(484)	(1,411)	(2,189)
Administrative expenses	19	(7,587)	(13,807)	(31,477)
Other income - net	22	<u>173</u>	<u>1,121</u>	<u>4,634</u>
Operating profit		34,604	61,508	119,122
Finance income	23	1,074	1,308	1,368
Finance costs	23	<u>(9,104)</u>	<u>(15,722)</u>	<u>(17,000)</u>
Finance costs - net		<u>(8,030)</u>	<u>(14,414)</u>	<u>(15,632)</u>
Profit before income tax		26,574	47,094	103,490
Income tax expense	24	<u>(3,309)</u>	<u>(12,257)</u>	<u>(28,516)</u>
Profit for the year from continuing operations		23,265	34,837	74,974
Discontinued operation				
Profit for the year from discontinued operations	25	<u>5,718</u>	<u>—</u>	<u>—</u>
Total comprehensive income and profit for the year, attributable to owners of the Company		<u>28,983</u>	<u>34,837</u>	<u>74,974</u>
Earnings per share for profit attributable to owners of the Company				
- Basic and diluted earnings per share (expressed in RMB per share)	26	<u>2,898</u>	<u>3,484</u>	<u>7,497</u>

Note: The earnings per share as presented above is calculated using the weighted average number of ordinary shares of 10,000 shares for each of the years ended 31 December 2011, 2012 and 2013. It has not taken into account the proposed capitalisation issue of 749,990,000 shares pursuant to the shareholders' resolutions dated 27 March 2014 because the proposed capitalisation issue has not become effective as of the date of this report.

(d) CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	<i>Section II Note</i>	Attributable to owners of the Company			
		Share	Other	Retained	Total
		capital	reserves	earnings	equity
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at 1 January 2011		—	107,120	12,969	120,089
Comprehensive income:					
- Profit for the year		—	—	28,983	28,983
Appropriation to statutory reserves	14(b)	—	2,609	(2,609)	—
Balance at 31 December 2011		—	109,729	39,343	149,072
Comprehensive income:					
- Profit for the year		—	—	34,837	34,837
Appropriation to statutory reserves	14(b)	—	3,653	(3,653)	—
Balance at 31 December 2012		—	113,382	70,527	183,909
Comprehensive income:					
- Profit for the year		—	—	74,974	74,974
Transactions with owners:					
- Issue of new shares		1	—	—	1
- Waiver of amounts due to owners	14(a)	—	8,034	—	8,034
Appropriation to statutory reserves	14(b)	—	8,850	(8,850)	—
Balance at 31 December 2013		<u>1</u>	<u>130,266</u>	<u>136,651</u>	<u>266,918</u>

(e) CONSOLIDATED STATEMENTS OF CASH FLOWS

	<i>Section II Note</i>	Year ended 31 December		
		2011	2012	2013
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash flows from operating activities				
Cash generated from operations	28(a)	58,438	83,298	79,230
Income tax paid		(1,130)	(8,281)	(18,810)
Net cash generated from operating activities		57,308	75,017	60,420
Cash flows from investing activities				
Purchases of property, plant and equipment		(62,552)	(119,338)	(148,890)
Proceeds from disposal of property, plant and equipment	28(b)	900	—	52
Payments for leasehold land and land use rights		—	(18,998)	—
Cash received from government grants for purchase of non-current assets		—	14,606	2,680
Interest received		1,074	1,308	1,368
Repayments of advances to third parties		51,492	262	4,855
Advances granted to shareholders		(234,028)	(90,569)	—
Repayments of advances to shareholders		166,875	161,877	158
Advances granted to a related party		—	(6,152)	—
Repayments of advances to a related party		21,544	39,444	—
Net cash used in investing activities		(54,695)	(17,560)	(139,777)
Cash flows from financing activities				
Proceeds from borrowings and notes payables		199,218	189,094	360,344
Repayments of borrowings and notes payables		(167,476)	(246,757)	(248,796)
Net (increase)/decrease of restricted bank deposits		(16,557)	12,543	16,155
Proceeds from borrowing from shareholders		143,077	121,692	59,598
Repayments of borrowings from shareholders		(158,046)	(116,690)	(53,706)
Interest and bank charges paid		(7,296)	(10,559)	(12,360)
Share issuance cost		—	—	(1,234)
Net cash (used in)/generated from financing activities		(7,080)	(50,677)	120,001
Net (decrease)/increase in cash and cash equivalents		(4,467)	6,780	40,644
Cash and cash equivalents at beginning of the year		4,965	498	7,278
Cash and cash equivalents at end of the year		498	7,278	47,922

II NOTES TO THE FINANCIAL INFORMATION**1 General information of the Group, reorganisations and basis of presentation****(a) General information of the Group**

The Company was incorporated in the Cayman Islands on 29 April 2013 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company in Hong Kong is at Unit 02, 15th Floor, Convention Plaza Office Tower, 1 Harbour Road, Wanchai, Hong Kong.

The Company is an investment holding company and its subsidiaries are principally engaged in the design, manufacturing and sales of fabrics and yarns in the People's Republic of China (the "PRC"). During the year ended 31 December 2011, the Group also carried out apparel manufacturing operation which was terminated in the same year.

(b) Reorganisation

The principal business of the Group was previously carried out by Hongtai (China) Co., Ltd ("Hongtai (China)"), a subsidiary of the Company in the PRC. Hongtai (China), formerly named as Shishi Hongtai Textile Development Co., Ltd. prior to 26 July 2010, was previously owned by Mr. Lin Qingxiong ("Mr. Lin") as to 40%, Mr. Qiu Zhiqiang ("Mr. Qiu") as to 33% and Mr. Cai Jinxu ("Mr. Cai") as to 27%. Mr. Lin, Mr. Qiu and Mr. Cai have been acting as a group to make decisions together. On 22 June 2009, Hongtai Group (Int'l) Holding Limited ("Hongtai (Hong Kong)") was established by Mr. Lin, Mr. Qiu and Mr. Cai. On 11 June 2010, pursuant to an equity transfer agreement, Mr. Lin, Mr. Qiu, and Mr. Cai transferred their respective equity interests in Hongtai (China) to Hongtai (Hong Kong) at a total consideration of HK\$10 million. Thereafter, Hongtai (Hong Kong) became the holding company of Hongtai (China) (the "2010 Reorganisation").

On 24 May 2012, Hongtai (China) set up Hongsheng (Hubei) Textile Co., Ltd. ("Hongsheng (Hubei)") as a wholly owned subsidiary. The principal business of Hongsheng (Hubei) is design, manufacturing and sales of fabrics and cotton yarns in the PRC.

In preparation for the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited, in 2013, the Group underwent a further reorganisation (the "Reorganisation") as set out below:

- (i) On 29 April 2013, the Company was incorporated in the Cayman Islands as an exempted company with limited liability with an authorised share capital of HK\$1,000,000 divided into 10,000,000 shares of HK\$0.10 each. One share of par value HK\$0.10 was allotted and issued as nil paid to the initial subscriber, and was subsequently transferred to Mr. Lin, as nil paid share. The Company subsequently allotted and issued 3,999 shares to Mr. Lin, 3,300 shares to Mr. Qiu and 2,700 shares to Mr. Cai, all nil paid.

(ii) On 18 March 2013, Potent Union Holdings Limited (“Potent Union”) was incorporated in the British Virgin Islands (“BVI”). On 23 May 2013, Potent Union allotted and issued 100 shares to the Company for cash at par.

(iii) On 10 September 2013, Mr. Lin, Mr. Qiu and Mr. Cai transferred their respective shareholding in Hongtai (Hong Kong) to Potent Union. In consideration of the transfers, Potent Union allotted and issued a total of 100 shares to the Company, as directed by Mr. Lin, Mr. Qiu and Mr. Cai.

On 10 October 2013, Mr. Lin, Mr. Qiu and Mr. Cai completed the transfer of certain shares in the Company to Fu Tak Investments Group Limited, Hong Kong Investments Group Limited, Ocean Fu Enterprises Ltd., Sea Dragon Investments Limited and Sun Prosperity Enterprises Limited (collectively the “Pre-IPO investors”) pursuant to the relevant agreements entered into by Mr. Lin, Mr. Qiu, Mr. Cai and the Pre-IPO investors in 2012.

Upon completion of the Reorganisation, on 10 October 2013, the Company became the holding company of the companies now comprising the Group. The ultimate controlling parties of the Company remain as Mr. Lin, Mr. Qiu and Mr. Cai.

As at the date of this report, the Company had direct and indirect interests in the following subsidiaries:

Name of subsidiaries	Place and date of incorporation	Principal activities and place of operation	Particulars of issued/registered and paid up capital	Effective interest held by the Group	Name of statutory auditors
<i>Direct Interests:</i>					
Potent Union	BVI, 18 March 2013	Investment holding, BVI	US\$100	100%	(i)
<i>Indirect Interests:</i>					
Hongtai (Hong Kong)	Hong Kong, 22 June 2009	Investment holding, Hong Kong	HK\$10,000	100%	(ii)
Hongtai (China)	Fujian, the PRC, 17 February 2004	Design, manufacturing and sales of fabrics and cotton yarns, the PRC	HK\$120 million	100%	(iii)

Name of subsidiaries	Place and date of incorporation	Principal activities and place of operation	Particulars of issued/registered and paid up capital	Effective interest held by the Group	Name of statutory auditors
Hongsheng (Hubei)	Hubei, the PRC, 24 May 2012	Manufacturing and sales of fabrics and cotton yarns, the PRC	RMB15 million	100%	(iv)
Hongtai (Hubei) Sales Co., Ltd. ("Hongtai (Hubei)")	Hubei, the PRC, 8 August 2013	Sales of fabrics and cotton yarns, the PRC	RMB2 million	100%	(v)

- (i) No audited financial statements were issued as it is newly incorporated and not required to issue audited financial statements under the statutory requirements of its place of incorporation.
- (ii) The statutory financial statements of this company for the years ended 31 December 2011 and 2012 were prepared in accordance with Hong Kong Financial Reporting Standards and audited by Nelson Au Yeung & Co., Certified Public Accountants, Hong Kong. The statutory financial statements of this company for the year ended 31 December 2013 were prepared in accordance with Hong Kong Financial Reporting Standards and audited by Alliance Ascent CPA Limited, Hong Kong.
- (iii) The statutory financial statements of this company for the years ended 31 December 2011, 2012 and 2013 were prepared in accordance with the Accounting Standard for Business Enterprises and Accounting System for Business Enterprises applicable to the enterprises in the PRC. The statutory financial statements for the years ended 31 December 2011 and 2012 were audited by 泉州豐澤明華聯合會計師事務所 and the statutory financial statements for the year ended 31 December 2013 was audited by 福建瑞智會計師事務所有限公司.
- (iv) The statutory financial statements of this company for the years ended 31 December 2012 and 2013 were prepared in accordance with the Accounting Standard for Business Enterprises and Accounting System for Business Enterprises applicable to the enterprises in the PRC and were audited by 武漢大公會計師事務所.
- (v) The statutory financial statements of this company for the year ended 31 December 2013 was prepared in accordance with the Accounting Standard for Business Enterprises and Accounting System for Business Enterprises applicable to the enterprises in the PRC and audited by 武漢大公會計師事務所.

(c) ***Basis of presentation***

Immediately prior to and after the 2010 Reorganisation and the Reorganisation, the principal business of the Group remained under the control of Mr. Lin, Mr. Qiu and Mr. Cai. The principal business of the Group is conducted through Hongtai (China) including its subsidiaries, Hongsheng (Hubei) and Hongtai (Hubei). Hongtai (China) was wholly owned by Mr. Lin, Mr. Qiu and Mr. Cai previously. The Company has not been involved in any business prior to the Reorganisation and do not meet the definition of a business. Pursuant to the 2010 Reorganisation and the Reorganisation, the principal business and the companies now comprising the Group have been transferred to and held by the Company. The 2010 Reorganisation and the Reorganisation were merely reorganisations of the

principal business of the Group with no change in management of such business and the ultimate owners of the business. Accordingly, the consolidated financial information of the companies now comprising the Group is presented using the carrying values of the principal business of the Group for all periods presented.

Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on consolidation.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to the Relevant Periods presented.

2.1 *Basis of preparation*

The Financial Information of the Company has been prepared in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”). They have been prepared under the historical cost convention.

The preparation of Financial Information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information, are disclosed in Note 4 below.

2.1.1 *Going concern*

As at 31 December 2011, 2012 and 2013, the Group had current liabilities of RMB30,561,000, RMB110,979,000 and RMB104,440,000, respectively. These conditions indicated the existence of an uncertainty that may cast doubt about the Group’s ability to continue its business as a going concern. The Directors have been making effort to ensure that the Group has sufficient financial resources. Taking into account the funds generated internally from the Group’s operations and the unutilised loan facilities of approximately RMB165.4 million available to the Group as at 31 December 2013, the Directors believe that the Group will be able to meet its debts and commitments as they fall due within the next twelve months after 31 December 2013. Accordingly, the Financial Information has been prepared on a going concern basis.

2.1.2 *Changes in accounting policies and disclosures*

New standards, amendments to existing standards and interpretation have been issued but are not yet effective for the financial year beginning 1 January 2013 and have not been adopted are as follows:

		Effective for accounting period beginning on or later
IAS 32 (Amendment)	Financial instruments: Presentation - Offsetting financial assets and financial liabilities	1 January 2014
IAS 36 (Amendment)	Recoverable amount disclosures of non-financial assets	1 January 2014
IFRIC 21	Levies	1 January 2014
IFRS 9	Financial Instruments	1 January 2015
IFRS 7 and IFRS 9 (Amendment)	Mandatory effective date and transition disclosures	1 January 2015
IFRS 8 (Amendment)	Operating segments	1 July 2014
IAS 16 (Amendment)	Property, Plant and Equipment	1 July 2014
IAS 24 (Amendment)	Related Party Disclosures	1 July 2014
IAS 38 (Amendment)	Intangible Assets	1 July 2014
IFRS 13 (Amendment)	Fair value measurement	1 July 2014
IFRS 14	Regulatory deferral accounts	1 January 2016

Management is in the process of making an assessment of the impact of these new standards, amendments to existing standards and interpretation on the financial statements of the Group in the initial application. The adoption of above is not expected to have a material effect on the Group's operating results or financial position.

2.2 *Subsidiaries*

2.2.1 *Consolidation*

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.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.2.2 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 received 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.

2.3 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 executive directors, Mr. Lin, Mr. Qiu and Mr. Deng Qinghui ("Mr. Deng") ("the Management") that makes strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the 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"). These consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency.

(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 profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the profit or loss within 'finance income or cost'. All other foreign exchange gains and losses are presented in the profit or loss within 'other income - net'.

(c) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each statement of comprehensive income 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 rates on the dates the transactions); and
- (iii) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, 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, corresponding exchange differences that are recorded in other comprehensive income are recognised in the profit or loss as part of the gains or losses on sale.

2.5 *Leasehold land and land use rights*

Leasehold land and land use rights are carried at their historical cost less accumulated amortisation. It is amortised over its contractual life (from date of availability to termination of contract) using the straight-line method over 50 years.

2.6 *Property, plant and equipment*

Buildings comprise mainly factories and offices. Plant and equipment classified as finance lease and all other property, plant and equipment are stated at historical cost less depreciation. 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 profit or loss during the financial period in which they are incurred.

Construction-in-progress represents properties under construction and is stated at cost less accumulated impairment losses. This includes cost of construction and other direct costs. Construction-in-progress is not depreciated until such time as the assets are completed and are ready for operational use.

Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Buildings	20 years
- Machinery and equipment	10 years
- Office equipment, furniture and vehicles	5 years

The assets' depreciation method, residual values and useful lives are reviewed, and adjusted if appropriate, at the end of 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 the proceeds with the carrying amount and are recognised within 'Other income-net' in the profit or loss.

2.7 *Impairment of non-financial assets*

Assets that have an indefinite useful life 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 of disposal 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 an impairment are reviewed for possible reversal of an impairment at each reporting date.

2.8 *Research and development expense*

Costs associated with making research on developing new products are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique fabrics and yarns products controlled by the Group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the fabrics and yarns products so that it will be available for use;
- Management intends to complete the fabrics and yarns products and use or sell it;
- There is an ability to use or sell the fabrics and yarns products;

- It can be demonstrated how the fabrics and yarns products will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the fabrics and yarns products are available; and
- The expenditure attributable to the fabrics and yarns products during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

2.9 *Discontinued operations*

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business.

When an operation is classified as discontinued, a single amount is presented in profit or loss, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the disposal of the assets constituting the discontinued operation.

2.10 *Financial assets*

2.10.1 *Classification*

The Group classifies its financial assets under the category of loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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 other receivables' and 'cash and cash equivalents' and 'restricted bank deposits' in the consolidated balance sheets (Notes 2.14 and 2.15).

2.10.2 *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 asset. 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 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. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2.11 *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.12 *Impairment of financial assets*

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.

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 profit or loss. 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 profit or loss.

2.13 *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 and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling costs.

2.14 *Trade and other receivables*

Trade receivables are amounts due from customers for merchandise sold in the ordinary course of business. If collection of trade and other receivables is expected in one year or less, 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.

2.15 *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. Restricted bank deposits are excluded from cash and cash equivalents.

2.16 *Share capital*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.17 *Trade, notes and other payables*

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade, notes and other payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade, notes and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 *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 profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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 end of the reporting period.

2.19 *Borrowings costs*

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.20 *Current and deferred income tax*

The income tax expense for the year comprises current and deferred income tax.

(a) *Current income tax*

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.

(b) *Deferred income tax*

Inside basis differences

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 liabilities are not recognised if they arise from the initial recognition of goodwill, the 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.

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability 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.

(c) *Offsetting*

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 tax assets and liabilities relate to income tax 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.

2.21 *Employee benefits*

The Group entities in Mainland China participate in defined contribution retirement benefit plans organized by relevant government authorities for its employees in Mainland China and contribute to these plans based on certain percentage of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities. The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans.

The Group has no further obligation for post-employment benefits beyond the contributions made. The Group's contributions to these plans are charged to the consolidated profit or loss as incurred.

2.22 *Provision*

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 can be 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.

2.23 *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 profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the profit or loss on a straight-line basis over the expected lives of the related assets.

2.24 *Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. 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.

(a) *Sales of goods*

Revenue from the sales of goods is recognised when the risk and reward of the goods has been transferred to the customer, which is usually when the customer has picked up the products from the Group's warehouse or the Group has delivered the products to the customer's warehouse, the collectability of the related receivables is reasonably assumed and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

(b) *Interest income*

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

(c) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

2.25 Leases

(a) *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 profit or loss on a straight-line basis over the period of the lease.

(b) *Finance leases*

The Group leases certain plant and equipment under finance lease. Leases of plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

Sale and leaseback transactions with a call option that is set at a significant discount to the expected fair value when it becomes exercisable and other factors indicate that the seller needs the asset to use on an ongoing basis (seller/lessee effectively controls the asset) are treated as secured borrowings instead of finance leases.

2.26 Dividend distribution

Dividend distribution to the owner is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the owners.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The functional currency of the Company and its subsidiaries is RMB since the Company is an investment holding company and the operations carried out by its subsidiaries are in the PRC.

The Group has limited exposure to foreign exchange risk since it does not have sales or purchase transactions denominated in foreign currencies. The Group's exposure to foreign exchange risk is limited to the recognised assets or liabilities, such as other receivables (Note 11), cash and cash equivalents (Note 12), borrowings (Note 15) and other payables (Note 17). The Group does not hedge its foreign exchange risk during the Relevant Periods.

For the years ended 31 December 2011, 2012 and 2013, if RMB had reasonably strengthened/weakened by 5% against HK\$ with all other variables held constant, the post-tax profit for each of the years then ended would have changed mainly as a result of foreign exchange gains/losses on translation of HK\$ denominated monetary assets and liabilities. Details of the changes are as follows:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Post-tax profit increase/(decrease)			
- Strengthened 5%	355	304	342
- Weakened 5%	<u>(355)</u>	<u>(304)</u>	<u>(342)</u>

(ii) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Except for cash and cash equivalents and restricted bank deposits, the Group has no other significant interest-bearing assets. Management does not anticipate significant impact on interest-bearing assets resulted from the changes in interest rates because the interest rates of cash and cash equivalents and restricted bank deposits are not expected to change significantly.

The Group's interest-rate risk 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. The Group does not hedge its cash flow and fair value interest rate risk. The interest rates and terms of repayments of borrowings and are disclosed in Note 15.

For the years ended 31 December 2011, 2012 and 2013, if interest rates on cash and bank balances and borrowings had been higher/lower by 10% of current interest rate, with other variables held constant, post-tax profit for each of the years then ended would have been changed mainly as a result of higher/lower interest expense on floating rate net borrowings (cash and bank balances less borrowings from banks and other financial institutions). Details of the changes are as follows:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Post-tax profit increase/(decrease)			
- Lower 10%	180	52	109
- Higher 10%	<u>(180)</u>	<u>(52)</u>	<u>(109)</u>

(iii) Price risk

Raw cotton and cotton yarns are the main raw materials for the Group's production. They account for a substantial portion of the Group's costs of sales. The prices of raw cotton and cotton yarns are affected by various factors which are beyond the control of the Group, such as changes in government policies, the supply-demand relation and other unexpected events. The fluctuations of the price may have favourable or unfavourable impacts on the Group. The Group monitors the changes in the market price of raw cotton and cotton yarns and makes purchases of raw materials when the prices are considered appropriate. The Group also maintains inventory of raw materials at a lower level when the market prices of raw cotton and cotton yarns decrease continually within a certain period. The Group did not enter into any hedging of its price risk during the Relevant Periods.

(b) Credit risk

Credit risk arises from cash and cash equivalents, restricted bank deposits, trade and other receivables, as well as credit exposures to customers, including outstanding receivables, committed transactions and financial guarantees provided to third parties and related parties.

The Group has no significant concentrations of credit risk. The carrying amounts of cash and cash equivalents, restricted bank deposits, trade and other receivables included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets. As at 31 December 2011, 2012 and 2013, all cash and cash equivalents and restricted bank deposits were deposited into highly reputable and sizable banks and financial institutions without significant credit risk. For sales of goods, majority of the Group's sales are settled in cash on delivery of goods or advances before delivery. Credit will only be granted to selected customers with long-term relationship and good credit history. The Group performs ongoing credit evaluations of its customers' financial conditions and has policies in place to ensure that trade receivables are followed up on a

timely basis. Advances will only be granted to third parties with long-term reliable relationship and certain related parties. The Group performs ongoing credit evaluations of their financial conditions and monitors the timely collection of the advances. Except for financial guarantees given by the Group as set out in Note 29, the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposures to credit risk in respect of these financial guarantees as at 31 December 2011 and 2012 are disclosed in Note 29.

(c) *Liquidity risk*

Cash flow is managed at group level by the financial controller. The financial controller monitors the Group's liquidity requirements to ensure that it has sufficient cash to meet operational needs at all times and does not breach borrowing limits or covenants on any of its borrowing facilities. The financial controller usually takes into consideration the Group's debt financing plans, covenant compliance and compliance with internal balance sheet ratio targets.

The financial controller mainly invests surplus cash in time deposits, with appropriate maturities.

The tables below analyses the Group and Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows.

Group

	Within 1 year RMB'000	1 to 2 years RMB'000	3 to 5 years RMB'000	Total RMB'000
As at 31 December 2011				
Borrowings — borrowings from banks and other financial institutions	122,507	2,875	3,367	128,749
Interest payable on borrowings from banks and other financial institutions	5,811	364	485	6,660
Borrowings — finance lease liabilities	2,830	—	—	2,830
Borrowings — other borrowings	8,548	9,238	—	17,786
Financial guarantees (Note 29)	62,000	—	—	62,000
Trade and other payables	32,234	—	—	32,234
Notes payables	<u>100,450</u>	<u>—</u>	<u>—</u>	<u>100,450</u>
	<u>334,380</u>	<u>12,477</u>	<u>3,852</u>	<u>350,709</u>

APPENDIX I**ACCOUNTANT'S REPORT**

	Within 1 year RMB'000	1 to 2 years RMB'000	3 to 5 years RMB'000	Total RMB'000
As at 31 December 2012				
Borrowings — borrowings from banks and other financial institutions	111,241	502	—	111,743
Interest payable on borrowings from banks and other financial institutions	3,304	485	—	3,789
Borrowings — finance lease liabilities	5,899	5,884	—	11,783
Borrowings — other borrowings	19,482	12,345	1,882	33,709
Financial guarantees (Note 29)	21,000	—	—	21,000
Trade and other payables	38,615	—	—	38,615
Notes payables	<u>111,848</u>	<u>—</u>	<u>—</u>	<u>111,848</u>
	<u>311,389</u>	<u>19,216</u>	<u>1,882</u>	<u>332,487</u>

As at 31 December 2013

Borrowings — borrowings from banks and other financial institutions	153,680	8,452	14,135	176,267
Interest payable on borrowings from banks and other financial institutions	4,331	1,634	994	6,959
Borrowings — finance lease liabilities	5,883	1	—	5,884
Borrowings — other borrowings	21,548	11,086	2,753	35,387
Loans from government	6,500	1,500	51,500	59,500
Trade and other payables	83,397	8,025	21,850	113,272
Notes payables	<u>70,498</u>	<u>—</u>	<u>—</u>	<u>70,498</u>
	<u>345,837</u>	<u>30,698</u>	<u>91,232</u>	<u>467,767</u>

Company

	Within 1 year RMB'000	1 to 2 years RMB'000	3 to 5 years RMB'000	Total RMB'000
As at 31 December 2013				
Trade and other payables	<u>9,716</u>	<u>—</u>	<u>—</u>	<u>9,716</u>

3.2 *Capital risk management*

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders 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 equity holder, return capital to equity holder or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total equity. Total debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheets), amounts due to related parties and amounts due to third parties.

The gearing ratios as at 31 December 2011, 2012 and 2013 were as follows:

	As at 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Total borrowings (Note 15)	146,774	151,900	268,088
Amounts due to related parties (Note 17)	5,434	10,435	8,283
Amounts due to third parties (Note 17)	10,416	—	—
Total debt (a)	162,624	162,335	276,371
Total equity (b)	149,072	183,909	266,918
Gearing ratio (a)/(b)	109.1%	88.3%	103.5%

The gearing ratio decreased from 109.1% as at 31 December 2011 to 88.3% as at 31 December 2012, which was mainly due to the increase in total equity as a result of the increase in retained earnings during 2012.

The gearing ratio increased from 88.3% as at 31 December 2012 to 103.5% as at 31 December 2013 as a result of the increase in the borrowings to finance the investments in long-term assets of Hongsheng (Hubei) of the Group.

3.3 *Fair value estimation*

The carrying amount of the Group's financial assets including trade and other receivables, cash and cash equivalents and restricted bank deposits and financial liabilities including trade and other payables (current portion) and borrowings are assumed to approximate their fair values due to their short-term maturities or related liabilities being charged at interest rates approximately to that of market. 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.

4. Critical accounting estimates and judgements

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 equal 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's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) *Impairment of trade and other receivables*

The Group's management estimates the provision of impairment of trade and other receivables by assessing their recoverability. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible and require the use of estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of trade and other receivables and impairment charge in the period in which such estimate has been changed.

(c) *Net realisable value of inventories*

The Group's management estimates the provision of impairment of inventories by assessing their net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale. Provisions are applied to inventories where events or changes in circumstances indicate that the inventory cost may exceed the net realisable value and require the use of estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of inventories and impairment charge in the period in which such estimate has been changed.

(d) *Current income tax and deferred income tax*

The Group is mainly subject to income tax in the Mainland China. Significant judgement is required in determining the provision for income tax. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. 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 income tax and provisions in the year in which such determination is made.

Deferred income tax assets and liabilities are determined using income tax rates that are expected to apply when the related deferred income tax assets are realised or the deferred income tax liabilities are settled. The expected applicable income tax rate is determined based on the enacted tax laws and regulations and the actual situation of the Group. The management of the Group will revise the expectation where the final income tax rate is different from the original expectation.

5. Revenue and segment information

The chief operating decision-maker has been identified as the Management. The Management reviews the Group's internal reporting in order to assess performance and allocate resources. The Management has determined the operating segments based on these reports. The Management considers the business and assesses the performance on the basis of product lines, including (i) fabrics, (ii) cotton yarns and (iii) apparel.

The manufacturing and sales of fabrics has been the core business of the Group during the Relevant Periods. In May 2012, the Group started the manufacturing and sales of cotton yarns. In addition, during the year ended 31 December 2011, the Group has once engaged in the manufacturing and sales of apparel which was subsequently terminated in the same year.

No geographical segment information is presented as all the sales and operating profits of the Group are derived within the PRC and all the operating assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

Segment assets consist primarily of land use rights, property, plant and equipment, inventories, trade and other receivables and prepayments. They exclude deferred income tax assets, prepaid tax, restricted bank deposits and cash and cash equivalents.

Segment liabilities comprise operating liabilities. They exclude borrowings from banks and other financial institutions, loans from government, current income tax liabilities and other payables due to related parties.

The segment information is set out below:

For the year ended 31 December 2011

The Group was engaged in the manufacturing and sales of fabrics and apparel during the year ended 31 December 2011. The manufacturing and sales of apparel was terminated in the same year. Accordingly, the continuing business of the Group comprised only the manufacturing and sales of fabrics and therefore no segment information has been presented.

The reconciliation of the results of continuing business and discontinued business during the year ended 31 December 2011 are as below:

	Continuing operations — Fabrics RMB'000	Discontinued operations — Apparel RMB'000	Total RMB'000
Revenue	262,072	49,010	311,082
Cost of sales	<u>(219,570)</u>	<u>(40,942)</u>	<u>(260,512)</u>
Gross profit	42,502	8,068	50,570
Other operating expense	(8,071)	(1,510)	(9,581)
Other income - net	173	(24)	149
Finance costs - net	<u>(8,030)</u>	<u>—</u>	<u>(8,030)</u>
Profit before income tax	26,574	6,534	33,108
Income tax expense	<u>(3,309)</u>	<u>(816)</u>	<u>(4,125)</u>
Profit for the year	<u>23,265</u>	<u>5,718</u>	<u>28,983</u>

As at 31 December 2011, all the assets and liabilities on the Group's balance sheet were attributable to the continuing fabric business except for certain trade receivables amounting to RMB4,493,000 which was attributable to the discontinued apparel business. These trade receivables had been fully received subsequently.

For the year ended 31 December 2012

The Group was engaged in the manufacturing and sales of fabrics during the year ended 31 December 2012 and started the manufacturing and sales of yarns in May 2012. The segment information is presented below:

	Fabrics <i>RMB'000</i>	Yarns <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2012			
<i>Segment results</i>			
Segment revenue	360,449	67,831	428,280
Inter-segment sales	<u>—</u>	<u>(22,994)</u>	<u>(22,994)</u>
External revenue	<u>360,449</u>	<u>44,837</u>	<u>405,286</u>
Segment profit	<u>70,407</u>	<u>5,198</u>	75,605
Other operating expenses			(15,218)
Other income - net			1,121
Finance costs - net			<u>(14,414)</u>
Profit before income tax			47,094
Income tax expense			<u>(12,257)</u>
Profit for the year			<u>34,837</u>
<i>Other segment items</i>			
Capital expenditure	94,986	59,675	154,661
Amortisation of leasehold land and land use rights	180	34	214
Depreciation of property, plant and equipment	<u>14,565</u>	<u>4,816</u>	<u>19,381</u>
As at 31 December 2012			
<i>Segment assets and liabilities</i>			
Segment assets	363,615	114,442	478,057
Unallocated assets			<u>57,382</u>
Total assets			<u>535,439</u>
Segment liabilities	166,363	55,200	221,563
Unallocated liabilities			<u>129,967</u>
Total liabilities			<u>351,530</u>

For the year ended 31 December 2013

The Group was engaged in the manufacturing and sales of fabrics and cotton yarns during the year ended 31 December 2013. The segment information is presented below:

	Fabrics <i>RMB'000</i>	Yarns <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2013			
<i>Segment results</i>			
Segment revenue	680,352	130,144	810,496
Inter-segment sales	<u>—</u>	<u>(18,978)</u>	<u>(18,978)</u>
External revenue	<u>680,352</u>	<u>111,166</u>	<u>791,518</u>
Segment profit	<u>134,118</u>	<u>14,036</u>	148,154
Other operating expenses			(33,666)
Other income - net			4,634
Finance costs - net			<u>(15,632)</u>
Profit before income tax			103,490
Income tax expense			<u>(28,516)</u>
Profit for the year			<u>74,974</u>
<i>Other segment items</i>			
Capital expenditure	205,077	1,655	206,732
Amortisation of leasehold land and land use rights	499	32	531
Depreciation of property, plant and equipment	<u>24,752</u>	<u>7,364</u>	<u>32,116</u>
As at 31 December 2013			
<i>Segment asset and liabilities</i>			
Segment assets	626,142	99,994	726,136
Unallocated assets			<u>100,999</u>
Total assets			<u>827,135</u>
Segment liabilities	281,802	20,433	302,235
Unallocated liabilities			<u>257,982</u>
Total liabilities			<u>560,217</u>

6. Leasehold land and land use rights - Group

Leasehold land and land use rights represent the net book amount of prepaid operating lease payments. All the land use rights of the Group are located in the PRC and are held on leases with remaining periods of between 41 to 50 years.

Movements in leasehold land and land use rights are as follows:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
At beginning of year			
Cost	7,558	7,558	26,556
Accumulated amortisation	(970)	(1,121)	(1,335)
Net book amount	<u>6,588</u>	<u>6,437</u>	<u>25,221</u>
Opening net book amount	6,588	6,437	25,221
Additions	—	18,998	—
Amortisation for the year	(151)	(214)	(531)
Closing net book amount	<u>6,437</u>	<u>25,221</u>	<u>24,690</u>
At end of year			
Cost	7,558	26,556	26,556
Accumulated amortisation	(1,121)	(1,335)	(1,866)
Net book amount	<u>6,437</u>	<u>25,221</u>	<u>24,690</u>

The leasehold land and land use rights with net book value of approximately RMB1,398,000, RMB1,365,000 and RMB19,769,000 as at 31 December 2011, 2012 and 2013, respectively, were pledged as collaterals for certain borrowings from banks and other financial institutions of the Group (Note 15(a)).

Amortisation expense has been charged to "Administrative expenses" in the profit or loss.

The Group has obtained land use right certificates of all the leasehold land of the Group.

7. Property, plant and equipment — Group

	Buildings	Machinery and equipment	Office equipment, furniture and vehicles	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2011					
Cost	60,348	91,208	937	21,888	174,381
Accumulated depreciation	(11,090)	(25,055)	(607)	—	(36,752)
Net book amount	<u>49,258</u>	<u>66,153</u>	<u>330</u>	<u>21,888</u>	<u>137,629</u>
Year ended					
31 December 2011					
Opening net book amount	49,258	66,153	330	21,888	137,629
Additions	—	5,375	433	56,744	62,552
Transfer from construction in progress upon completion	—	9,850	—	(9,850)	—
Disposals (Note 28(b))	—	(924)	—	—	(924)
Depreciation	(2,716)	(9,627)	(142)	—	(12,485)
Closing net book amount	<u>46,542</u>	<u>70,827</u>	<u>621</u>	<u>68,782</u>	<u>186,772</u>
At 31 December 2011					
Cost	60,348	102,570	1,370	68,782	233,070
Accumulated depreciation	(13,806)	(31,743)	(749)	—	(46,298)
Net book amount	<u>46,542</u>	<u>70,827</u>	<u>621</u>	<u>68,782</u>	<u>186,772</u>
Year ended					
31 December 2012					
Opening net book amount	46,542	70,827	621	68,782	186,772
Additions	—	20,168	3,736	111,759	135,663
Transfer from construction in progress upon completion	73,714	41,467	—	(115,181)	—
Disposals (Note 28(b))	—	(45)	—	(14)	(59)
Depreciation (Note 19)	(5,296)	(13,794)	(291)	—	(19,381)
Closing net book amount	<u>114,960</u>	<u>118,623</u>	<u>4,066</u>	<u>65,346</u>	<u>302,995</u>

	Buildings	Machinery and equipment	Office equipment, furniture and vehicles	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 31 December 2012					
Cost	134,062	164,137	5,106	65,346	368,651
Accumulated depreciation	<u>(19,102)</u>	<u>(45,514)</u>	<u>(1,040)</u>	<u>—</u>	<u>(65,656)</u>
Net book amount	<u>114,960</u>	<u>118,623</u>	<u>4,066</u>	<u>65,346</u>	<u>302,995</u>
Year ended 31 December 2013					
Opening net book amount	114,960	118,623	4,066	65,346	302,995
Additions	873	3,401	911	201,547	206,732
Transfer from construction in progress upon completion	158,544	107,143	—	(265,687)	—
Disposals (Note 28(b))	—	(142)	—	—	(142)
Depreciation (Note 19)	<u>(10,233)</u>	<u>(21,323)</u>	<u>(610)</u>	<u>—</u>	<u>(32,116)</u>
Closing net book amount	<u>264,144</u>	<u>207,752</u>	<u>4,367</u>	<u>1,206</u>	<u>477,469</u>
At 31 December 2013					
Cost	293,479	274,304	6,017	1,206	575,006
Accumulated depreciation	<u>(29,335)</u>	<u>(66,552)</u>	<u>(1,650)</u>	<u>—</u>	<u>(97,537)</u>
Net book amount	<u>264,144</u>	<u>207,752</u>	<u>4,367</u>	<u>1,206</u>	<u>477,469</u>

Depreciation expenses have been charged to the profit or loss as follows:

	Year ended 31 December		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost of sales	11,522	16,021	27,267
Selling expenses	23	—	—
Administrative expenses	<u>940</u>	<u>3,360</u>	<u>4,849</u>
	<u>12,485</u>	<u>19,381</u>	<u>32,116</u>

During the years ended 31 December 2011, 2012 and 2013, the Group capitalised interest on borrowings amounting to approximately RMB2,369,000, RMB2,554,000, and RMB1,181,000 on qualifying assets, respectively. Borrowing costs were capitalised at the weighted average rate of 7.78%, 10.23% and 10.23% per annum for the years ended 31 December 2011, 2012 and 2013, respectively.

As at 31 December 2011, 2012 and 2013, buildings of the Group with net book value of approximately RMB40,138,000, RMB37,985,000 and RMB100,512,000, and machinery and equipment of the Group with net book value of approximately RMB15,990,000, RMB5,110,000 and RMB38,920,000, respectively, were pledged as collaterals for certain borrowings from banks and other financial institutions of the Group (Note 15(a)).

As at 31 December 2011, 2012 and 2013, machinery and equipment of the Group with net book value of approximately RMB25,889,000, RMB65,998,000 and RMB111,445,000, respectively, were pledged as collaterals for certain other borrowings of the Group (Note 15(c)).

As at 31 December 2011, 2012 and 2013, the net book value of the Group's machinery and equipment under finance leases were as follows:

	As at 31 December		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost	13,390	16,325	16,325
Accumulated depreciation	<u>(4,930)</u>	<u>(2,800)</u>	<u>(3,323)</u>
Net book amount	<u>8,460</u>	<u>13,525</u>	<u>13,002</u>

8. 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 tax related to the same tax authority.

The analysis of deferred income tax assets and deferred income tax liabilities as at 31 December 2011, 2012 and 2013 is as follows:

	As at 31 December		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deferred income tax assets:			
- to be recovered after more than 12 months	(78)	(665)	(448)
- to be recovered within 12 months	<u>1,203</u>	<u>1,108</u>	<u>1,828</u>
	<u>1,125</u>	<u>443</u>	<u>1,380</u>

The gross movements on the deferred income tax accounts are as follows:

	Capitalised interest	Accrued payroll	Tax losses	Deferred income	Others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2011	(77)	400	—	—	674	997
(Charged)/credited to the profit or loss	<u>(592)</u>	<u>736</u>	<u>—</u>	<u>—</u>	<u>(16)</u>	<u>128</u>
At 31 December 2011	(669)	1,136	—	—	658	1,125
(Charged)/credited to the profit or loss	<u>(597)</u>	<u>(129)</u>	<u>153</u>	<u>—</u>	<u>(109)</u>	<u>(682)</u>
At 31 December 2012	(1,266)	1,007	153	—	549	443
(Charged)/credited to the profit or loss	<u>(226)</u>	<u>736</u>	<u>(153)</u>	<u>670</u>	<u>(90)</u>	<u>937</u>
At 31 December 2013	<u>(1,492)</u>	<u>1,743</u>	<u>—</u>	<u>670</u>	<u>459</u>	<u>1,380</u>

No deferred income tax liabilities for unremitted earnings of the PRC subsidiaries that was earned from 1 January 2008 to 31 December 2013 have been recognised as there is no plan of the dividends distribution of such earnings in the foreseeable future. Management intend to reinvest the earnings in the PRC permanently. As at 31 December 2011, 2012 and 2013, the undistributed profits of the PRC subsidiaries were approximately RMB39,013,000, RMB71,365,000 and RMB155,256,000, respectively. The corresponding unrecognised deferred income tax liabilities were RMB3,901,000, RMB7,137,000 and RMB15,526,000 as at 31 December 2011, 2012 and 2013, respectively.

9. Investment in a subsidiary — Company

**As at 31 December
2013**
RMB'000

Unlisted shares, at cost	241,413
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As at 31 December 2013, investment in a subsidiary represented 100% equity interests in Potent Union which was incorporated in BVI as a limited liability company. On 10 September 2013, as part of the Reorganisation, certain newly issued shares of Potent Union were assigned by Mr. Lin, Mr. Qiu and Mr. Cai to the Company immediately upon the completion of transfer of their equity interest in Hongtai (Hong Kong) to Potent Union (Note 1(b)(iii)). Therefore, the Company holds investments in such subsidiaries now comprising the Group.

10. Inventories — Group

	As at 31 December		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Raw materials and packaging materials	17,700	15,323	38,298
Work in progress	18,071	17,579	19,887
Finished goods	<u>21,700</u>	<u>29,631</u>	<u>17,462</u>
	<u>57,471</u>	<u>62,533</u>	<u>75,647</u>

The cost of inventories recognised as expenses and included in cost of sales amounted to approximately RMB180,867,000, RMB281,510,000, and RMB568,395,000 for each of the years ended 31 December 2011, 2012 and 2013, respectively.

11. Trade and other receivables — Group and Company

Group	As at 31 December		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Trade receivables			
- Related party (Note 31(b)(i))	4,493	—	—
- Third parties	<u>9,741</u>	<u>27,357</u>	<u>75,158</u>
	14,234	27,357	75,158
Notes receivables			
- Third parties	<u>—</u>	<u>10,000</u>	<u>29,930</u>
	14,234	37,357	105,088
Other receivables			
- Prepayments for purchase of raw materials	30,398	44,391	41,539
- Amounts due from related parties (Note 31(b)(ii))	104,759	158	—
- Amounts due from third parties	5,117	4,855	—
- Deductible value-added tax (“VAT”) pending for validation	606	707	18,898
- Prepaid professional fees in respect of the initial public offering	—	—	1,234
- Others	<u>792</u>	<u>547</u>	<u>469</u>
	<u>141,672</u>	<u>50,658</u>	<u>62,140</u>
	<u>155,906</u>	<u>88,015</u>	<u>167,228</u>

Notes:

(a) **Trade and notes receivables**

The Group has a large number of customers, mainly in Fujian province and nearby regions. There is no concentration of credit risk with respect to trade receivables. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. Majority of the Group's sales are based on cash upon delivery and the remaining sales are made with credit terms. Major customers with good repayment history are normally offered credit terms of not more than three months.

The ageing analysis of trade and notes receivables as at the balance sheet dates based on invoice date was as follows:

	As at 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Within 3 months	14,134	35,076	96,991
4 to 6 months	—	2,210	8,095
Over 6 months	<u>100</u>	<u>71</u>	<u>2</u>
	<u>14,234</u>	<u>37,357</u>	<u>105,088</u>

As at 31 December 2011, 2012 and 2013, trade receivables of approximately RMB100,000, RMB2,281,000 and RMB8,097,000 were aged more than 3 months and regarded as past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amount can be recovered. The ageing analysis of these trade receivables is as follows:

	As at 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Past due within 3 months	—	2,210	8,095
Past due in 3 to 12 months	<u>100</u>	<u>71</u>	<u>2</u>
	<u>100</u>	<u>2,281</u>	<u>8,097</u>

The carrying amounts of the Group's trade and notes receivables were all denominated in RMB and approximated their fair values as at the respective balance sheet dates.

As at 31 December 2011, 2012 and 2013, trade and notes receivables with carrying value of approximately RMB19,514,000, RMB6,250,000 and nil were pledged to banks as security for the short-term loans of the Group amounting to RMB15,000,000, RMB5,000,000 and nil, respectively (Note 15(a)).

(b) Other receivables

The Group provided advances to related parties as disclosed in Note 31(b)(ii), and certain third parties. These advances were unsecured, interest-free and repayable on demand. As at 31 December 2011 and 2012, the amounts due from related parties and third parties were not past due.

The carrying amounts of the Group's other receivables approximated their fair values and were denominated in RMB as at the balance sheet dates, except for other receivables amounting to RMB2,233,000, RMB158,000 and RMB1,392,000, which were denominated in HK\$, as at 31 December 2011, 2012 and 2013, respectively.

Company

As at 31 December
2013
RMB'000

Other receivable

- Prepaid professional fees in respect of the initial public offering	1,234
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12. Cash and cash equivalents and restricted bank deposits — Group

	As at 31 December		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash and cash equivalents			
Cash on hand and at banks	498	7,278	47,922
Restricted bank deposits	61,497	48,954	32,799
Total cash and bank balance	61,995	56,232	80,721

The restricted bank deposits represented deposits pledged as security for issuing bank acceptance notes (notes payables) (Note 18). The restricted bank deposits have deposit periods within one year and are interest bearing at 2.50%, 2.89% and 2.76% per annum during the years ended 31 December 2011, 2012 and 2013, respectively.

Cash and cash equivalents are denominated in the following currencies:

	As at 31 December		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
HK\$	46	45	105
US\$	—	—	1
RMB	<u>452</u>	<u>7,233</u>	<u>47,816</u>
	<u>498</u>	<u>7,278</u>	<u>47,922</u>

All restricted bank deposits are denominated in RMB.

The Group's bank balances denominated in RMB are deposited with banks in the PRC. Conversion of these RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

13. Share capital — Group and company

	Number of ordinary shares	Nominal value of ordinary shares <i>HK\$</i>	Equivalent nominal value of ordinary shares <i>RMB</i>
Authorised:			
Ordinary shares of HK\$ 0.1 each	<u>10,000,000</u>	<u>1,000,000</u>	<u>780,000</u>
Issued:			
Issue of shares to Mr. Lin	4,000	400	320
Issue of shares to Mr. Qiu	3,300	330	264
Issue of shares to Mr. Cai	<u>2,700</u>	<u>270</u>	<u>217</u>
Balance at 31 December 2013	<u>10,000</u>	<u>1,000</u>	<u>801</u>

The movements in share capital of the Company are as follows:

- The Company was incorporated in the Cayman Islands on 29 April 2013 as an exempted company with an authorised share capital of HK\$1,000,000 divided into 10,000,000 shares of HK\$0.10 each.

- One share was allotted and issued as nil paid to the initial subscriber on 29 April 2013, and was subsequently transferred to Mr. Lin on the same date as nil paid share. On the same date, the Company allotted and issued 3,999 shares to Mr. Lin, 3,300 shares to Mr. Qiu and 2,700 shares to Mr. Cai, all nil paid.
- Pursuant to the shareholders' resolutions dated 27 March 2014, the authorised share capital of the Company was increased from HK\$1,000,000 to HK\$1,000,000,000 divided into 10,000,000,000 ordinary shares of par value HK\$0.1 each by the creation of an additional 9,990,000,000 shares.

14. Other reserves — Group and Company

Group

As mentioned in Note 1(c) above, the Financial Information has been prepared as if the current group structure had been in existence throughout each of the years ended 31 December 2011, 2012 and 2013 or since the respective dates of incorporation/establishment of the companies now comprising the Group, or since the date when these companies first came under the control of Mr. Lin, Mr. Qiu and Mr. Cai, where there is a shorter period. Apart from profit for the years, below are the movements in other reserves during the Relevant Periods:

	Capital reserves <i>RMB'000</i> <i>Note (a)</i>	Statutory reserves <i>RMB'000</i> <i>Note (b)</i>	Total <i>RMB'000</i>
At 1 January 2011	105,476	1,644	107,120
Appropriation to statutory reserves	<u>—</u>	<u>2,609</u>	<u>2,609</u>
At 31 December 2011	105,476	4,253	109,729
Appropriation to statutory reserves	<u>—</u>	<u>3,653</u>	<u>3,653</u>
At 31 December 2012	105,476	7,906	113,382
Waiver of amounts due to owners	8,034	—	8,034
Appropriation to statutory reserves	<u>—</u>	<u>8,850</u>	<u>8,850</u>
At 31 December 2013	<u>113,510</u>	<u>16,756</u>	<u>130,266</u>

Notes:

(a) Capital reserves

The capital reserves of the Group mainly represent the reserves arising from the Reorganisation.

In June 2013, Mr. Lin, Mr. Qiu and Mr. Cai waived the considerations payable by the Group's companies to them as the owners of the Group for the acquisition of the companies now comprising the Group during the Reorganisation.

(b) **Statutory reserve**

In accordance with the PRC regulations and the articles of association of the companies now comprising the Group, before distributing the net profit of each year, companies registered in the PRC are required to set aside 10% of its statutory net profit for the year after offsetting any prior year's losses as determined under relevant PRC accounting standards to the statutory surplus reserve fund. When the balance of such reserve reaches 50% of each company's share capital, any further appropriation is optional.

Company

Capital reserves

RMB'000

At 29 April 2013 (date of incorporation)

—

Acquisition of subsidiaries

241,482

At 31 December 2013

241,482

15. Borrowings — Group

As at 31 December

	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current			
Borrowings from banks and other financial institutions			
- secured	3,367	502	22,587
- unsecured	2,875	—	—
Finance lease liabilities	—	5,546	1
Other borrowings - secured	8,459	13,166	12,773
Loans from government - unsecured	<u>—</u>	<u>—</u>	<u>50,000</u>
	<u>14,701</u>	<u>19,214</u>	<u>85,361</u>

	As at 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Current			
Borrowings from banks and other financial institutions			
- short term - secured	62,000	53,500	101,000
- short term - unsecured	55,000	52,000	44,930
- current portion of long term - secured	3,431	2,865	7,750
- current portion of long term - unsecured	2,076	2,876	—
Finance lease liabilities	2,733	4,982	5,545
Other borrowings - secured	6,833	16,463	18,502
Loan from government - unsecured	—	—	5,000
	<u>132,073</u>	<u>132,686</u>	<u>182,727</u>
	<u>146,774</u>	<u>151,900</u>	<u>268,088</u>

(a) **Borrowings from banks and other financial institutions**

The Group's borrowings from banks and other financial institutions were repayable as follows:

	As at 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Within one year	122,507	111,241	153,680
Between 1 and 2 years	2,875	502	8,452
Between 2 and 3 years	3,367	—	9,218
Between 3 and 4 years	—	—	4,917
	<u>128,749</u>	<u>111,743</u>	<u>176,267</u>

The secured borrowings from banks and other financial institutions were secured by the Group's leasehold land and land use rights, property, plants and equipment and trade receivables as detailed below. In addition, these borrowings from banks and other financial institutions were also supported by guarantees from third parties and related parties jointly and severally totalling RMB6,798,000, RMB3,367,000 and RMB49,000,000 as at 31 December 2011, 2012 and 2013, respectively.

	As at 31 December		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Carrying amounts of collaterals:			
Leasehold land and land use rights (Note 6)	1,398	1,365	19,769
Buildings (Note 7)	40,138	37,985	100,512
Machinery and equipment (Note 7)	15,990	5,110	38,920
Trade receivables	<u>19,514</u>	<u>6,250</u>	<u>—</u>
	<u>77,040</u>	<u>50,710</u>	<u>159,201</u>

The unsecured borrowings from banks and other financial institutions of the Group were supported by guarantees from third parties and related parties jointly and severally in the amounts of RMB59,952,000, RMB54,876,000 and RMB15,000,000 as at 31 December 2011, 2012 and 2013, respectively.

The weighted average effective interest rate on borrowings from banks and other financial institutions was 7.76%, 10.30% and 10.76% per annum for each of the years ended 31 December 2011, 2012 and 2013, respectively.

The carrying amounts of the Group's borrowings from banks and other financial institutions approximated their fair value as at the balance sheet dates.

The carrying amounts of the Group's borrowings from banks and other financial institutions were denominated in the following currencies as at the balance sheet dates:

	As at 31 December		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
HK\$	4,952	2,876	—
RMB	<u>123,797</u>	<u>108,867</u>	<u>176,267</u>
	<u>128,749</u>	<u>111,743</u>	<u>176,267</u>

(b) Finance lease liabilities

	As at 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Gross finance lease liabilities — minimum lease payments			
No later than 1 year	2,830	5,899	5,883
Later than 1 year and no later than 5 years	—	5,884	1
	<u>2,830</u>	<u>11,783</u>	<u>5,884</u>
Future finance charges on finance leases	<u>(97)</u>	<u>(1,255)</u>	<u>(338)</u>
Present value of finance lease liabilities	<u>2,733</u>	<u>10,528</u>	<u>5,546</u>
The present value of the finance lease liabilities was as follows:			
No later than 1 year	2,733	4,982	5,545
Later than 1 year and no later than 5 years	—	5,546	1
	<u>2,733</u>	<u>10,528</u>	<u>5,546</u>

The rights to the leased assets will be reverted to the lessor in the event of default of the lease liabilities by the Group.

The effective annual interest rate range of these finance lease arrangements was as follows:

	Year ended 31 December		
	2011	2012	2013
Effective annual interest rate range	<u>9.13%</u>	<u>9.13%~11.07%</u>	<u>11.07%</u>

The finance leases were supported by joint guarantees from shareholders (Note 31(b)(iv)) and certain third parties.

The carrying amount of the Group's finance lease liabilities were denominated in RMB and approximated their fair values as at the balance sheet dates.

(c) Other borrowings

The Group's other borrowings were repayable as follows:

	As at 31 December		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	6,833	16,463	18,502
Between 1 and 2 years	8,459	11,314	10,093
Between 2 and 3 years	—	1,852	2,680
	<u>15,292</u>	<u>29,629</u>	<u>31,275</u>

The other borrowings were obtained from certain leasing companies and secured by the Group's certain machinery and equipment with net book value amounting to RMB25,889,000, RMB65,998,000 and RMB111,445,000 as at 31 December 2011, 2012 and 2013, respectively. In addition, part of such borrowings were supported by joint guarantees from shareholders (Note 31(b)(iv)) and certain third parties.

The weighted average effective interest rate on other borrowings was 13.49%, 13.35%, and 13.35% per annum for each of the years ended 31 December 2011, 2012 and 2013, respectively.

The carrying amounts of the Group's other borrowings were denominated in RMB and approximated their fair value as at the balance sheet dates.

(d) Loans from government

In September 2013, the Group obtained a loan of RMB50 million from the local government of Huangmei County for the purpose of financing the development of Hongsheng (Hubei), a subsidiary of the Group. The interest rate of the loan is 3% per annum and repayable in full in September 2016.

In October 2013, Hongsheng (Hubei) obtained another loan of RMB5 million from the local government. The loan is interest free and repayable in October 2014.

The carrying amounts of the Group's government loans were denominated in RMB and approximated their fair value as at the balance sheet dates.

(e) Undrawn loan facilities

The Group had the following undrawn loan facilities as at the balance sheet dates:

	As at 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Borrowings from banks and other financial institutions			
Floating rate:			
- Expiring within one year	20,000	20,500	110,371
Fixed rate:			
- Expiring within one year	15,000	—	5,000
Loan from government			
Fixed rate:			
- Expiring beyond one year	—	—	50,000
	<u>35,000</u>	<u>20,500</u>	<u>165,371</u>

The facilities that will expire beyond one year are annual facilities subject to review at various dates during 2014.

16. Deferred income — Group

	As at 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Government grants relating to leasehold land and land use right	—	14,557	14,265
Government grants relating to plant and equipment	—	—	2,680
	<u>—</u>	<u>14,557</u>	<u>16,945</u>

The government grants were received from the local government as a subsidy to the Group's purchase of leasehold land of Hongsheng (Hubei) and the technical improvement project of Hongtai (China). They are amortised to the profit or loss on a straight-line basis over the expected useful lives of the related assets.

The movements of the above government grants during the Relevant Periods were as follows:

	As at 31 December		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
At beginning of the year	—	—	14,557
Granted during the year	—	14,606	2,680
Amortised as income (Note 22)	—	(49)	(292)
At end of the year	<u>—</u>	<u>14,557</u>	<u>16,945</u>

17. Trade and other payables — Group and Company

Group

	As at 31 December		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Non-current			
Payables for purchase of property, plant and equipment	<u>—</u>	<u>—</u>	<u>29,875</u>
Current			
Trade payables			
- Third parties	<u>15,150</u>	<u>21,692</u>	<u>40,200</u>
Advanced payments from customers			
- Third parties	24,831	20,378	54,944
- Related party (Note 31(b)(i))	<u>6,472</u>	<u>—</u>	<u>—</u>
	31,303	20,378	54,944
Amounts due to related parties (Note 31(b)(ii))	5,434	10,435	8,283
Amounts due to third parties	10,416	—	—
Salary and welfare payables	4,543	4,025	6,968
Payables for purchase of property, plant and equipment	—	6,488	27,967
Other taxes payables	835	2,418	8,785
Accrued professional fees in respect of the initial public offering	—	—	2,285
Other payables	<u>1,234</u>	<u>—</u>	<u>6,947</u>
	<u>53,765</u>	<u>43,744</u>	<u>116,179</u>
	<u>68,915</u>	<u>65,436</u>	<u>156,379</u>

The ageing analysis of the trade payables as at the balance sheet dates based on invoice date was as follows:

	As at 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Within 3 months	15,150	19,729	27,936
4 to 12 months	—	1,963	12,174
Over 12 months	—	—	90
	<u>15,150</u>	<u>21,692</u>	<u>40,200</u>

Advances from customers represent cash advances received from customers for purchases of the Group's products and will be applied to settlements when sales occur.

The carrying amounts of the Group's trade and other payables approximated their fair values and were denominated in RMB as at the balance sheet dates, except for other payables amounting to RMB5,437,000, RMB5,440,000 and RMB10,569,000, which are denominated in HK\$, as at 31 December 2011, 2012 and 2013, respectively.

Company

	As at 31 December
	2013
	RMB'000
Amounts due to shareholders	3,521
Amounts due to subsidiaries	4,820
Others	<u>2,285</u>
	<u>10,626</u>

The Company's other payables were unsecured, interest free and repayable on demand. The carrying amounts of the Company's other payables approximated their fair values and were denominated in HK\$ as at the balance sheet dates.

18. Notes payables — Group

	As at 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Bank acceptance notes	<u>100,450</u>	<u>111,848</u>	<u>70,498</u>

The notes payables were secured by bank deposits of the Group amounted to RMB61,497,000, RMB48,954,000 and RMB32,799,000 as at 31 December 2011, 2012 and 2013, respectively.

During the Relevant Periods, Hongtai (China), a subsidiary of the Group, entered into financing arrangements with certain PRC commercial banks. Under these arrangements, the subsidiary issued bank acceptance notes to the suppliers for purchases of raw materials. During the year ended 31 December 2011 and the period from 1 January 2012 to 30 April 2012, bank acceptance notes of approximately RMB41,300,000 and RMB25,300,000 were issued to a related company and certain third party suppliers for financing purposes, respectively. The related company and third party suppliers presented these bank acceptance notes to banks or used these notes to settle their own transactions, and they remitted to the subsidiary of the Group the balance equivalent to the difference between the face value of the bank acceptance notes and the actual amount of the relevant purchases. As such, certain proceeds from the bank acceptance notes were used by the subsidiary of the Group for financing purposes other than for payment of purchases. As at 31 December 2011, 2012 and 2013, outstanding notes in respect of these arrangements amounted to approximately RMB41,300,000, nil and nil, respectively.

The carrying amounts of the Group's notes payables were denominated in RMB and approximated their fair values as at the balance sheet dates.

19. Expenses by nature

Expenses included in cost of sales, selling expenses and administrative expenses are analysed as follows:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Raw materials and consumables used	207,978	288,949	558,534
Change of inventories of finished goods and work in progress	(27,111)	(7,439)	9,861
Employee benefit expenses (Note 20)	18,499	18,019	25,345
Amortisation of leasehold land and land use rights	129	214	531
Depreciation of property, plant and equipment	11,951	19,381	32,116
Repairs and maintenance expenses	562	411	865
Miscellaneous tax charges other than VAT and income tax	1,358	3,239	6,837
Utility expenses	11,632	17,544	25,990
Auditors' remuneration	30	35	62
Advertisement expenses	157	436	200
Professional fees in respect of the initial public offering	—	—	9,424
Office and other expenses	2,456	4,110	7,265
	<u>227,641</u>	<u>344,899</u>	<u>677,030</u>

20. Employee benefit expenses (including directors' emoluments)

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Wages, salaries and bonuses	20,042	16,794	20,145
Pension costs	800	630	1,816
Medical, housing and other benefits	557	595	3,384
	<u>21,399</u>	<u>18,019</u>	<u>25,345</u>

21. Directors' emoluments

(a) Directors' emoluments

The remuneration of each director for the years ended 31 December 2011, 2012 and 2013 is set out as follows:

Name	Fees <i>RMB'000</i>	Salary <i>RMB'000</i>	Bonus <i>RMB'000</i>	Other benefits <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2011					
Mr. Lin (Chief executive)	—	115	11	2	128
Mr. Qiu	—	115	11	2	128
Mr. Deng	—	92	9	7	108
	—	322	31	11	364
Year ended 31 December 2012					
Mr. Lin (Chief executive)	—	115	10	14	139
Mr. Qiu	—	115	10	14	139
Mr. Deng	—	102	9	7	118
	—	332	29	35	396
Year ended 31 December 2013					
Mr. Lin (Chief executive)	—	114	—	18	132
Mr. Qiu	—	114	—	18	132
Mr. Deng	—	103	—	11	114
	—	331	—	47	378

Mr. Deng was appointed as director of the Company on 30 July 2013, and the independent non-executive directors, Mr. Yu Yubin, Mr. Ma Chongqi and Mr. Chan Sui Wa, were appointed as directors of the Company on 27 March 2014. During the Relevant Periods, the independent non-executive directors have not yet been appointed and received nil directors' remuneration in the capacity of independent non-executive directors.

No directors waived or agreed to waive any emoluments during the Relevant Periods. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any directors during the Relevant Periods.

(b) *Five highest paid individuals*

The five individuals whose emoluments were the highest in the Group are all senior management and included three, two and three directors for the years ended 31 December 2011, 2012 and 2013, respectively, whose emoluments are reflected in the analysis presented above. The emoluments paid to the remaining individuals during the Relevant Periods were as follows:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Salaries and bonus	192	347	528
Pension costs	4	14	25
Medical, housing and other benefits	<u>3</u>	<u>12</u>	<u>9</u>
	<u>199</u>	<u>373</u>	<u>562</u>

The number of highest paid non-director individuals, whose remuneration for the Relevant Periods fell within the following bands:

	Year ended 31 December		
	2011	2012	2013
- Nil to RMB800,000 (equivalent to Nil to HK\$1,000,000)	<u>2</u>	<u>3</u>	<u>2</u>

During the Relevant Periods, no emoluments have been paid to the non-director highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

22. Other income — net

	Year ended 31 December		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Government subsidies received	162	934	5,030
Amortisation of deferred income of government grants relating to assets (Note 16)	—	49	292
Others	<u>11</u>	<u>138</u>	<u>(688)</u>
	<u>173</u>	<u>1,121</u>	<u>4,634</u>

23. Finance costs — net

	Year ended 31 December		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Finance income:			
Interest income from bank deposits	<u>(1,074)</u>	<u>(1,308)</u>	<u>(1,368)</u>
Finance costs:			
Interest expense of borrowings from banks and other financial institutions	8,696	11,722	12,518
Interest expense of finance leases and other borrowings	1,808	5,163	4,640
Less: capitalised interest expense (Note 7)	<u>(2,369)</u>	<u>(2,554)</u>	<u>(1,181)</u>
Net interest expense of borrowings	8,135	14,331	15,977
Bank charges	<u>969</u>	<u>1,391</u>	<u>1,023</u>
	<u>9,104</u>	<u>15,722</u>	<u>17,000</u>
Finance costs, net	<u>8,030</u>	<u>14,414</u>	<u>15,632</u>

24. **Income tax expense**

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Current income tax	3,437	11,575	29,453
Deferred income tax	(128)	682	(937)
	<u>3,309</u>	<u>12,257</u>	<u>28,516</u>

The reconciliation between tax on the Group's profit before tax and the theoretical amount that would arise using the tax rate applicable to profits is as follows:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Profit before income tax	<u>26,574</u>	<u>47,094</u>	<u>103,490</u>
Tax calculated at income tax rates applicable to profits in the respective years (25%)	6,644	11,773	25,873
Effect of tax exemption and reduction	(3,372)	—	—
Expenses not deductible for tax purposes	<u>37</u>	<u>484</u>	<u>2,643</u>
Tax charges	<u>3,309</u>	<u>12,257</u>	<u>28,516</u>
Effective tax rate	<u>12.45%</u>	<u>26.03%</u>	<u>27.55%</u>

(a) ***Cayman Islands profits tax***

The Company is not subject to any taxation in the Cayman Islands.

(b) ***Hong Kong profits tax***

No Hong Kong profits tax has been provided as the Group has no taxable profit derived in Hong Kong. The applicable Hong Kong profits tax rate is 16.5% for the Relevant Periods.

(c) ***PRC Corporate income tax ("CIT")***

CIT is provided on the assessable income of entities of the Group incorporated in the PRC. Pursuant to the PRC Corporate Income Tax Law (the "New CIT Law"), the CIT is unified at 25% for all types of entities effective from 1 January 2008.

Hongtai (China), a subsidiary of the Company was qualified as a foreign investment manufacturing enterprise and was entitled to full tax exemption for years ended 31 December 2007 and 2008 and 50% tax reduction for years ended 31 December 2009 to 2011. Since 2012, the applicable income tax rate for Hongtai (China) is 25%.

(d) *PRC withholding income tax*

According to the New CIT Law, starting from 1 January 2008, a 10% withholding tax will be levied on the immediate holding company established out of the PRC when their PRC subsidiary declares dividends out of their profits earned after 1 January 2008. A lower withholding tax rate of 5% may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding company.

No deferred income tax liabilities for unremitted earnings of the PRC subsidiaries that was earned from 1 January 2008 to 31 December 2013 have been recognised as there is no plan of distribution of dividends from such earnings in the foreseeable future. Management intend to reinvest such earnings in the PRC permanently (Note 8).

25. **Discontinued operations**

As disclosed in Notes 1(a) and 5, Hongtai (China) was involved in the business of manufacturing and sales of apparel during the year ended 31 December 2011. The operation was subsequently terminated in the same year.

The analysis of the result of the discontinued operations is as follows:

	2011 <i>RMB'000</i>
Revenue	49,010
Expenses	<u>(42,476)</u>
Profit before income tax of discontinued operations	6,534
Income tax expense	<u>(816)</u>
Profit for the year from discontinued operations	5,718
Other comprehensive income	<u>—</u>
Total comprehensive income from discontinued operations	<u><u>5,718</u></u>

The analysis of the cash flows of the discontinued operations is as follows:

	2011 <i>RMB'000</i>
Operating cash flows	1,805
Investing cash flows	(93)
Financing cash flows	<u>—</u>
	<u><u>1,712</u></u>

In the consolidated statements of cash flows, proceeds from sale of property, plant and equipment of discontinued operations comprise:

	2011 <i>RMB'000</i>
Net book value	924
Losses on disposal of property, plant and equipment	<u>(24)</u>
Proceeds from disposal of property, plant and equipment	<u><u>900</u></u>

26. Earnings per share

The basic earnings per share is calculated based on the profit attributable to equity holders of the Company for the years ended 31 December 2011, 2012 and 2013 and on the assumption that 10,000 shares issued after the completion of the Reorganisation were deemed to have been issued since 1 January 2011.

	Year ended 31 December		
	2011	2012	2013
Net profit attributable to the equity holders of Company (RMB'000)	28,983	34,837	74,974
Weighted average number of ordinary shares outstanding for basic and diluted earnings per share	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>
Basic and diluted earnings per share (RMB) (Note)	<u><u>2,898</u></u>	<u><u>3,484</u></u>	<u><u>7,497</u></u>

Note:

The calculation above does not take into account the proposed capitalisation issue of 749,990,000 shares pursuant to the shareholders' resolutions dated 27 March 2014 because the proposed capitalisation issue has not become effective as of

the date of this report. Should the proposed capitalisation issue of 749,990,000 shares become effective, the respective weighted average number of ordinary shares in issue for each of the years ended 31 December 2011, 2012 and 2013 would be 750,000,000 shares, and the unaudited basic and diluted earnings per share would be RMB3.86 cent per share, RMB4.64 cent per share and RMB10.00 cent per share, respectively.

The Company has no potential dilutive ordinary shares as at 31 December 2011, 2012 and 2013. Diluted earnings per share therefore equal to basic earnings per share.

27. Dividends

No dividend has been paid or declared by the Company since its incorporation, and by the companies now comprising the Group during the Relevant Periods.

28. Notes to consolidated statements of cash flows

(a) *Reconciliation of profit before income tax to cash generated from operations*

	2011 RMB'000	2012 RMB'000	2013 RMB'000
Profit before income tax	33,108	47,094	103,490
Adjustments for:			
- Amortisation of leasehold land and land use right (Note 6)	151	214	531
- Depreciation of property, plant and equipment (Note 7)	12,485	19,381	32,116
- Losses on disposal of property, plant and equipment	24	59	90
- Amortisation of deferred income	—	(49)	(292)
- Finance income (Note 23)	(1,074)	(1,308)	(1,368)
- Finance costs (Note 23)	9,104	15,722	17,000
Change in working capital:			
- Inventories	(38,704)	(5,062)	(13,114)
- Trade and other receivables	(13,043)	(36,972)	(82,992)
- Trade and other payables	24,137	(8,479)	65,119
- Notes payables	32,250	52,698	(41,350)
Cash generated from operations	58,438	83,298	79,230

(b) *Proceeds from disposal of property, plant and equipment*

In the consolidated statements of cash flows, proceeds from sale of property, plant and equipment comprise:

	2011 RMB'000	2012 RMB'000	2013 RMB'000
Net book value (Note 7)	924	59	142
Losses on disposal of property, plant and equipment	<u>(24)</u>	<u>(59)</u>	<u>(90)</u>
Proceeds from disposal of property, plant and equipment	<u>900</u>	<u>—</u>	<u>52</u>

(c) *Non-cash investing and financing transactions*

	2011 RMB'000	2012 RMB'000	2013 RMB'000
Financing activities not affecting cash:			
Finance lease obligations incurred for acquisition of machinery and equipment	<u>—</u>	<u>16,325</u>	<u>—</u>

29. **Financial guarantees**

The Group's subsidiary, Hongtai (China), provided corporate guarantees in favour of certain third parties' borrowings in return for counter-guarantees provided by certain third parties in favour of the Group's borrowings as disclosed in Note 15 above. The balances of the third parties' borrowings covered by guarantees from Hongtai (China) amounted to RMB54,000,000 and RMB21,000,000 as at 31 December 2011 and 2012, respectively. In addition, Hongtai (China) also provided guarantee to a related party, 石獅市佳綸紡織商貿有限公司 ("Jia Lun Textile"), in the amount of RMB8,000,000 as at 31 December 2011. Such guarantee provided to Jia Lun Textile was released by the end of 2012. No default in repayment of the borrowings by the third parties and the related party had occurred in the past. The Directors are therefore of the view that no liability arose from the corporate guarantees provided to the third parties and the related party as at 31 December 2011 and 2012.

30. Commitments

(a) Capital commitments

The Group's future aggregate minimum capital payments under these contracts were as follows:

	As at 31 December		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Contracted but not provided for			
- Plants and buildings	12,155	109,243	—
- Machinery and equipment	—	69,817	—
	<u>12,155</u>	<u>179,060</u>	<u>—</u>

(b) Operating lease commitments — the Group's entities as lessee

The Group leases buildings under non-cancellable lease agreements. The Group's future aggregate minimum lease payments under these non-cancellable operating leases were as follows:

	As at 31 December		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
No later than 1 year	—	—	797
Later than 1 year and no later than 5 years	—	—	997
	<u>—</u>	<u>—</u>	<u>1,794</u>

31. Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

Save as disclosed elsewhere in the Financial Information, the following is a summary of the significant transactions carried out between the Group and its related parties during the Relevant Periods, and balances as at the end of each of the Relevant Periods.

(a) *Related parties*

The directors of the Company are of the view that the following individuals and companies that had transactions or balances with the Group are related parties:

Name	Relationship with the Group
Mr. Lin	Founding shareholder of the Company
Mr. Qiu	Founding shareholder of the Company
Mr. Cai	Founding shareholder of the Company
Mr. Lin Hong Peng	Son of Mr. Lin
Hongtai (Fujian) Industrial Development Co., Ltd. ("Hong Tai Industrial")	Beneficially owned by Mr. Lin before July 2012
Jia Lun Textile	Beneficially owned by Mr. Lin Hong Peng before July 2012

(b) *Related party transactions and balances*(i) *Sale of goods*

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
<i>Discontinued transactions</i>			
- Hong Tai Industrial	40,981	2,673	—
- Jia Lun Textile	<u>16,901</u>	<u>14,756</u>	<u>—</u>
	<u>57,882</u>	<u>17,429</u>	<u>—</u>

Mr. Lin and Mr. Lin Hong Peng disposed their equity interests in Hong Tai Industrial and Jia Lun Textile in June and July 2012, respectively. Accordingly, the related party transactions for the year ended 31 December 2012 represented only five months' and six months' transactions, respectively, and the transactions with Hong Tai Industrial and Jia Lun Textile are not disclosed for the year ended 31 December 2013.

Sales of goods to related parties were carried out in the normal course of business at mutually agreed prices and terms.

The related party balances were as follows:

	As at 31 December		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Trade receivables:			
- Hong Tai Industrial	<u>4,493</u>	<u>—</u>	<u>—</u>
Advance payment from a customer under trade and other payables:			
- Jia Lun Textile	<u>6,472</u>	<u>—</u>	<u>—</u>

(ii) *Advances to and from related parties*

	As at 31 December		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Amounts due from related parties included in trade and other receivables			
- Mr. Lin	69,234	—	—
- Mr. Qiu	2,233	158	—
- Hong Tai Industrial	<u>33,292</u>	<u>—</u>	<u>—</u>
	<u>104,759</u>	<u>158</u>	<u>—</u>
Amounts due to related parties included in trade and other payables			
Mr. Lin	3,247	8,248	8,283
Mr. Cai	<u>2,187</u>	<u>2,187</u>	<u>—</u>
	<u>5,434</u>	<u>10,435</u>	<u>8,283</u>

The maximum amounts of the advances to related parties during the Relevant Periods were as follows:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Mr. Lin	137,590	120,581	—
Mr. Qiu	4,314	2,233	1,365
Hong Tai Industrial	<u>54,837</u>	<u>33,292</u>	<u>—</u>

The above balances were unsecured, interest free and receivable/repayable on demand. The carrying values of the balances approximated their fair values as at the balance sheet dates.

(iii) *Key management compensation*

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Salary	578	650	1,073
Bonus	55	57	—
Pension costs	9	31	36
Medical, housing and other benefits	<u>6</u>	<u>20</u>	<u>42</u>
	<u>648</u>	<u>758</u>	<u>1,151</u>

(iv) *Guarantees*

	As at 31 December		
	2011	2013	2013
	RMB'000	RMB'000	RMB'000
Guarantees provided by related parties to the Group's short-term borrowings from banks and other financial institutions			
- Shareholders	30,000	40,000	64,000
- Jia Lun Textile	<u>15,000</u>	<u>—</u>	<u>—</u>
	45,000	40,000	64,000
Guarantees provided by shareholders to the Group's long-term borrowings from banks and other financial institutions	<u>11,750</u>	<u>6,243</u>	<u>—</u>
Guarantees provided by shareholders to the Group's finance lease liabilities	<u>2,733</u>	<u>10,528</u>	<u>5,546</u>
Guarantees provided by shareholders to the Group's other borrowings	<u>8,119</u>	<u>25,612</u>	<u>30,563</u>
	<u>67,602</u>	<u>82,383</u>	<u>100,109</u>
Guarantees provided to a related party			
- Jia Lun Textile	<u>8,000</u>	<u>—</u>	<u>—</u>

The guarantees provided by related parties, including shareholders, will be released upon listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

32. **Subsequent events**

Pursuant to the shareholders' resolutions dated 27 March 2014, the authorised share capital of the Company was increased from HK\$1,000,000 to HK\$1,000,000,000 divided into 10,000,000,000 ordinary shares of HK\$0.1 each.

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 31 December 2013 and 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 31 December 2013.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Global Offering on the net tangible assets of the Group attributable to the equity holders of the Company as of 31 December 2013 as if the Global Offering had taken place on 31 December 2013.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at 31 December 2013 or at any future dates following the Global Offering. It is prepared based on the consolidated net assets of the Group as at 31 December 2013 as set out in the Accountant's Report of the Group, the text of which is set out in Appendix I to this Prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the Accountant's Report.

	Audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 31 December 2013 RMB'000 (Note 1)	Estimated net proceeds from the Global Offering RMB'000 (Note 2)	Unaudited pro forma adjusted net tangible assets attributable to the equity holders of the Company as at 31 December 2013 RMB'000	Unaudited pro forma adjusted net tangible assets per share RMB HK\$ (Note 3) (Note 5)	
Based on an Offer Price of HK\$0.62 per share	266,918	111,033	377,951	0.38	0.47
Based on an Offer Price of HK\$0.82 per share	266,918	149,833	416,751	0.42	0.52

Notes:

- (1) The audited consolidated net tangible assets attributable to the equity holders of the Company as at 31 December 2013 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to the equity holders of the Company as at 31 December 2013 of RMB266,918,000.

- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer price of HK\$0.62 per Share and HK\$0.82 per Share after deduction of the underwriting fees and other related expenses payable by the Company.
- (3) The unaudited pro forma net tangible assets per Shares is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,000,000,000 Shares were in issue assuming that the Global Offering has been completed on 31 December 2013 but takes no account of any Share which be allotted and issued or repurchased by the Company pursuant to the Issuing Mandate and the Repurchase Mandate and the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme.
- (4) No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 31 December 2013.
- (5) For the purpose of this unaudited pro forma adjusted net tangible assets, the balances stated in Renminbi are converted into Hong Kong dollars at a rate of RMB0.80 to HK\$1.00. 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.

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



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 WANG TAI HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Wang Tai Holdings 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 31 December 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 10 April 2014, 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 pages II-1 to II-2 of the Prospectus.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed initial public offering of the shares of the Company on the Group's financial position as at 31 December 2013 as if the proposed initial public offering of the shares of the Company had taken place at 31 December 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 year ended 31 December 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").

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.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

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 comply with ethical requirements and plan and perform 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 of the shares of the Company at 31 December 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 judgement, 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.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

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, 10 April 2014

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer and consultant, in connection with its valuation as at 28 February 2014 of the property interests of the Group.



JONES LANG
LASALLE®

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行

Jones Lang LaSalle Corporate Appraisal and Advisory Limited
6/F Three Pacific Place 1 Queen's Road East Hong Kong
tel +852 2846 5000 fax +852 2169 6001
Licence No: C-030171

仲量聯行企業評估及諮詢有限公司
香港皇后大道東1號太古廣場三期6樓
電話 +852 2846 5000 傳真 +852 2169 6001
牌照號碼: C-030171

10 April 2014

The Board of Directors
Wang Tai Holdings Limited

Dear Sirs,

In accordance with your instructions to value the property interests held by Wang Tai Holdings Limited (the “Company”) and its subsidiaries Hongtai (China) Co., Ltd. and Hongsheng (Hubei) Textile Co. Ltd. (hereinafter together referred to as the “Group”), have interests in the People’s Republic of China (the “PRC”), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 28 February 2014 (the “valuation date”).

Our valuation is carried out on a market value basis. Market value 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”.

We have valued the property interest in Group II by direct comparison approach assuming sale of the property interest in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market.

Where, due to the nature of the buildings of the property interests in Group I and the particular locations in which they are situated, there are unlikely to be relevant market comparable sales readily available, the property interests have been valued by the Cost Approach with reference to their depreciated replacement cost.

Depreciated replacement cost is defined as “the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization”. It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. In arriving at the value of the

land portion, reference has been made to the sales evidence as available in the locality. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business. In our valuation, it applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense 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 an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation — Professional Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisers — Hills & Co., concerning the validity of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

The site inspection was carried out in December 2013 by Ms. Corrine Wu. Corrine Wu has academic background related to property valuation and has 3 years' experience in the real estate consultation and valuation in the PRC.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Our valuation is summarized below and the valuation certificates are attached.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Gilbert C. H. Chan
MRICS MHKIS RPS (GP)
Director

Notes: Gilbert C. H. Chan is a Chartered Surveyor who has 21 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.

SUMMARY OF VALUES

Group I — Property interests owned and occupied by the Group in the PRC

No.	Property	Capital value	Interest	Capital value
		in existing state as at 28 February 2014 RMB		attributable to the Group as at 28 February 2014 RMB
1.	3 parcels of land and various buildings located at Wubao High-tech Park Hongshan Town, Shishi Quanzhou City Fujian Province The PRC	159,147,000	100%	159,147,000
2.	A parcel of land and various buildings located at Da Sheng Guan Shan Industrial Zone Huangmei County Huanggang City Hubei Province The PRC	128,745,000	100%	128,745,000
Sub-total:		<u>287,892,000</u>		<u>287,892,000</u>

Group II — Property interest held for future development by the Group in the PRC

No.	Property	Capital value	Interest	Capital value
		in existing state as at 28 February 2014 <i>RMB</i>		attributable to the Group as at 28 February 2014 <i>RMB</i>
3.	2 parcels of land located at Da Sheng Guan Shan Industrial Zone Huangmei County Huanggang City Hubei Province The PRC	11,469,000	100%	11,469,000
Sub-total:		<u>11,469,000</u>		<u>11,469,000</u>
Grand total:		<u><u>299,361,000</u></u>		<u><u>299,361,000</u></u>

VALUATION CERTIFICATE

Group I — Property interests owned and occupied by the Group in the PRC

			Particulars of occupancy	Capital value in existing state as at 28 February 2014 RMB																		
No.	Property	Description and tenure																				
1.	3 parcels of land and various buildings located at Wubao High-tech Park Hongshan Town Shishi Quanzhou City Fujian Province The PRC	<p>The property comprises 3 parcels of land with a total site area of approximately 64,451.01 sq.m. and 12 buildings erected thereon which were completed in various stages between 2006 and 2013.</p> <p>The buildings of the property have a total gross floor area of approximately 60,764.33 sq.m. and the details of uses and their respective gross floor areas are set out as follows:</p> <table><tr><th>Use</th><th>No. of Item</th><th>Gross floor Area (sq.m.)</th></tr><tr><td>Production</td><td>3</td><td>24,082.17</td></tr><tr><td>Staff quarter</td><td>2</td><td>21,425.03</td></tr><tr><td>Warehouse</td><td>2</td><td>11,337.13</td></tr><tr><td>Ancillary</td><td>5</td><td>3,920</td></tr><tr><td>Total</td><td><u>12</u></td><td><u>60,764.33</u></td></tr></table> <p>The land use rights of the property have been granted for terms of 50 years expiring on 22 August 2055 for industrial use.</p>	Use	No. of Item	Gross floor Area (sq.m.)	Production	3	24,082.17	Staff quarter	2	21,425.03	Warehouse	2	11,337.13	Ancillary	5	3,920	Total	<u>12</u>	<u>60,764.33</u>	<p>The property is currently occupied by the Group for production, storage, staff quarter and ancillary purposes.</p>	<p>159,147,000</p> <p>100% interest attributable to the Group: RMB159,147,000</p>
Use	No. of Item	Gross floor Area (sq.m.)																				
Production	3	24,082.17																				
Staff quarter	2	21,425.03																				
Warehouse	2	11,337.13																				
Ancillary	5	3,920																				
Total	<u>12</u>	<u>60,764.33</u>																				

Notes:

- Pursuant to 3 State-owned Land Use Rights Certificates — Shi Di Hong Guo Yong (2011) Di Nos. 00010 to 00012, the land use rights of 3 parcels of land of the property with a total site area of approximately 64,451.01 sq.m. have been granted to Hongtai (China) Co., Ltd. ("Hongtai (China)"), a wholly-owned subsidiary of the Company, for terms of 50 years expiring on 20 August 2055 for industrial use.
- Pursuant to 8 Building Ownership Certificates — Shi Jian Fang Quan Zheng Hong Shan Zi Di Nos. 010479 to 010482, 011027, 011088, 011144 and 011166, 8 buildings of the property with a total gross floor area of approximately 59,064.33 sq.m. are owned by Hongtai (China).
- For the remaining 4 buildings (including a boiler room, a tank, an air compressor room and a switch board room with janitor's room) with a total gross floor area of approximately 1,700 sq.m., we have not been provided with any Construction Work Planning Permits, Construction Work Commencement Permits and Building Ownership Certificates.
- In the valuation of the property, we have attributed no commercial value to the buildings mentioned in note 3 which have not obtained the Building Ownership Certificates. However, for reference purpose, we are of the opinion that the aggregate sum of the depreciated replacement cost of the buildings (excluding the land) as at the valuation date would be RMB3,574,000, assuming the relevant Building Ownership Certificates have been obtained and the buildings could be freely transferred.

5. Pursuant to a Mortgage Contract of Maximum Amount — 2013 Nian Zui Gao Di Zi Di No. 77-036-1, the land use rights of a parcel of land with a site area of approximately 14,715.8 sq.m. under the State-owned Land Use Rights Certificate — Shi Di Hong Guo Yong (2011) Di No. 00012 and a building with a gross floor area of approximately 17,285.79 sq.m. under the Building Ownership Certificate — Shi Jian Fang Quan Zheng Hong Shan Zi Di No. 011027 are subject to mortgage in favour of China Merchants Bank Co., Ltd., Quanzhou Shishi Sub-branch (the “Bank”), as security to guarantee the principal obligations under a Credit Agreement entered into between the Bank and Hongtai (China), for a maximum amount of RMB70,000,000 with a term from 8 March 2013 to 7 March 2014.
6. Pursuant to a Mortgage Contract of Maximum Amount — Shi Nong Shang Hang Gao Di No. 102013032101, the land use rights of 2 parcels of land with a total site area of approximately 49,735.21 sq.m. under the State-owned Land Use Rights Certificates — Shi Di Hong Guo Yong (2011) Di Nos. 00010 and 00011 and 5 buildings with a total gross floor area of approximately 30,441.41 sq.m. under the Building Ownership Certificates — Shi Jian Fang Quan Zheng Hong Shan Zi Di Nos. 010479 to 010482 and 011088 are subject to mortgage in favour of Fujian Shishi Rural Commercial Bank Co., Ltd., Nanyang Road Sub-branch (the “Bank”), as security to guarantee the principal obligations under a series of business contracts entered or to be entered into between the Bank and Hongtai (China), for a maximum amount of RMB90,783,400 with a term from 22 March 2013 to 21 March 2018.
7. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - a. Hongtai (China) is the legal user of the land use rights of the property and has the rights to transfer, lease and/or mortgage or otherwise dispose the land use rights of the property by other legal means according to the relevant PRC laws, but subject to restrictions of the mortgage contracts as mentioned in notes 5 and 6;
 - b. Hongtai (China) is the legal owner of the buildings as mentioned in note 2 and has the rights to use the buildings mentioned in note 2 in accordance with their prescribed uses before the expiring dates as recorded in the relevant Building Ownership Certificates. Hongtai (China) is also entitled to transfer, lease and mortgage or otherwise dispose such buildings by other legal means, but subject to restrictions of the mortgage contracts as mentioned in notes 5 and 6;
 - c. Except for being subject to the mortgages mentioned in notes 5 and 6, the property is free from any other retention, mortgage, lease and other encumbrances or subject to any other third party’s rights, conditions or instructions which may have material adverse effects on it;
 - d. For the buildings mentioned in note 3 which are lack of legal application for construction (including obtaining construction planning permits and construction commencement permits) and legal registration of title, Hongtai (China) may has the legal risk to be ordered to demolish such buildings or fined at an amount of RMB440,000 below by the relevant government authorities; and
 - e. According to a Confirmation Letter issued by Shishi Housing and Urban Planning Construction Bureau (the “Bureau”) dated 13 September 2013 in favour of Hongtai (China), Hongtai (China) can post register the title of the buildings mentioned in note 3 in accordance with the laws and regulations and has the rights to use such buildings before obtaining the title certificates. The Bureau has not and will not impose punishment (including demolition of buildings) on Hongtai (China) for the aforesaid issues.

VALUATION CERTIFICATE

			Particulars of occupancy	Capital value in existing state as at 28 February 2014 RMB																		
No.	Property	Description and tenure																				
2.	A parcel of land and various buildings located at Da Sheng Guan Shan Industrial Zone Huangmei County Huanggang City Hubei Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 62,046 sq.m. and 5 buildings erected thereon which were completed in 2013.</p> <p>The buildings of the property have a total gross floor area of approximately 52,365.2 sq.m. and the details of uses and their respective gross floor areas are set out as follows:</p> <table><tr><th>Use</th><th>No. of Item</th><th>Gross floor Area (sq.m.)</th></tr><tr><td>Production</td><td>1</td><td>29,675.44</td></tr><tr><td>Staff quarter</td><td>1</td><td>16,798.02</td></tr><tr><td>Warehouse</td><td>2</td><td>5,562.48</td></tr><tr><td>Ancillary</td><td>1</td><td>329.26</td></tr><tr><td>Total</td><td><u>5</u></td><td><u>52,365.2</u></td></tr></table> <p>The land use rights of the property have been granted for a term of 50 years expiring on 25 October 2062 for industrial use.</p>	Use	No. of Item	Gross floor Area (sq.m.)	Production	1	29,675.44	Staff quarter	1	16,798.02	Warehouse	2	5,562.48	Ancillary	1	329.26	Total	<u>5</u>	<u>52,365.2</u>	<p>The property is currently occupied by the Group for production, storage, staff quarter and ancillary purposes.</p>	<p>128,745,000</p> <p>100% interest attributable to the Group: RMB128,745,000</p>
Use	No. of Item	Gross floor Area (sq.m.)																				
Production	1	29,675.44																				
Staff quarter	1	16,798.02																				
Warehouse	2	5,562.48																				
Ancillary	1	329.26																				
Total	<u>5</u>	<u>52,365.2</u>																				

Notes:

- Pursuant to a State-owned Land Use Rights Certificate — Mei Guo Yong (2012) Di No. 250112065, the land use rights of a parcel of land of the property with a site area of approximately 62,046 sq.m. have been granted to Hongsheng (Hubei) Textile Co. Ltd. (“Hongsheng (Hubei)”), a wholly-owned subsidiary of the Company, for a term of 50 years expiring on 25 October 2062 for industrial use.
- Pursuant to 5 Building Ownership Certificates — Huang Mei Xian Fang Quan Zheng Huang Mei Town Zi Di Nos. 1228994 to 1228997 and 1230045, 5 buildings of the property with a total gross floor area of approximately 52,365.2 sq.m. are owned by Hongsheng (Hubei).
- Pursuant to a Mortgage Contract of Maximum Amount — No. A20130058-1, the land use rights of a parcel of land of this property under the State-owned Land Use Rights Certificate — Mei Guo Yong (2012) Di No. 250112065 together with 2 parcels of land of the Property No. 3 with a total site area of approximately 161,949 sq.m., and the 4 buildings of this property under the Building Ownership Certificates - Huang Mei Xian Fang Quan Zheng Huang Mei Town Zi Di Nos. 1228994 to 1228997 with a total gross floor area of approximately 49,583.96 sq.m. are subject to mortgage in favour of Huangmei County Rural Credit Cooperative Union (the “Credit Cooperative Union”), as security to guarantee the principal obligations under a series of business contracts entered into between the Credit Cooperative Union and Hongsheng (Hubei), for a maximum amount of RMB50,000,000 with a term from 16 September 2013 to 16 September 2016.

4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
- a. Hongsheng (Hubei) is the legal user of the land use rights of the property and has the rights to transfer, lease and/or mortgage or otherwise dispose the land use rights of the property by other legal means according to the relevant PRC laws, but subject to restrictions of the mortgage contracts as mentioned in note 3;
 - b. Hongsheng (Hubei) is the legal owner of the buildings as mentioned in note 2 and has the rights to use the buildings mentioned in note 2 according to their prescribed uses before the expiring dates as recorded in the relevant Building Ownership Certificates. Hongsheng (Hubei) is also entitled to transfer, lease and mortgage or otherwise dispose such buildings by other legal means, but subject to restrictions of the mortgage contracts as mentioned in note 3; and
 - c. Except for being subject to the mortgages mentioned in note 3, the property is free from any other retention, mortgage, lease and other encumbrances or subject to any other third party's rights, conditions or instructions which may have material adverse effects on it.

VALUATION CERTIFICATE

Group II — Property interest held for future development by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 28 February 2014 RMB
3.	2 parcels of land Da Sheng Guan Shan Industrial Zone Huangmei County Huanggang City Hubei Province The PRC	The property comprises 2 parcels of land with a total site area of approximately 99,903 sq.m. The land use rights of the property have been granted for terms of 50 years expiring on 25 October 2062 for industrial use.	The property is currently vacant.	11,469,000 100% interest attributable to the Group: RMB11,469,000

Notes:

- Pursuant to 2 State-owned Land Use Rights Certificates — Mei Guo Yong (2012) Di Nos. 250112063 and 250112064, the land use rights of 2 parcels of land of the property with a total site area of approximately 99,903 sq.m. have been granted to Hongsheng (Hubei) Textile Co. Ltd. (“Hongsheng (Hubei)”), a wholly-owned subsidiary of the Company, for terms of 50 years expiring on 25 October 2062 for industrial use.
- Pursuant to a Mortgage Contract of Maximum Amount — No. A20130058-1, the land use rights of 2 parcels of land of this property under the State-owned Land Use Rights Certificate — Mei Guo Yong (2012) Di Nos. 250112063 and 250112064 together with a parcel of land of the Property No.2 with a total site area of approximately 161,949 sq.m., and the 4 buildings of the Property No. 2 with a total gross floor area of approximately 49,583.96 sq.m. are subject to mortgage in favour of Huangmei County Rural Credit Cooperative Union (the “Credit Cooperative Union”), as security to guarantee the principal obligations under a series of business contracts entered into between the Credit Cooperative Union and Hongsheng (Hubei), for a maximum amount of RMB50,000,000 with a term from 16 September 2013 to 16 September 2016.
- We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, inter alia, the following:
 - Hongsheng (Hubei) is the legal user of the land use rights of the property and has the rights to transfer, lease and/or mortgage or otherwise dispose the land use rights of the property by other legal means according to the relevant PRC laws, but subject to restrictions of the mortgage contract as mentioned in note 2; and
 - Except for being subject to the mortgage mentioned in note 2, the property is free from any other retention, mortgage, lease and other encumbrances or subject to any other third party’s rights, conditions or instructions which may have material adverse effects on it.
- We have adopted comparison method of valuation which refers to three relevant industrial land transactions released by Huangmei County Bureau of Land and Resources transacted between March 2013 and December 2013. They are similar to the subject properties since all are situated within the same industrial zone and have similar physical attributes. The three adopted transaction cases are most relevant and recently transacted in the location where the subject properties situated. Their unit prices are also consistent within a narrow range, the unit price of the three cases are RMB113/sq.m., RMB112/sq.m., and RMB120/sq.m. In addition, the general industrial land price level is stable over previous one year. Henceforth, they are considered to be relevant comparables with no material differences. We have made nominal adjustment to arrive our opinion of 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 company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 29 April 2013 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Memorandum of Association (the “Memorandum”) and the Articles of Association (the “Articles”) comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that 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) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 27 March 2014. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and 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). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (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 with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not 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*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, 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.

(iii) *Compensation or payments for loss of office*

Pursuant to the Articles, payments to any 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 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.

(v) *Disclosure of interests in contracts with the Company or any of its subsidiaries.*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, 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 of, or otherwise interested in, any company promoted by the Company or 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, profits or

other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, 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, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, 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 or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates (as defined in the Articles) is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for 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 close associate(s) has 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 contract or arrangement 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 close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

- (dd) any contract or arrangement in which the Director or his close 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; or
- (ee) 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 close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only 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 held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such 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 may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any 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 ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed 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. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period 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 may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;

- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) 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;
- (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.

The board may from time to time 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 delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time 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, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) *Borrowing powers*

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 assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, 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.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) *Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think 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 an additional or casting vote.

(x) *Register of Directors and Officers*

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of 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 thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue 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 will *mutatis mutandis* apply, but so that the

necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The 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) Special resolution-majority required

Pursuant to 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, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), 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 ninety-five per cent. (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 notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution 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 corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting 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 fully paid share of which he is the holder 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 purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons 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 pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), 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 shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts 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 property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office 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 accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However,

an exempted company shall make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof 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.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall 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 ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that 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 and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed 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 transferee in any case in which it thinks fit, in its discretion, 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 in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon 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 transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse 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 incentive scheme for employees 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 recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept 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 registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspapers or by any other means in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for 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 requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(m) Dividends and other methods of distribution

Subject to the Companies Law, 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.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

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 but 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 according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) 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 shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders 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. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest 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, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such

shares, and shall be sent at his or their 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 moneys 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.

All dividends or bonuses 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 or bonuses unclaimed for six years after having been declared may be forfeited by the board and 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.

(n) 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. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls 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). A call may be made payable either in one lump 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 twenty per cent. (20%) per annum as the board may agree to accept 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 monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating 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, notwithstanding, 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 the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) 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, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles 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.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) 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, 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, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority 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. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (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 year period, 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 Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (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.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is 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 a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. 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

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 of the 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 arrangement 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 (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

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 business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), 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, by special resolution reduce its share capital in any way.

The Articles includes 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

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, 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 shareholder and the Companies Law expressly provides that 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. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. 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. 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.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are

held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, 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.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association 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 section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as 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 paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder 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 or, as an

alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, 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 interests 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

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of 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.

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.

(i) Exchange control

There are no exchange control regulations or currency restrictions 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:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and

- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 14 May 2013.

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 executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will 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.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of 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 members, 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.

(n) Winding up

A company may be wound up compulsorily by order of the Court voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, 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 the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby 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. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up 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. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder 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 shareholders.

(q) 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, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman (Cayman) Limited, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of 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 VI to this prospectus. 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.

A FURTHER INFORMATION ABOUT OUR COMPANY AND ITS SUBSIDIARIES**1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 29 April 2013. Our Company has established a principal place of business in Hong Kong at Unit 02, 15th Floor, Convention Plaza Office Tower, 1 Harbour Road, Wanchai, Hong Kong and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part XI of the then in force Companies Ordinance (Chapter 32 of the Laws of Hong Kong) on 9 September 2013. Mr. Siu Kai Chun has been appointed as the authorised representative of our Company for acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, it operates subject to the Companies Law and its constitution which comprises the Memorandum of Association and Articles of Association. A summary of certain provisions of our Company's constitution and relevant aspects of the Companies Law is set forth in Appendix IV to this prospectus.

2. Change in share capital of our Company

As at the date of incorporation, the authorised share capital of our Company was HK\$1,000,000 divided into 10,000,000 Shares of HK\$0.10 each.

One Share was allotted and issued as nil paid Share to the initial subscriber on 29 April 2013 which was transferred as nil paid Share to Mr. Lin on the same date. On 29 April 2013, our Company also allotted and issued 3,999 Shares to Mr. Lin, 3,300 Shares to Mr. Qiu and 2,700 Shares to Mr. Cai, all nil paid.

On 23 September 2013, Mr. Lin transferred the 4,000 Shares he held in our Company to Merit Lead.

On 10 October 2013, Merit Lead, Mr. Qiu and Mr. Cai transferred Shares to the Pre-IPO Investors pursuant to the Pre-IPO Agreements. Details of which are set forth in the paragraph headed "History, Reorganisation and Group Structure — Pre-IPO investments" of this prospectus. As a result of the transfers, our shareholding is as follows:

Name of Shareholder	Number and percentage of Shares held
Merit Lead	3,560 Shares (35.6%)
Mr. Qiu	1,800 Shares (18.0%)
Mr. Cai	1,500 Shares (15.0%)
Hong Kong Investments	890 Shares (8.9%)
Sun Prosperity	650 Shares (6.5%)
Ocean Fu	600 Shares (6.0%)
Fu Tak Investments	500 Shares (5.0%)
Sea Dragon	500 Shares (5.0%)

On 26 March 2014, we made 100% call on the 10,000 Shares in issue at par and upon full payment in cash by the Shareholders pursuant to the said call, all the 10,000 Shares in issue were credited as fully paid at par.

Pursuant to resolutions in writing of all our Shareholders passed on 27 March 2014, our authorised share capital was increased from HK\$1,000,000 divided into 10,000,000 Shares of HK\$0.10 each to HK\$1,000,000,000 divided into 10,000,000,000 Shares of HK\$0.10 each by the creation of an additional 9,990,000,000 Shares.

Immediately following completion of the Global Offering and the Capitalisation Issue but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, the issued share capital of our Company will be HK\$100,000,000 divided into 1,000,000,000 Shares, all fully paid or credited as fully paid and 9,000,000,000 Shares will remain unissued.

Save for aforesaid and as mentioned in the paragraph headed “Resolutions in writing of all our Shareholders passed on 27 March 2014” below, there has been no alteration in the share capital of our Company since its incorporation.

3. Resolutions in writing of all our Shareholders passed on 27 March 2014

On 27 March 2014, resolutions in writing were passed by all our Shareholders, pursuant to which, among other things:

- (a) the authorised share capital of our Company was increased from HK\$1,000,000 to HK\$1,000,000,000 by the creation of an additional 9,990,000,000 Shares;
- (b) our Company approved and adopted its new Articles of Association;
- (c) conditional on (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme); (ii) the entering into of the agreement on the Offer Price between the Sole Global Coordinator and our Company on or before the Price Determination Date; and (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:
 - (i) the Global Offering was approved and our Directors were authorised to allot and issue the new Shares pursuant to the Global Offering;
 - (ii) the Over-allotment Option was approved and our Directors were authorised to effect the same and to allot and issue the Shares upon exercise of the Over-allotment Option;

- (iii) the rules of the Share Option Scheme, the principal terms of which are set forth in the paragraph headed “D. Other information — 1. Share Option Scheme” in this Appendix, were approved and adopted and our Directors were authorised to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options granted under the Share Option Scheme and to take all such steps as may be necessary and/or desirable to implement and give effect to the Share Option Scheme; and
 - (iv) conditional on the share premium account of our Company being credited as a result of the issue of the Offer Shares by our Company pursuant to the Global Offering, our Directors were authorised to capitalise an amount of HK\$74,990,000 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 749,990,000 Shares, such Shares to be allotted and issued to our Shareholders whose names appearing on the register of members of our Company at the close of business on 27 March 2014 (or as such Shareholders may direct) in proportion (as nearly as possible without fractions) to their then respective shareholdings in our Company.
- (d) a general unconditional mandate was given to our Directors to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than pursuant to a rights issue or pursuant to any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association or pursuant to the grant of options under the Share Option Scheme or other similar arrangement or pursuant to a specific authority granted by our Shareholders in general meeting, unissued Shares with a total nominal value not exceeding 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering and Capitalisation Issue (excluding any Shares which may be issued pursuant to the Over-allotment Option and any Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme), such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or any applicable laws of Cayman Islands to be held, or until revoked or varied or renewed by an ordinary resolution of our Shareholders at a general meeting of our Company, whichever occurs first;
- (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 approved 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 amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue (excluding any Shares which may be issued pursuant to the Over-allotment Option and any Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme), such mandate to remain in effect until

the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or any applicable laws of Cayman Islands to be held, or until revoked or varied or renewed by an ordinary resolution of our Shareholders at a general meeting of our Company, whichever occurs first; and

- (f) the general unconditional mandate mentioned in 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 conditionally or unconditionally 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 paragraph (e) above.

4. Corporate reorganisation

Details of the Reorganisation are set forth in the section headed “History, Reorganisation and Group Structure” of this prospectus.

5. Changes in share capital of subsidiaries of our Group

Subsidiaries of our Company are referred to in the Accountant’s Report, the text of which is set forth in Appendix I to this prospectus.

Save as disclosed in the section headed “History, Reorganisation and Group Structure” of this prospectus, there are no changes in the registered capital of our Company’s subsidiaries during the two years preceding the date of this prospectus.

6. Repurchase of Shares by our Company

(a) *Provisions of the Listing Rules*

The Listing Rules permit companies whose primary listing is on the Main Board of Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:-

(i) *Shareholders’ approval*

All proposed repurchases of securities on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution passed by our Shareholders on 27 March 2014, the Repurchase Mandate was granted to our Directors authorising the repurchase by our Company 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, of Shares with an

aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and options that may be granted under the Share Option Scheme), at any time until 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 any applicable law of the Cayman Islands or the Articles of Association to be held or when such mandate is revoked or varied or renewed by an ordinary resolution of our Shareholders of our Company in general meeting, whichever is the earliest.

(ii) *Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles of Association and the laws of the Cayman Islands. A listed company may not repurchase its own securities 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 from time to time.

(b) *Reasons for repurchases*

Our Directors believe that it is in the best interests of our Company and its Shareholders for our Directors to have a general authority from our Shareholders to enable our Company to repurchase Shares in the market. Repurchases of Shares will only be made when our Directors believe that such repurchases will benefit our Company and its members. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of our Company and its assets and/or its earnings per Share.

(c) *Funding of repurchases*

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles of Association and the applicable laws of the Cayman Islands.

It is presently proposed that any repurchase of Shares will be made out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or the proceeds of a fresh issue of shares made for the purpose of the purchase or, subject to the Companies Law and if so authorised by the Articles, out of capital and, in the case of any premium payable on the purchase, out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or, subject to the Companies Law and if so authorised by the Articles, out of capital.

Our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or its gearing levels which, in the opinion of our Directors, are from time to time appropriate for our Company.

(d) *General*

None of our Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their respective associates (as defined in the Listing Rules), has any present intention to sell any Shares to our Company or its subsidiaries.

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. Our Company has not repurchased any Shares in the previous six months.

No connected person (as defined in the Listing Rules) has notified our Company that he/she or it has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

If as a result of a securities repurchase 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 purpose of the Hong Kong Code on Takeovers and Mergers (the "**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 become obliged to make a mandatory offer in accordance with Rule 26 of the Code as a result of any such increase. Our Directors are not aware of any consequences which may arise under the Code if the Repurchase Mandate is exercised.

B FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by our Company or any of its subsidiaries within the two years preceding the date of this prospectus and are or may be material:-



- (a) the deed of indemnity dated 27 March 2014 and entered into by Merit Lead Investments Limited, Lin Qingxiong, Qiu Zhiqiang and Cai Jinxu in favour of our Company (for itself and as trustee for each of its present subsidiaries) to provide indemnities on a joint and several basis in respect of, among other matters, taxation resulting from income, to which our Group may be subject on or before the Listing Date; and
- (b) the Hong Kong Underwriting Agreement.

2. Intellectual property rights of our Group



(a) *Trademarks*

- (i) As at the Latest Practicable Date, our Group had the following registered trademarks which are material in relation to our business:-

Trademark	Class	Place of Registration	Trademark number	Name of registrant	Registration date	Expiry date
	40	PRC	6259279	Hongtai (China)	28 March 2010	27 March 2020
	24	PRC	6259280	Hongtai (China)	28 March 2010	27 March 2020
	23	PRC	6259281	Hongtai (China)	28 March 2010	27 March 2020
	24	PRC	5013389	Hongtai (China)	14 July 2010	13 July 2020
	23	PRC	5013390	Hongtai (China)	7 May 2009	6 May 2019
	24	PRC	5013391	Hongtai (China)	14 May 2009	13 May 2019
	25	PRC	5013392	Hongtai (China)	21 September 2009	20 September 2019
	25	PRC	5013393	Hongtai (China)	7 December 2009	6 December 2019
	24	PRC	5013394	Hongtai (China)	14 May 2009	13 May 2019
	23	PRC	5013395	Hongtai (China)	7 May 2009	6 May 2019
	23	PRC	10760614	Hongtai (China)	7 July 2013	6 July 2023

Trademark	Class	Place of Registration	Trademark number	Name of registrant	Registration date	Expiry date
	40	PRC	10765726	Hongtai (China)	21 July 2013	20 July 2023
	16, 24	Hong Kong	302602412	Hongtai (China)	9 May 2013	8 May 2023

(ii) As at the Latest Practicable Date, our Group had applied for registration of the following trademarks:-

Trademark	Class	Place of Application	Application Number	Name of Applicant	Application Date
	25	PRC	10760760	Hongtai (China)	12 April 2012
	24	PRC	12912097	Hongtai (China)	12 July 2013

(b) *Patents*

(i) As at the Latest Practicable Date, our Group had the following registered patents:-

Patent	Place of registration	Type	Patent number	Effective period
Garment fabric (一種服裝面料)	PRC	Utility model	ZL201020659671.6	15 December 2010 to 14 December 2020
Fabric with good breathability (一種透氣性好的面料)	PRC	Utility model	ZL201120314800.2	26 August 2011 to 25 August 2021
Soft comfortable shell fabric with good breathability (一種透氣性好且柔軟舒適的面料)	PRC	Utility model	ZL201120314852.X	26 August 2011 to 25 August 2021

Patent	Place of registration	Type	Patent number	Effective period
Control circuit of motor for slashing warp beam unloading device (一種漿紗經軸卸料裝置所用電機的控制電路)	PRC	Utility model	ZL201020659179.9	15 December 2010 to 14 December 2020
Shell fabric not prone to fade (一種不易褪色的面料)	PRC	Utility model	ZL201120314889.2	26 August 2011 to 25 August 2021
Soft comfortable shell fabric not prone to fade (一種不易褪色且柔軟舒適的面料)	PRC	Utility model	ZL201120314797.4	26 August 2011 to 25 August 2021
Shell fabric with good elasticity (一種彈力好的面料)	PRC	Utility model	ZL201120314805.5	26 August 2011 to 25 August 2021
Comfortable and soft fabric (一種舒適柔軟的面料)	PRC	Utility model	ZL201120314811.0	26 August 2011 to 25 August 2021
Fabric with fine sweat-absorbing effect (一種吸汗效果好的面料)	PRC	Utility model	ZL201120314812.5	26 August 2011 to 25 August 2021
Soft comfortable fabric with good absorption of perspiration (一種吸汗性好且柔軟舒適的面料)	PRC	Utility model	ZL201120314842.6	26 August 2011 to 25 August 2021

Patent	Place of registration	Type	Patent number	Effective period
Energy-saving and environmentally-friendly system for realising workshop humidity and temperature (一種實現車間溫濕度的節能環保系統)	PRC	Utility model	ZL201220159465.8	16 April 2012 to 15 April 2022
Fabric with virtual trill on cloth face (一種布面具有虛斜紋的面料)	PRC	Utility model	ZL201220579533.6	6 November 2012 to 5 November 2022
Fabric with satin weave and inclined weave on cloth face (一種布面具有緞紋與斜紋的面料)	PRC	Utility model	ZL201220579372.0	6 November 2012 to 5 November 2022
Imitation dyed yarn double-layer cloth (一種仿色織雙層布)	PRC	Utility model	ZL201220579552.9	6 November 2012 to 5 November 2022
Production process of interwoven fabric (一種交織面料的生產工藝)	PRC	Invention	ZL201210110393.2	16 April 2012 to 15 April 2032

- (ii) As at the Latest Practicable Date, our Group had applied for registration of the following patents:-

Patent	Place of registration	Type	Application number	Application date
Energy-saving environmental friendly system and method for realising temperature and humidity for workshop (一種實現車間溫濕度的節能環保系統及其方法)	PRC	Invention	201210110375.4	16 April 2012
Sizing process of interwoven fabric using environmentally-friendly agent for sizing (一種環保漿料在交織面料的上漿工藝)	PRC	Invention	201310136084.7	18 April 2013

(c) **Domain names**

As at the Latest Practicable Date, our Group was the registered proprietor of the following domain names:-

Domain name	Registered proprietor	Date of Registration	Expiry Date
texitm.com	Hongtai (China)	29 August 2007	30 August 2019
宏太.中國	Hongtai (China)	21 August 2007	21 August 2019
宏太.net	Hongtai (China)	10 November 2008	10 November 2019
宏太.com	Hongtai (China)	3 November 2008	3 November 2019
宏太.網絡	Hongtai (China)	10 November 2008	10 November 2018
宏太紡織.中國	Hongtai (China)	19 November 2008	19 November 2018
宏太.cc	Hongtai (China)	12 November 2008	12 November 2018
宏太.公司	Hongtai (China)	10 November 2008	10 November 2018
宏太紡織.com	Hongtai (China)	17 November 2008	17 November 2018
texitm.cn	Hongtai (China)	4 June 2013	4 June 2020
texitm.net	Hongtai (China)	4 June 2013	4 June 2020

C FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS OF OUR COMPANY

1. Directors

- (a) *Disclosure of interests — interests and short positions of our Directors and the chief executives of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations*

Immediately following completion of the Global Offering and the Capitalisation Issue without taking into account the Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme, the interests or short positions of Directors or chief executives of our Company in the Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were 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 Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to our Company and Stock Exchange, once the Shares are listed are as follows:-

Interests in our Company

Name of Director	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding in our Company
Mr. Lin	Interest of a controlled corporation	267,000,000 Shares (note) (long position)	26.70%
Mr. Qiu	Beneficial owner	135,000,000 Shares (long position)	13.50%

Note:

These Shares are held by Merit Lead, the entire issued share capital of which is owned by Mr. Lin.

Interests in our associated corporation

Name of associated corporation	Name of Director	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding
Merit Lead	Mr. Lin	Beneficial owner	One share of US\$1.00 (long position)	100%

(b) *Particulars of our Directors' service contracts*

Each of the executive Directors has entered into a service contract with our Company for a term of three years commencing from 27 March 2014, which may be terminated by not less than three months' notice in writing served by either party on the other and is subject to termination provisions therein and provisions on retirement by rotation of our Directors as set forth in the Articles of Association.

Each of the executive Directors is entitled to a director's fee. Each executive Director shall be paid a remuneration on the basis of twelve months in a year. In addition, each of the executive Directors is also entitled to bonus as determined by our Board based on the recommendations made by our remuneration committee. The current annual director's fees and remuneration of our executive Directors are as follows:-

Name of Directors	Approximate annual Director's fee
Mr. Lin	RMB121,200
Mr. Qiu	RMB121,200
Mr. Deng	RMB109,200

The independent non-executive Directors have been appointed for a term of three years. Our Company intends to pay a director's fee of RMB96,000 per annum to each of the independent non-executive Directors.

Under the arrangement currently in force, the aggregate amount of emoluments payable by our Group to our Directors (including our independent non-executive Directors) for the year ending 31 December 2014 is estimated to be approximately RMB548,000.

2. **Substantial Shareholders**

So far as our Directors are aware, immediately following the completion of the Global Offering and the Capitalisation Issue without taking into account the Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme, the following persons (other than a Director or chief executive of our Company) will have or be deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO or are directly or indirectly, interested in 10% or more of the nominal value of any class of the share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:-

Name of Shareholder	Capacity/ Nature of Interest	Number of Shares	Approximate percentage of shareholding in our Company
Merit Lead (<i>note 1</i>)	Beneficial owner	267,000,000 Shares (long position)	26.70%

Name of Shareholder	Capacity/ Nature of Interest	Number of Shares	Approximate percentage of shareholding in our Company
Mr. Cai	Beneficial owner	112,500,000 Shares (long position)	11.25%
Hong Kong Investments (note 2)	Beneficial owner	66,750,000 Shares (long position)	6.68%
Cheung Chi Mang	Interest of a controlled corporation	66,750,000 Shares (long position)	6.68%

Notes:

- 1 Merit Lead is a company incorporated in the BVI, the entire issued share capital of which is held by Mr. Lin. Accordingly, Mr. Lin is deemed to be interested in these Shares held by Merit Lead under the SFO.
- 2 Hong Kong Investments is a company incorporated in the BVI, the entire issued share capital of which is held by Cheung Chi Mang. Accordingly, Cheung Chi Mang is deemed to be interested in these Shares held by Hong Kong Investments.

3. Agency fees or commissions received

Save as disclosed in this prospectus, no commissions, discounts, brokerages or other special terms were granted within the two years preceding the date of this prospectus in connection with the issue or sale of any capital of any member of our Group.

4. Disclaimers

Save as disclosed herein:-

- (a) none of our Directors or chief executives of our Company has any interest or short position in the Shares, underlying Shares or debentures of our Company or any of its associated corporation (within the meaning of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV 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 to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers once the Shares are listed;

- (b) none of our Directors or experts referred to under the paragraph headed “D. Other information — 7. Consents of experts” in this Appendix has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this prospectus been 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 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) none of our Directors has any existing or proposed service contracts 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));
- (e) taking no account of Shares which may be issued upon the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme, none of our Directors are aware of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the Global Offering and the Capitalisation Issue, have an interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of SFO or 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;
- (f) none of the experts referred to under the paragraph headed “D. Other information — 7. Consents of experts” in this Appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;
- (g) so far as is known to our Directors, save and except for Hong Tai Industrial and Jia Lun Textile, none of our Directors, their respective associates (as defined under the Listing Rules) or our 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; and
- (h) none of our Directors 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.

D OTHER INFORMATION**1. Share Option Scheme**

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by the resolutions in writing of our Shareholders of our Company passed on 27 March 2014.

(a) Purpose

The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions the Eligible Participants (as defined in paragraph (b) below) had or may have made to our Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in our Company with the view to achieving the following objectives:-

- (i) motivate the Eligible Participants to optimise their performance efficiency for the benefit of our Group; and
- (ii) attract and retain or otherwise maintain on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of our Group.

(b) Who may join

Our Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as our Board may determine at an exercise price determined in accordance with paragraph (e) below to the following (the “**Eligible Participants**”):-

- (i) any full-time or part-time employees, executives or officers of our Company or any of its subsidiaries;
- (ii) any directors (including executive, non-executive directors and independent non-executive directors) of our Company or any of its subsidiaries; and
- (iii) any advisers, consultants, suppliers, customers, agents and related entities to our Company or any of its subsidiaries.

Upon acceptance of the option, the grantee shall pay HK\$1.00 to our Company by way of consideration for the grant. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot of dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting the acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

(c) *Maximum number of Shares*

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of our Company must not in aggregate exceed 10% of the total number of Shares in issue immediately following completion of the Global Offering, being 100,000,000 Shares, excluding for this purpose Shares which would have been issuable pursuant to the Over-allotment Option and options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of our Company). Subject to the issue of a circular by our Company and the approval of our Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, our Board may:-

- (i) renew this limit at any time to 10% of the Shares in issue as of the date of the approval by our Shareholders in general meeting; and/or
- (ii) grant options beyond the 10% limit to Eligible Participants specifically identified by our Board. The circular issued by our Company to our Shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules.

Notwithstanding the foregoing, the 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 at any time shall not exceed 30% of the Shares in issue from time to time. No options shall be granted under any schemes of our Company (including the Share Option Scheme) if this will result in the 30% limit being exceeded. The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of our Company or an approved independent financial adviser shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of our Company in accordance with paragraph (q) below whether by way of consolidation, capitalisation issue, rights issue, sub-division or reduction of the share capital of our Company but in no event shall exceed the limit prescribed in this paragraph.

(d) *Maximum number of options to any one individual*

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of our Company (including both exercised and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as of the date of grant. Any further grant of Options in excess of this 1% limit shall be subject to:

- (i) the issue of a circular by our Company containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant) the information as required under Rules 17.03(4) and 17.06 of the Listing Rules and/or such other requirements as prescribed under the Listing Rules from time to time; and

- (ii) the approval of our Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his associates (as defined in the Listing Rules) abstaining from voting. The numbers and terms (including the exercise price) of options to be granted to such participant must be fixed before our Shareholders' approval and the date of our Board meeting at which our Board proposes to grant the options to such Eligible Participant shall be taken as the date of grant for the purpose of calculating the subscription price of the Shares. Our Board shall forward to such Eligible Participant an offer document in such form as our Board may from time to time determine.

(e) ***Price of Shares***

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as our Board in its absolute discretion shall determine, save that such price will not be less than the highest of:-

- (i) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;
- (ii) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a Share.

(f) ***Granting options to connected persons***

Any grant of options to a director, chief executive or substantial shareholder (as defined in the Listing Rules) of our Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Options). If our Board proposes to grant options to a substantial shareholder or any independent non-executive Director or their respective associates (as defined in the Listing Rules) which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% or such other percentage as may be from time to time provided under the Listing Rules of the Shares in issue; and
- (ii) having an aggregate value in excess of HK\$5 million or such other sum as may be from time to time provided under the Listing Rules, based on the official closing price of the Shares at the date of each grant,

such further grant of options will be subject to the issue of a circular by our Company and the approval of our Shareholders in general meeting on a poll at which all connected persons (as defined in the Listing Rules) of our Company shall abstain from voting in favour, and/or such other requirements prescribed under the Listing Rules from time to time. Any vote taken at the meeting to approve the grant of such options shall be taken as a poll.

The circular to be issued by our Company to our Shareholders pursuant to the above paragraph shall contain the following information:-

- (i) the details of the number and terms (including the exercise price) of the options to be granted to each selected Eligible Participant which must be fixed before our Shareholders' meeting and the date of Board meeting for proposing such further grant shall be taken as the date of grant for the purpose of calculating the exercise price of such options;
 - (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options) to the independent shareholders as to voting;
 - (iii) the information required under Rule 17.02(2)(c) and (d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and
 - (iv) the information required under Rule 2.17 of the Listing Rules.
- (g) ***Restrictions on the times of grant of Options***

A grant of options may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published pursuant to the requirements of the Listing Rules. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:-

- (i) the date of our Board meeting (as such date to first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's annual results half-year, quarterly or other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for our Company to publish an announcement of its annual results or half-year, or quarterly or other interim period (whether or not required under the Listing Rules)

and ending on the date of actual publication of the results announcement.

- (h) ***Rights are personal to grantee***

An option is personal to the grantee and may be exercised or treated as exercised, as the case may be, in whole or in part. No grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any option or attempt so to do.

(i) ***Time of exercise of Option and duration of the Share Option Scheme***

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the Option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by our Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Share Option Scheme. Subject to earlier termination by our Company in general meeting or by our Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption. There is no minimum period for which an option must be held before it can be exercised.

(j) ***Performance target***

A grantee may be required to achieve any performance targets as our Board may then specify in the grant before any options granted under the Share Option Scheme can be exercised.

(k) ***Rights on ceasing employment or death***

If the grantee of an option ceases to be an employee of our Company or any of its subsidiaries

- (i) by any reason other than death or termination of his employment on the grounds specified in paragraph (l) below, the option to the extent not already exercised on the date of cessation shall lapse automatically on the date of cessation; or
- (ii) by reason of death, his personal representative(s) may exercise the option within a period of 12 months from such cessation, which date shall be the last actual working day with our Company or the relevant subsidiary whether salary is paid in lieu of notice or not, failing which it will lapse.

(l) ***Rights on dismissal***

If the grantee of an Option ceases to be an employee of our Company or any of its subsidiaries on the grounds that he has been guilty of serious misconduct, or in relation to an employee of our Group (if so determined by our Board) on any other ground on which an employee would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group, or has been convicted of any criminal offence involving his integrity or honesty, his Option will lapse and not be exercisable after the date of termination of his employment.

(m) ***Rights on takeover***

If a general offer is made to all our Shareholders (or all such shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror (as defined in the Takeovers Codes)) and such offer becomes or is declared unconditional during the option period of the relevant option, the grantee of an option shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional.

(n) *Rights on winding-up*

In the event a notice is given by our Company to its 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 forthwith give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two business days prior to the proposed general meeting of our Company referred to above by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the 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, allot the relevant Shares to the grantee credited as fully paid.

(o) *Rights on compromise or arrangement between our Company and its members or creditors*

If a compromise or arrangement between our Company and its members or creditors is proposed for the purposes of a scheme for the reconstruction of our Company or its amalgamation with any other companies pursuant to the laws of jurisdictions in which our Company was incorporated, our Company shall give notice to all the grantees of the options on the same day as it gives notice of the meeting to its members or creditors summoning the meeting to consider such a scheme or arrangement and each grantee shall be entitled to exercise all or any of his options in whole or in part at any time prior to 12 noon (Hong Kong time) on the business day immediately preceding the date of the meeting directed to be convened by the relevant court for the purposes of considering such compromise or arrangement and if there are more than one meeting for such purpose, the date of the first meeting.

With effect from the date of such meeting, 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. If for any reason such compromise or arrangement does not become effective and is terminated or lapses, the rights of grantees to exercise their respective options shall with effect from such termination be restored in full but only upon the extent not already exercised and shall become exercisable.

(p) *Ranking of Shares*

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank *pari passu* in all respects and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation as attached to the other fully paid Shares in issue on the date of issue.

(q) *Effect of alterations to capital*

In the event of any alteration in the capital structure of our Company whilst any option may become or remains exercisable, whether by way of capitalisation issue, rights issue, open offer, consolidation, sub-division or reduction of share capital of our Company, or otherwise howsoever, such corresponding alterations (if any) shall be made in the number or nominal amount of Shares

subject to any options so far as unexercised and/or the subscription price per Share of each outstanding option as the auditors of our Company or an independent financial adviser shall certify in writing to our Board to be in their/his opinion fair and reasonable in compliance with Rule 17.03(13) of the Listing Rules and the note thereto and the supplementary guidance issued by the Stock Exchange on 5 September 2005 and any future guidance and interpretation of the Listing Rules issued by the Stock Exchange from time to time.

Any such alterations will be made on the basis that a grantee shall have the same proportion of the issued share capital of our Company for which any grantee of an Option is entitled to subscribe pursuant to the Options held by him before such alteration and the aggregate subscription price payable on full exercise of any option is to remain as nearly as possible the same (and in any event not greater than) as it was before such event. No such alteration will be made the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations.

(r) *Expiry of option*

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the option as may be determined by our Board;
- (ii) the expiry of any of the periods referred to in paragraphs (k), (l), (m), (n) or (o);
- (iii) the date on which the scheme of arrangement of our Company referred to in paragraph (o) becomes effective;
- (iv) subject to paragraph (n), the date of commencement of the winding-up of our Company;
- (v) the date on which the grantee ceases to be an Eligible Participant by reason of such grantee's resignation from the employment of our Company or any of its subsidiaries or the termination of his or her employment or contract on any one or more of the grounds that he or she has been guilty of serious misconduct, or has been convicted of any criminal offence involving his or her integrity or honesty, or has become insolvent, bankrupt or has made arrangements or compositions with his or her creditors generally, or in relation to an employee of our Group (if so determined by our Board) or any other ground on which an employee would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group. A resolution of our Board to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; or
- (vi) the date on which our Board shall exercise our Company's right to cancel the option at any time after the grantee commits a breach of paragraph (h) above or the options are cancelled in accordance with paragraph (t) below.

(s) ***Alteration of the Share Option Scheme***

The Share Option Scheme may be altered in any respect by resolution of our Board except that:

- (i) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 17.03 of the Listing Rules; and
- (ii) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of options granted, shall first be approved by our Shareholders in general meeting provided that if the proposed alteration shall adversely affect any option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees' approval in accordance with the terms of the Share Option Scheme. The amended terms of the Share Option Scheme shall still comply with Chapter 17 of the Listing Rules and any change to the authority of our Board in relation to any alteration to the terms of the Share Option Scheme must be approved by shareholders in general meeting.

(t) ***Cancellation of Options***

Subject to paragraph (h) above, any cancellation of options granted but not exercised must be approved by the grantees of the relevant options in writing.

(u) ***Termination of the Share Option Scheme***

Our Company may by resolution in general meeting or our Board at any time terminate the Share Option Scheme and in such event no further option shall be offered but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(v) ***Administration of our Board***

The Share Option Scheme shall be subject to the administration of our Board whose decision as to all matters arising in relation to the Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final and binding on all parties.

(w) *Condition of the Share Option Scheme*

The Share Option Scheme is conditional on:

- (i) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of options to be granted under the Share Option Scheme;
- (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as result of the waiver of any such condition(s)) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise;
- (iii) the approval of the rules of the Share Option Scheme by our Shareholders in general meeting; and
- (iv) the commencement of dealings in the Shares on the Stock Exchange.

(x) *Disclosure in annual and interim reports*

Our Company will disclose details of the Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

(y) *Present status of the Share Option Scheme*

As at the Latest Practicable Date, no option had been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Share Option Scheme, being Shares in total.

2. *Estate duty, tax and other indemnities*

Each of the Covenantors have entered into a deed of indemnity with and in favour of our Company (for itself and as trustee for each of its present subsidiaries) (being the contract referred to in paragraph (a) of the paragraph headed “Summary of material contracts” in this Appendix) to provide indemnities on a joint and several basis in respect of, among other matters, Hong Kong estate duty which might be payable by any member of our Group, by reason of any transfer of property (within the meaning of Section 35 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong, as amended by the Revenue (Abolition of Estate Duty) Ordinance) to any member of our Group on or before the Listing Date.

The deed of indemnity also contain, amongst other things, indemnities given by the Covenantors in respect of (a) taxation resulting from income, profits or gains earned, accrued or received as well as any property claim to which our Group may be subject on or before the Listing Date; and (b) claims and liabilities arising from the non-compliances of our Group, including but not limited to the non-compliance incidents set out in the paragraph headed “Business — Government regulations, legal compliances and proceedings” of this prospectus.

3. Litigation

As at the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance and, so far as our Directors are aware, no litigation or claim of material importance is pending or threatened by or against any member of our Group.

4. Preliminary expenses

The preliminary expenses of our Company are estimated to be approximately HK\$85,800 and are payable by our Company.

5. Promoter

Our Company has no promoter for the purpose of the Listing Rules.

6. Qualification of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:-

Name	Qualifications
Guotai Junan Capital	A corporation licensed to engage in type 6 (advising on corporate finance) regulated activity under the SFO
PricewaterhouseCoopers	Certified Public Accountants
Hills & Co.	PRC legal adviser
Conyers Dill & Pearman (Cayman) Limited	Cayman Islands attorneys-at-law
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Property valuer

7. Consents of experts

Each of the experts referred to in paragraph 6 above has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or opinion and/or the references 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 (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

9. 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 its subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;
 - ii. no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - iii. our Group has no outstanding convertible debt securities or debentures;
 - iv. no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries;
 - v. no founders, management or deferred shares of our Company or, any of its subsidiaries have been issued or agreed to be issued;
 - vi. no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or any of its subsidiaries;
- (b) none of the persons named in the paragraph headed “D. Other information — 7. Consents of experts” in this Appendix is interested beneficially or otherwise in any shares of any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of our Group;
- (c) our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2013 (being the date to which the latest audited consolidated financial statements of our Group were made up);
- (d) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus;

- (e) the principal register of members of our Company will be maintained in Cayman Islands by Codan Trust Company (Cayman) Limited and a 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 Cayman Islands.
- (f) no member of our Group is presently listed on any stock exchange or traded on any trading system;
- (g) there is no arrangement under which future dividends are waived or agreed to be waived; and
- (h) all necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.

10. Bilingual prospectus

The English and Chinese language version of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

11. Sole Sponsor

The Sole Sponsor has made an application for and on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares that may be issued upon the exercise of the Over-allotment Option or any Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme. The Sole Sponsor is independent of our Company in accordance with Rule 3A.07 of the Listing Rules.

The Sole Sponsor's fees in relation to the Listing are approximately HK\$2.7 million.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:-

- (a) a copy of the White Application Form, Yellow Application Form and Green Application Form;
- (b) the written consents referred to in the paragraph headed “D. Other information — 7. Consents of experts” in Appendix V to this prospectus; and
- (c) a copy of each of the material contracts referred to in the paragraph headed “B. Further information about the business of our Group — 1. Summary of material contracts” in Appendix V to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Squire Sanders at 29th Floor, Edinburgh Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:-

- (a) the Memorandum of Association and the Articles of Association;
- (b) the Accountant’s Report from PricewaterhouseCoopers, the text of which is set forth in Appendix I to this prospectus;
- (c) the audited consolidated financial statements of our Group for each of the three financial years ended 31 December 2013;
- (d) the report from PricewaterhouseCoopers relating to the unaudited pro forma financial information of our Group, the text of which is set forth in Appendix II to this prospectus;
- (e) the letter, summary of values and valuation certificates relating to the property interests of our Group prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the texts of which are set forth in Appendix III to this prospectus;
- (f) the letter prepared by Conyers Dill & Pearman (Cayman) Limited summarising certain aspects of the Cayman Islands company law referred to in Appendix IV to this prospectus;
- (g) the Companies Law;
- (h) the material contracts referred to in the paragraph headed “B. Further information about the business of our Group — 1. Summary of material contracts” in Appendix V to this prospectus;

- (i) the written consents referred to in the paragraph headed “D. Other information — 7. Consents of experts” in Appendix V to this prospectus;
- (j) the service contracts referred to in the paragraph headed “C. Further information about our directors and substantial shareholders of our Company — 1. Directors — (b) Particulars of our Directors’ service contracts” in Appendix V to this prospectus;
- (k) the PRC legal opinion issued by our PRC Legal Adviser; and
- (l) the rules of the Share Option Scheme.



宏太控股有限公司
Wang Tai Holdings Limited