Potential investors should read the following discussion and analysis of our financial condition as of 31 December 2006, 2007 and 2008 and 30 June 2009 and results of operations together with our combined financial information for the financial years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009 and the accompanying notes included in the accountants' report as set out in Appendix I to this prospectus. Our combined financial information as of and for the six months ended 30 June 2008 has not been audited. Our combined financial statements have been prepared in accordance with HKFRSs. Potential investors should read the whole of the Accountants' Report set out in Appendix I to this prospectus and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to the section headed "Risk Factors" in this prospectus.

OVERVIEW

We are a vertically integrated manufacturer of chemical fibre knitted fabrics, especially with focus on functional fabrics, for sportswear clothing in the province of Fujian in the PRC. We develop and manufacture fabrics for sports and leisure apparel in the PRC and produce garments on an OEM basis for some overseas premium apparel brand owners such as Decathlon, Kappa and Mizuno and some PRC apparel brand owners such as Li Ning and Anta.

We collaborate closely with apparel brand owners to design fabrics that meet customised order particulars. Our finished fabrics comprise more than 2,880 designs and specifications. Our fabrics are used in a broad range of garments, including men's, women's and children's clothing, sportswear, golf shirt, T-shirt, swimwear and inner-wear. We have established relationships with owners of leading brands. For the fabrics manufacturing segment, Fuqing Hong Liong produces fabrics which serves as the raw materials for the production of all the five brand owners, namely Decathlon, Anta, Kappa, Mizuno and Li Ning. For the causal and sportswear OEM segment, Fuqing Ecotex also produced the sportswear and leisure apparel for Anta, Mizuno and Li Ning. As advised by our Directors, our Group has maintained relationships with certain apparel brand owners for more than ten years even through we have not entered into long term supply contracts with these customers.

Our principal manufacturing facility is a modern, integrated knitting, dyeing and finishing facility in Fuqing, China, with a total gross floor area of approximately 31,756.75 square metres. We offer weft and warp knitting along with dyeing services.

Apart from the above, we are also engaged in the design, development and marketing of fashion and leisure apparel and accessory products, sold under the MXN brand which was acquired by us in the PRC in May 2008.

In 2006, 2007 and 2008, our turnover was approximately RMB653.4 million, RMB932.5 million and RMB1,266.1 million, respectively, representing a CAGR of approximately 39.2%. In 2006, 2007 and 2008, our gross profit for the years was approximately RMB151.1 million, RMB234.5 million and RMB354.4 million, respectively, representing a CAGR of approximately 52.8%. In 2006, 2007 and 2008, our profit attributable to equity shareholders for the years was approximately RMB102.5 million, RMB170.5 million and RMB242.3 million, respectively, representing a CAGR of approximately 56.2%. In 2008 and 2009, our turnover for the six months ended 30 June was RMB521.8 million and

RMB817.3 million, respectively, representing an increase of 56.6%. In 2008 and 2009, our gross profit for the six months ended 30 June was RMB136.1 million and RMB278.7 million, respectively, representing an increase of 104.8%. In 2008 and 2009, our profit attributable to equity shareholders for the six months ended 30 June was RMB94.8 million and RMB183.4 million, respectively, representing an increase of 93.4%. The Board considers that our profit attributable to equity shareholders grew substantially for the financial year ended 31 December 2008 and the six months ended 30 June 2009, as compared to the financial year ended 31 December 2007 and the six months ended 30 June 2008, primarily as a result of our vertical integration of the apparel industry, innovative product design, our focus on value-added fabrics with higher margins, rapid expansion of our nationwide retail network and expansion of our range of product offerings.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

To prepare for the listing of the Shares on the Stock Exchange, the Company underwent the Reorganisation, as detailed in the section headed "Corporate Reorganisation and Group Structure" in this prospectus and to Appendix VII "Statutory and General Information" to this prospectus.

The Group acquired Shishi Maigen on 26 May 2008. The purchase method of accounting has been adopted to account for this acquisition. Companies that took part in the Reorganisation were controlled by the same group of equity shareholders (referred to as "**controlling shareholders**") before and after the Reorganisation. Since the control is not transitory and there was a continuation of the risks and benefits to the Controlling Shareholders, the Reorganisation is considered to be a business combination of entities under common control and Accounting Guideline 5 "Merger accounting for common control combinations" has been applied. Accordingly, the financial information has been prepared using the principles of merger accounting as if the Group had always been in existence except for the acquisition of Shishi Maigen. The net assets of the combining companies are combined using the existing book values from the controlling shareholders' perspective.

Our combined income statements, combined statements of comprehensive income, combined statements of changes in equity and combined cash flow statements as set out in Appendix I to this prospectus for the Track Record Period include the results of operations of the companies which comprise the Group for the Track Record Period. Our combined balance sheets as at 31 December 2006, 2007 and 2008 and 30 June 2009 as set out in Appendix I to this prospectus have been prepared to present the combined assets and liabilities as at those dates.

The financial information included in the Accountants' Report in Appendix I to this prospectus has been prepared in accordance with HKFRSs promulgated by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules. HKFRSs include HKASs and related interpretations.

We did not prepare combined financial information previously. This is our first HKFRSs combined financial information and HKFRS 1 "First-time adoption of Hong Kong Financial Reporting Standards" has been applied.

During the Track Record Period, the HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing the financial information, we have adopted all of these new and revised HKFRSs applicable to the Track Record Period, except for any new standards or interpretations that are effective for accounting periods beginning on or after 1 July 2009. These revised and new accounting standards and interpretations issued but effective for accounting periods beginning on or after 1 July 2009 are set out in note 30 to the combined financial statements in Appendix I to this prospectus.

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 factors discussed below, some of which are beyond our control.

Overall economic conditions in China and the growth in disposable income of the population in China

We believe that our financial condition and results of operations are and will continue to be affected by the overall economic conditions in China and the growth in disposable income of residents in China. We also believe that the increasing purchasing power of residents in China will drive the sentiment towards the purchase of branded apparel products, which will bring a positive impact on our results of operations. In addition to cities in second-tier provinces in China such as, among others, Hunan, Fujian and Jiangsu, we believe that a key to the rapid development of our business is to further expand our distribution network in first-tier cities in China such as Beijing, Shanghai and Guangzhou.

Demand for our products

Our turnover heavily depends on the demand for our weft and warp knitted fabrics. Such demand in turn depends on fashion trends which have an impact on the overall demand for knitted fabrics and demand for the chemical fibre knitted fabrics we manufacture. Consumer demand for sports and leisure apparel, and casual wear and accessory products in China is also one of the main driving forces of our revenues. The success of our business depends largely on domestic consumption patterns. Our growth depends on whether consumers in China will continue to spend on lifestyle enhancing products, such as entertainment, leisure and fashionable apparel and footwear. We expect that the 2009 East Asian Games in Hong Kong and the 16th Asian Games in Guangzhou in 2010 will stimulate interest in sports among the consumers in China. Changes in the domestic consumption patterns may affect our financial condition and results of operations.

Product mix

Our turnover is also subject to the selling prices of our products and our product mix. The pricing of our products to a large extent depends on the fashion trends which dictate our product mix. Due to the different selling price of each type of fabric commands, average selling prices of our fabrics are affected by the mix of weft and warp knitted fabrics sold by us, as well as by the mix of fabrics across various categories of fabrics we sell. Although we continuously adjust the product mix according to fashion trends, we still focus on the production of complex high-margin, value added fabrics which command higher average selling prices. We will continue to adjust our product mix and improve our product positioning so as to increase our turnover and gross profit. With our continuous effort to adjust our product mix, our gross profit will be subject to any changes in both turnover attributable to, and respective gross profit margin of, each product category.

Production volume

Our turnover is affected by our sales volume, which is closely related to the volume of fabrics and apparel products we produce. The production of our entire fabrics and apparel products takes place at our own production facilities located in Fuqing, Fujian Province. During the Track Record Period, we increased capital investment so that a substantial increase in production capacity was experienced to meet customer demand. For each of the financial years ended 31 December, 2006, 2007 and 2008, capital investment in additional machinery and improvement of our overall infrastructure was approximately RMB3.7 million, RMB16.0 million and RMB4.6 million, respectively. During the Track Record Period, production capacity of fabrics was approximately 12,576 tonnes, 14,758 tonnes and 15,420 tonnes, respectively. As at the Latest Practicable Date, we operated 12 apparel production lines with an annual manufacturing capacity of approximately 3 million pieces of apparel products per annum. We plan to continue to expand our manufacturing capacity to approximately 18,700 tonnes of fabrics and 3.5 million pieces of apparel products per annum by increasing our apparel production lines from 12 to approximately 13. Our financial condition and results of operations will be subject to our ability to maintain high production capacity.

Prices of certain raw materials

Costs of raw materials for our fabrics include raw yarns, greige fabrics, dyes, dye auxiliaries and other raw materials required for the manufacture of fabrics. Costs of raw materials for our apparel products include fabrics. For the three financial years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2008 and 2009, the costs of our raw materials accounted for approximately 59.7%, 63.4%, 56.9%, 67.2% and 50.8%, respectively, of our cost of sales. The prices for these raw materials may be volatile and beyond our control. During the procurement of fabrics for our apparel products, an increase in the raw materials prices of 5% or less is self-absorbed by our suppliers. We accept our suppliers transferring any increase of 5% or more in the prices of the raw materials to us. Under the cost pricing of our apparel products, we are able to pass on the increased costs of raw materials to our customers. We must be able to obtain from our suppliers sufficient high-quality raw materials in a timely manner and at competitive prices for our internal production. The costs of a number of our main raw materials are affected by many factors such as fluctuations in commodity prices, procurement and availability of alternative raw materials. We do not enter into long-term agreements with our raw materials suppliers. Our cost of sales and gross profit margins will be subject to fluctuations in the costs of our main raw materials and our ability to pass on any increase in raw materials prices to our customers.

Cost of labour

In view of our business as capital intensive, labour costs account for a relatively small proportion of our total cost of sales. Compared to fabrics manufacturers located in relatively-higher-wage areas, our low labour cost provides us with a competitive advantage. Although labour costs have been rising in recent years, southern China is still able to offer a sufficient supply of labour at an attractive cost. We expect that labour costs will continue to be subject to upward pressure, so we seek to improve our production processes and technology to enhance worker productivity in order to reduce the upward pressure on labour costs.

Distribution and logistics costs

Distribution and logistics costs have an impact on our profitability. We seek to improve our production scheduling and logistics management (which reduces air-freight charges and late-delivery fees) and manage our inventories more efficiently in order to minimise the distribution and logistics costs.

Our ability to design and produce high-quality, innovative and trendy products in line with consumers' expectations

We believe that the branded apparel products industry is highly competitive in China and will continue to be so for the foreseeable future. Compared with us, many of our competitors have more substantial financial resources, higher brand awareness and richer operational experience. We must continue to co-operate with our product design and research and development teams to design and manufacture high quality, innovative and trendy products which are consistent with consumers' expectations in a cost-effective manner, in order to meet the constant challenges posed by our competitors.

Our ability to continuously enhance our brand name

Our financial condition and results of operations will also be subject to our ability to continue to implement our multi-brand strategy by raising the visibility of our brand name across all of our branded apparel products as well as develop, market and sell new products. In particular, we believe that our success will depend on whether we can differentiate ourselves from our emerging competitors through the implementation of innovative marketing and distribution strategy and the introduction of trendy products tailored for different age groups and socio-economic classes of our customer base. We believe that we must continue to enhance our brand name and increase sales of our MXN branded products to consumers across China.

Our ability to expand and optimise our distribution network

Sales of our entire branded apparel products are made to our network of distributors and franchisees. Our financial condition and results of operations will also be subject to our ability to work closely with our distributors and franchisees to increase and improve our marketing activities, our ability to expand and optimise our distribution networks, as well as the ability of our distributors to further improve the network of franchised stores operated by them.

Seasonality

Our results of operations are affected by seasonality. As confirmed by the Directors, our branded apparel products generally record higher sales when we sell summer and autumn seasonal products to our distributors and franchisees. We generally sell and distribute our summer and autumn seasonal products from April to August, and our winter and spring seasonal products from September to March of the following year. If the climate changes abnormally and unexpectedly, the sales of our branded apparel products that are planned for launch during a particular season may also be affected. For example, a relatively warm winter may affect the sales of our down jackets and other winter seasonal products, while a relatively cool summer may affect the sales of T-shirts and other summer seasonal products.

Therefore, we believe that comparisons of our operating results and net income during any interim periods may not be meaningful, and such comparisons may not be able to act as an accurate indicator of our future performance.

Level of income tax and preferential tax treatment

Our profit attributable to equity shareholders is affected by the level of income tax that we pay and the level of the preferential tax treatment which we are entitled to. On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress of the PRC (全國人民代表大會) promulgated the Corporate Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the "**New Tax Law**"), which came into effect on 1 January 2008. The State Council of the PRC also issued the Implementation Rules of the Corporate Income Tax Law on 6 December 2007 and a GuoFa [2007] No. 39 Notice on the Implementation of the Transitional Preferential Corporate Income Tax Law Policies on December 2007. The New Tax Law consolidates the two separate tax regimes for domestic enterprises and foreign-invested enterprises (the "**Old Tax Regime**") and imposes a unified corporate income tax rate of 25% for both domestic enterprises and foreign-invested enterprises in the PRC.

Under the New Tax Law, foreign-invested enterprises that enjoyed a preferential tax rate prior to the New Tax Law's promulgation will gradually transit to the new tax rate over five years from 1 January 2008. Foreign-invested enterprises that enjoyed a tax rate of 24% will have their tax rate increased to 25% in 2008. Enterprises which enjoyed a fixed period of tax exemption and reduction under the Order of the President [1991] No. 45 prior to the New Tax Law's promulgation will continue to enjoy such preferential tax treatment until the expiry of such prescribed period, and for those enterprises whose preferential tax treatment has not commenced before due to lack of profit, such preferential tax treatment will commence from 1 January 2008.

Under the Old Tax Regime and as approved by the relevant tax authorities, Fuqing Hong Liong, a foreign-invested enterprise engaged in manufacturing activities in Fujian economic development zone, was granted a preferential tax rate of 15% under the Order of the President [1991] No. 45, which had a significant positive effect on our profit after taxation during the financial years ended 31 December 2006 and 2007. Under the New Tax Law, Fuqing Hong Liong is subject to tax rates of 18%, 20%, 22%, 24% and 25% for the financial years ended 31 December 2008, 2009, 2010, 2011 and 2012 onwards, respectively.

Under the New Tax Law, Fuqing Ecotex is subject to tax rates of 9%, 10%, 11%, 24% and 25% for the financial years ended 31 December 2008, 2009, 2010, 2011 and 2012 onwards, respectively.

Fuzhou Aike and Shishi Maigen have not been entitled to enjoy any tax exemption or reduction since its incorporation or acquisition. They were subject to a tax rate of 25% in 2008.

Under the New Tax Law, if an enterprise incorporated outside the PRC has its "effective management" located within the PRC, such enterprise may be recognised as a PRC tax resident enterprise and be subject to the unified enterprise income tax rate of 25% for its worldwide income. Members of our Group which are not incorporated in the PRC may in the future be recognised as a PRC tax resident enterprises according to the New Tax Law by the PRC taxation authorities. According to the New Tax Law, dividends received by a qualified PRC tax resident from another PRC tax resident are exempted from corporate income tax. However, given the limited history of the New Tax Law, it remains unclear as to the detailed qualification requirements for such exemption and whether dividends declared and paid by members of our Group in the PRC to their overseas holding companies will be exempted from corporate income tax if they are recognised as PRC tax residents. Our financial performance will be materially and adversely affected if such dividends are subject to corporate income tax.

In addition, under the New Tax Law and its implementation rules, our Company may in the future be recognised as a PRC tax resident enterprise by the PRC tax authorities, and capital gains realised by foreign equity shareholders from sales of our Shares and dividends on our Shares payable to foreign equity shareholders may be regarded as income from "sources within the PRC" and therefore become subject to a 10% withholding income tax. If we are required under the New Tax Law to withhold PRC income tax on capital gains on sales of Shares and/or dividends on our Shares payable to foreign equity shareholders, the value of our foreign equity shareholders' investment in our Shares may be materially and adversely affected.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial information in conformity with HKFRS requires us to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by us in the application of HKFRSs that have a significant effect on the financial information and estimates with a significant risk of material adjustment in the next year are discussed in note 29 to our combined financial statements in the Accountants' Report set out in Appendix I to this prospectus.

The accounting policies set out below have been applied consistently to all periods presented in the financial information.

Revenue recognition

We recognise revenue as profit or loss when we are able to measure reliably such profit or loss and it is probable that the economic benefits will flow to us. Revenue is measured at the fair value of the consideration received or receivable. Revenue of the following types are recognised as follows:

- Sale of goods — Revenue is recognised when our products leave our warehouse because at that time the customer has accepted the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts and goods return.

- Interest income — Interest income is recognised as it accrues using the effective interest method.

- Processing income — Processing income is recognised when the related service is rendered.

- Government grants — Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that we will comply with the conditions attached to them. Grants that compensate us for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate us for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

Impairment of assets

(i) *Impairment of trade and other receivables*

We review trade and other receivables that are stated at cost or amortised cost as of each balance sheet date to determine whether objective evidence of impairment exists as of such date. Objective evidence of impairment includes observable data that comes to our attention about one or more of the following loss events:

- significant financial difficulty of the debtor;

- a breach of contract, such as a default or delinquency in interest or principal payments;

- likelihood of the debtor entering bankruptcy or other financial reorganisation; and

- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, the impairment loss is determined and recognised as follows:

— For trade and other receivables carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material.

— For trade and other receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss does not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When we are satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) ***Impairment of other assets***

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— intangible assets, and

— goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventory to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on current market conditions and our experience of manufacturing and selling products of a similar nature. These estimates could change significantly as a result of changes in customer preferences and competitor actions in response to severe industry cycles. We reassess these estimates as of each balance sheet date.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversals occur.

In accordance with our existing business model, we do not have a general inventory provision policy. We normally confirm purchase orders with our customers before we purchase raw materials and begin production. We did not receive any cancelled purchase orders during the Track Record Period. We have a policy to regularly review the obsolescence of inventories based on the expected future sales and the age of the inventories in order to further reduce the risk of accumulation of obsolete inventories. We also conduct physical stock counts from time to time in order to identify obsolete or damaged products. If the market conditions are less favorable than those forecast by the management and our unsold inventories remain for a period longer than we expected, we will make specific provision on an item-by-item basis and if the costs are higher than the corresponding estimated net realisable value of certain inventories, we make a provision against such inventories. During the Track Record Period, we did not make any specific provisions for inventories, and the reason is that all of the ending inventories as at 31 December 2006, 2007 and 2008 were subsequently consumed or sold higher than costs.

Property, plant and equipment

We state items of property, plant and equipment in the combined balance sheets at cost less accumulated depreciation and impairment losses. The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, borrowing costs, the initiate estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads. We calculate depreciation to write-off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

— Buildings held for own use which are situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 20 years after the date of completion.	
— Plant and machinery	10 years
— Motor vehicles	5–10 years
— Office equipment	5 years
— Computer equipment	3–5 years
— Other equipment	5 years

Both the useful life of an asset and its residual value, if any, are reviewed at least annually.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual values. We review the useful lives of the assets and residual values, if any, annually in order to determine the amount of depreciation expense to be recorded during any reporting period. Useful lives are based on our historical experience with similar assets, after taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Fair value of assets acquired and liabilities assumed upon acquisition of subsidiary

In connection with the acquisition of subsidiary, the assets acquired and liabilities assumed are adjusted to their estimated fair values on date of acquisition. The determination of fair values of the assets acquired and liabilities assumed involves our judgement and assumptions. Any change in such judgement and assumptions would affect the fair value of assets acquired and liabilities assumed and would change the amount of depreciation or amortisation expenses recognised relating to those identifiable property, plant and equipment and intangible assets.

RESULTS OF OPERATIONS OF THE GROUP

Selected Combined Income Statements Information

The selected combined income statements information presented below for the financial years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009 are derived from our combined financial statements included in the Accountants' Report set out in Appendix I to this prospectus. Our combined financial information as of and for the six months ended 30 June 2008 has not been audited.

	For the year ended 31 December			For the six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Turnover	653,380	932,476	1,266,050	521,783	817,305
Cost of sales	(502,275)	(697,969)	(911,631)	(385,687)	(538,602)
Gross profit	151,105	234,507	354,419	136,096	278,703
Other revenue	2,755	3,443	2,364	1,230	1,326
Other net income	188	433	2,587	2,593	194
Selling expenses	(20,702)	(20,824)	(24,960)	(9,880)	(17,084)
Administrative expenses	(11,134)	(16,892)	(17,376)	(7,238)	(13,711)
Other operating expenses	(1,454)	(2,351)	(5,906)	(853)	(5,048)
Profit from operations	120,758	198,316	311,128	121,948	244,380
Finance costs	(4,453)	(2,483)	(1,922)	(1,072)	(754)
Profit before taxation	116,305	195,833	309,206	120,876	243,626
Income tax	(13,809)	(25,372)	(66,867)	(26,050)	(60,255)
Profit attributable to equity shareholders	102,496	170,461	242,339	94,826	183,371
Earning per share					
Basic and diluted (cents)	6.57	10.93	15.53	6.08	11.75

PRINCIPAL INCOME STATEMENT COMPONENTS

Turnover

Turnover is measured at the fair value of the consideration received or receivable. It represents the sales value of goods sold less returns, discounts, value added taxes ("VAT") and other sales taxes. Our operations and business and the vast majority of our turnover are from China, therefore our Group considers itself to have one geographical segment. Our main turnover consists of sales of knitted fabrics for men's, women's and children's clothing, sportswear, golf shirt, T-shirt, swimwear and inner-wear; and sales of apparel products such as sportswear, and leisure apparel and accessory products. Our sales volume is driven by customer demand, our average selling prices and our ability to maintain a product mix which meets the current fashion trends. Sales revenue is recognised when goods are delivered to customers or shipped to customers overseas and is mainly denominated in RMB.

The following table sets out the breakdown of our turnover by fabric sales, casual and sportswear OEM sales, and Aike and MXN branded leisure clothing sales during the Track Record Period:

Turnover	For the year ended 31 December						For the six months ended 30 June			
	2006		2007		2008		2008		2009	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (*unaudited*)	*%*	*RMB'000*	*%*
Branded leisure clothing sales	—	—	—	—	222,685	17.6	17,658	3.4	245,677	30.0
Casual and sportswear OEM Sales	104,904	16.1	162,635	17.4	154,381	12.2	72,912	14.0	60,091	7.4
Fabric sales	548,476	83.9	769,841	82.6	888,984	70.2	431,213	82.6	511,537	62.6
Total	**653,380**	**100.0**	**932,476**	**100.0**	**1,266,050**	**100.0**	**521,783**	**100.0**	**817,305**	**100.0**

We started our repositioning to develop our own brands by introducing our Aike brand and acquiring MXN brand in 2008. Because of our strategic decision to concentrate on the sales of branded apparel products coupled with the increased market demand and improved economic situations in China, our turnover derived from the sales of our branded apparel products was approximately RMB222.7 million in 2008, representing approximately 17.6% of our total turnover for the financial year ended 31 December 2008. The significant turnover contribution from our branded apparel product sales was mainly due to successful brand establishment and promotion, and the vast distribution network operated by our distributors and franchises, which resulted in a substantial number of pieces of apparel products sold. There were 431 retail outlets for our MXN brand in 2008. As a result of our allocating more resources to promote and design our branded apparel products, and our expanding of our collections of branded apparel products designed around the same theme in order to better appeal to the mass market and make the best use of our existing national distribution network, the number of pieces of branded apparel products sold in 2008 was significant.

Since the beginning of our implementation strategy to emphasise and allocate more resources to our branded apparel product sales business, our Group's turnover shifted from casual and sportswear OEM sales to branded leisure clothing sales during the Track Record Period. Turnover from sales of our casual and sportswear OEM products represented approximately 16.1%, 17.4%, 12.2%, 14% and 7.4% of our total turnover for the financial years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2008 and 2009, respectively. As a result of our continuous effort to expand our business through sales of branded apparel products under the MXN brand and other brands we are currently in the negotiation process of acquiring, we expect that the future turnover contribution from our casual and sportswear OEM sales will be further reduced.

Over the Track Record Period, as a result of changing our focus from our fabrics to developing the branded apparel products market, there were significant changes in our product mix. Although sales of our fabrics accounted for the most of our total turnover over the Track Record Period, sales of sportswear and leisure apparel and accessory products increased rapidly. We expect our turnover from sportswear and leisure apparel and accessory products to increase both in absolute terms and as a percentage of our total turnover in the future.

The following table sets out the number of units sold, the average selling prices and the gross profit margin of our fabrics, casual and sportswear OEM products, and branded leisure clothing during the Track Record Period:

	For the year ended 31 December									For the six months ended 30 June					
Total units sold, average selling prices[1] and gross profit margin	**2006**			**2007**			**2008**			**2008**			**2009**		
	Total units sold	**Average selling price**	**Gross profit margin**	**Total units sold**	**Average selling price**	**Gross profit margin**	**Total units sold**	**Average selling price**	**Gross profit margin**	**Total units sold**	**Average selling price**	**Gross profit margin**	**Total units sold**	**Average selling price**	**Gross profit margin**
	'000	*RMB*	*%*	*'000*	*RMB*	*%*	*'000*	*RMB*	*%*	*'000*	*RMB*	*%*	*'000*	*RMB*	*%*
												(unaudited)			
Branded leisure clothing sales (number of pieces)	—	—	—	—	—	—	3,449	64.6	28.6	301	58.7	26.8	5,289	46.5	37.2
Casual and sportswear OEM sales (number of pieces)	2,281	46.0	27.5	2,650	61.4	19.1	2,341	65.9	27.1	857	85.1	17.6	1,109	54.2	30.2
Fabric sales (millions of kilograms)	12.8	42.8	20.8	14.8	52.0	23.8	15.6	57.0	23.7	7.6	56.7	25.0	8.1	63.2	30.0

Note:

(1) Average selling prices represent the turnover for the financial year divided by the total units sold for the financial year.

(2) Although Aike Sport was established on 26 July 2007, it only started its business in April 2008. As a result, no revenue was recognised and disclosed in the branded leisure clothing segment in 2007.

(3) Gross profit margins are derived from the results of each reportable segment.

The total sales volume of our fabrics increased by approximately 15.6% for the financial year ended 31 December 2007 compared to the financial year ended 31 December 2006, and increased by approximately 5.4% for the financial year ended 31 December 2008 compared to the financial year ended 31 December 2007. The total sales volume of our fabrics increased by approximately 6.6% for the six months ended 30 June 2009 compared to the six months ended 30 June 2008. These increases in the total sales volume of our fabrics were primarily due to the expansion of our production and improvement in the functions of our fabrics.

The average selling price of our fabrics increased by approximately 21.5% for the financial year ended 31 December 2007 compared to the financial year ended 31 December 2006. The average selling price of our fabrics increased by approximately 9.6% for the financial year ended 31 December 2008 when compared to that for the financial year ended 31 December 2007. The average selling price of our fabrics increased by approximately 11.5% for the six months ended 30 June 2009 compared to the six months ended 30 June 2008. These increases in the average selling price of our fabrics were primarily because of the expansion of our range of product offerings and improvement in the functions of our fabrics, which allowed us to increase overall prices of our fabrics.

The total sales volume of our casual and sportswear OEM products increased by approximately 16.2% for the financial year ended 31 December 2007 compared to the financial year ended 31 December 2006, primarily because of the expansion of our production. The total sales volume of our casual and sportswear OEM products decreased by approximately 11.7% for the financial year ended 31 December 2008 compared to the financial year ended 31 December 2007, primarily because of our strategic decision to develop the branded products market. The total sales volume of our casual and sportswear OEM products increased by approximately 29.4% for the six months ended 30 June 2009 compared to the six months ended 30 June 2008, primarily because of the increasing demand of our casual and sportswear OEM products due to the fast-growing domestic sportswear market in China.

The average selling price of our casual and sportswear OEM products increased by approximately 33.5% for the financial year ended 31 December 2007 compared to that for the financial year ended 31 December 2006. The average selling price of our casual and sportswear OEM products increased by approximately 7.3% for the financial year ended 31 December 2008 compared to that for the financial year ended 2007. These increases in the average selling price of our casual and sportswear OEM products were driven by higher selling prices of our casual and sportswear OEM products sold to Shishi Maigen which was principally because of the increasingly strong sentiment towards the overall economic conditions in China brought by the Beijing 2008 Olympic Games. Moreover, as advised by our Directors, the average selling price of our casual and sportswear OEM products per year is determined by the style, materials, processes, combination of styles of the products and their expected return. The increase in selling prices of our sales to Shishi Maigen in 2007 was mainly due to the change of sales volume of the different style of products. The average selling price of our casual and sportswear OEM products decreased by approximately 36.3% for the six months ended 30 June 2009 compared to the six months ended 30 June 2008. The decrease in the average selling price of our casual and sportswear OEM products principally because of lower materials and processing costs incurred. The change of sales volume of the different style of products was observed in 2007, when higher costs were incurred to develop the products with such different style, more raw materials were scrapped and a high rework rate was noted. For the six months ended 30 June 2009, the sewing specifications and the required manufacturing accessories for the products with such different style had already been in place for a certain period of time; and therefore, fewer raw materials were scrapped and a lower rework rate was achieved, which in turn, lowered the average selling price of our casual and sportswear OEM products.

The total sales volume of our branded leisure clothing was approximately 3.45 million pieces for the financial year ended 31 December 2008. The average selling price of our branded leisure clothing was approximately RMB64.6. We decided to begin selling branded leisure clothing mainly due to our strategic decision to integrate our resources and strengthen our vertical integration of developing fabrics, apparel products and apparel distribution through reinforcing our one-stop solutions. The total sales volume of our branded leisure clothing increased by approximately 1,657.1% for the six months ended 30 June 2009 compared to the six months ended 30 June 2008, primarily because of the fact that only one month of total units sold by Shishi Maigen was combined into the total units sold of the branded leisure clothing segment for the six months ended 30 June 2008. The average selling price of our branded leisure clothing decreased by approximately 20.8% for the six months ended 30 June 2009 compared to the six months ended 30 June 2008. As our Group acquired Shishi Maigen on 26 May 2008, the effect of final clearance of fall and winter collection products of 2007 was not reflected in the account of 2008. However, after the acquisition of Shishi Maigen, our Group took into consideration the effect of final clearance of fall and winter collection products of 2008 in the six months ended 30 June 2009, which caused the decrease in the average selling price of our branded leisure clothing.

Cost of sales

Our cost of sales consists of direct staff costs, production costs including depreciation, raw materials costs, outsourced production costs, materials purchased and others. Outsourced production costs refer to the processing fees we paid to our sub-contractors and contract manufacturers mostly for the dyeing, printing and pilling services. Direct staff costs consist of salaries and other compensation expenses. Production costs are mainly depreciation of manufacturing facilities, operating lease expenses, royalties, costs related to management of our facilities, such as maintenance costs and other miscellaneous costs. Materials purchased refers to the work in progress and finished goods we purchased from our suppliers, which were further processed by us before we sold them to our customers. For our fabric manufacturing segment, materials purchased refers to fabrics whose manufacturing is in progress and greige fabrics which are readily available to be sold to our customers without further processing by us. For our casual and sportswear OEM segment, materials purchased refers to garments whose manufacturing is in progress. For our branded leisure clothing segment, materials purchased refers to finished garments. The following table sets out a breakdown of our Group's cost of sales by cost of production and the percentage of such cost of the total cost of sales during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
Cost of sales	**2006**		**2007**		**2008**		**2008**		**2009**	
	RMB'000	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*
							(unaudited)			
Raw materials	299,987	59.7	442,745	63.4	519,019	56.9	259,321	67.2	273,419	50.8
Outsourced production cost	29,219	5.8	28,729	4.1	26,958	3.0	12,399	3.2	12,701	2.4
Direct staff	24,103	4.8	28,499	4.1	31,596	3.5	14,371	3.7	13,130	2.4
Materials purchased	109,885	21.9	150,394	21.6	285,254	31.3	77,349	20.1	216,690	40.2
Utilities	18,294	3.7	22,452	3.2	23,566	2.5	10,867	2.8	12,866	2.4
Production cost	20,787	4.1	25,150	3.6	25,238	2.8	11,380	3.0	9,796	1.8
Total cost of sales	**502,275**	**100.0**	**697,969**	**100.0**	**911,631**	**100.0**	**385,687**	**100.0**	**538,602**	**100.0**

As a result of increased annual sales and production volume in the Track Record Period, our cost of sales recorded significant growth during the Track Record Period. We experienced an increase in our total cost of raw materials mainly as a result of the expansion of our production scale to meet the increased market demand for our products. We believe that we will be able to expand our operations with better economies of scale, so as to strengthen our bargaining power to procure raw materials at competitive prices. Outsourced production costs decreased as we expanded our production and manufacturing capacity. Direct staff costs increased as we employed more labour engaged in our manufacturing business and incurred additional salary expenses. Production cost increased as we expanded our manufacturing operations.

Gross profit and gross profit margin

Our gross profit, which is our Group's turnover for the Track Record Period minus cost of sales was approximately RMB151.1 million, RMB234.5 million, RMB354.4 million, RMB136.1 million and RMB278.7 million for the financial years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2008 and 2009, respectively. The following table sets out a breakdown of our gross profit and gross profit margin by fabric sales, casual and sportswear OEM sales and branded leisure clothing sales during the Track Record Period:

Gross profit and gross profit margin	For the year ended 31 December						For the six months ended 30 June			
	2006		2007		2008		2008		2009	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'million	*%*	*RMB'million*	*%*	*RMB'million*	*%*	*RMB'million (unaudited)*	*%*	*RMB'million*	*%*
Branded leisure clothing sales	—	—	—	—	63.7	28.6	4.7	26.8	91.5	37.2
Casual and sportswear OEM sales	28.9	27.5	31.1	19.1	57.4	27.1	13.9	17.6	25.8	30.2
Fabric sales	123.2	20.8	204.3	23.8	231.6	23.7	118.6	25.0	161.8	30.0

Note:

(1) Gross profit and gross profit margins are derived from the results of each reportable segment.

The gross profit margin for our fabrics increased from approximately 20.8% for the financial year ended 31 December 2006 to approximately 23.8% for the financial year ended 31 December 2007. The gross profit margin for our fabrics slightly decreased to approximately 23.7% for the financial year ended 31 December 2008 as compared to 2007. It was primarily because of the increased average selling price of our fabrics due to improved product design and expansion of our range of product offerings. In addition, the increased volume of products sold also resulted in achieving economies of scale in cost of sales. The gross profit margin for our fabrics increased from approximately 25.0% for the six months ended 30 June 2008 to approximately 30.0% for the six months ended 30 June 2009. It was primarily because of the costs saving achieved from economies of scale due to increasing production in the six months ended 30 June 2009 and expansion of range of apparel product offerings.

The gross profit for our casual and sportswear OEM products decreased from approximately 27.5% in 2006 to approximately 19.1% in 2007. The decrease in gross profit margin for our OEM products was due to the increase in labour costs directly attributable to our production, production costs, materials purchased and utilities. The increase in these costs of sales of our casual and sportswear OEM products was due to our strategic decision to start manufacturing apparel with more details and different styles and hence involving more complicated processes such as cutting and trimming and sewing and assembly in 2007.

The gross profit margin for our casual and sportswear OEM products increased from approximately 19.1% in 2007 to approximately 27.1% in 2008. The increase in gross profit margin for our casual and sportswear OEM products was due to a decrease in the cost of sales. Since our strategic decision to start manufacturing apparel with more details and different styles was implemented in 2007, the sewing specifications and the required manufacturing accessories for the apparel with such details and different styles had already been in place for a certain period of time, fewer raw materials were scrapped for manufacturing such apparel and a lower rework rate was achieved, which in turn lowered the cost of sales of our casual and sportswear OEM products in 2008. The gross profit margin for our casual and sportswear OEM products increased from approximately 17.6% for the six months ended 30 June 2008 to approximately 30.2% for the six months ended 30 June 2009. The increase in gross profit margin for our casual and sportswear OEM products was due to orders for the same style of casual and sportswear apparel received by Fuqing Ecotex have become large in quantity. Sewing specifications and the required manufacturing accessories do not have to be changed frequently according to a particular style. Higher production efficiency and lower rework rate were achieved, which in turn, lowered the cost of sales of our casual and sportswear OEM products for the six months ended 30 June 2009.

We introduced the Aike and MXN brands in 2008. The gross profit margin for Aike and MXN brands increased from approximately 26.8% for the six months ended 30 June 2008 to approximately 37.2% for the six months ended 30 June 2009.

The turnover's contribution by Shishi Maigen to the Group's turnover for the branded leisure clothing segment affected the selling price and cost of Aike and MXN products, and hence increased the gross profit margin for the branded leisure clothing substantially. The increase in turnover's contribution by Shishi Maigen over the two periods decreased the average selling price of Aike and MXN products for the six months ended 30 June 2009 primarily because the average selling price of our branded leisure clothing became more affected by that of our MXN products. The average selling price of our MXN products decreased for the six months ended 30 June 2009 as our Group acquired Shishi Maigen on 26 May 2008 and the effect of final clearance of fall and winter collection products of 2007 was not reflected in the account of 2008. However, after the acquisition of Shishi Maigen, our Group took into consideration the effect of fall and winter collection products of 2008 in the six months ended 30 June 2009. The decrease in the average cost of Aike and MXN products was primarily due to the same effect of the turnover's contribution by Shishi Maigen. The average cost of our MXN products decreased for the six months ended 30 June 2009 because we had a stronger bargaining power to procure finished garments from our third-party contract manufacturers at competitive prices. Since the decrease in the average cost of Aike and MXN products is more significant than that in their average selling price, the gross profit margin for the branded leisure clothing segment increased substantially over the two periods.

Other revenue

Other revenue comprises processing income, sales of scraps, interest income, government grants and others. Government grants refer to non-recurring government grants received from the PRC government authorities, such as the Fujian Provincial Department of Foreign Trade and Economic Cooperation, the Fujian Provincial Department of Finance, the Financial Services Bureau of Fuzhou City (福州市財政局), the Fuqing Finance Bureau (福清市財政局), the Fujian Provincial Economics and Trade Commission (福建省經濟貿易委員會), the Fuzhou Municipal Economic and Development Commission (福州市經濟發展委員會), the Fujian Provincial Department of Environmental Protection and the Fuqing Environmental Protection Bureau (福清市環境保護局), as recognition for our contribution to the local economy by developing our brand and technology in the province of Fujian, as well as our contribution to the local environment through our use of environment-friendly and energy-conserving production system, which produces less thermal energy and waste water to the environment through the recycling processes. They also consist of assistance (in the form of cash subsidies) granted by the PRC Government to small and medium enterprises for exploring the international market.

Any enterprises which comply with or meet the requirements developed by the relevant government authorities are eligible for such government grants. There are no continuing obligations, requirements or conditions for us in relation to the government grants. During the Track Record Period, the amount of government grants received by us fluctuated, mainly due to changes in the total amount of government grants available for all enterprises, as well as the amount of government grants that we were entitled to, which in turn largely depended on our ability to obtain a clearance in the environmental-friendly production review required for the government grants in relation to environmental protection, and the underlying government policies during each of the financial years ended 31 December 2006, 2007, and 2008 and the six months ended 30 June 2009.

Processing income mainly represents dyeing and finishing processes undertaken for our customers. Other revenue represented approximately 0.4%, 0.4%, 0.2%, 0.2% and 0.2% of our turnover for the financial years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2008 and 2009, respectively.

Selling expenses

Selling expenses include freight, declaration and customs costs, cargo insurance, customer claims for product defects and testing expenses and costs and expenses arising from advertising and marketing. Selling expenses were approximately RMB20.7 million, RMB20.8 million, RMB25.0 million, RMB9.9 million and RMB17.1 million for the financial years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2008 and 2009, respectively. They represented approximately 3.2%, 2.2%, 2.0%, 1.9% and 2.1% of our turnover for the financial years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2008 and 2009, respectively.

Administrative expenses

Administrative expenses include mainly salaries, wages, other staff expenditure such as pension scheme contributions, welfare and other benefits, professional fees, leasing costs, traveling expenses, depreciation expenses of office equipment, entertainment expenses and bank charges. Administrative expenses were approximately RMB11.1 million, RMB16.9 million, RMB17.4 million, RMB7.2 million and RMB13.7 million for the financial years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2008 and 2009, respectively. They represented approximately 1.7%, 1.8%, 1.4%, 1.4% and 1.7% of our turnover for the financial years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2008 and 2009, respectively.

Finance costs

Finance costs consist of interest expense on borrowings wholly repayable within five years. They were approximately RMB4.5 million, RMB2.5 million, RMB1.9 million, RMB1.1 million and RMB0.8 million for the financial years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2008 and 2009, respectively.

Income tax

Income tax represents amounts of corporate income tax paid by us. Since we did not have any assessable profit arising in Hong Kong during the Track Record Period, we did not make any provision for Hong Kong profits tax. We were also not subject to any tax in the Cayman Islands and the BVI during the Track Record Period. However, our subsidiaries in China were subject to PRC enterprise income tax. The following table sets the PRC corporate income tax rates applicable to our subsidiaries in China during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June
	2006	**2007**	**2008**	**2009**
Fuqing Hong Liong	15.0%	15.0%	18.0%(1)	20.0%(2)
Fuqing Ecotex	fully exempted(3)	fully exempted(3)	9.0%(3)	10.0%(4)
Fuzhou Aike	N/A	N/A	25.0%(5)	25.0%(5)
Shishi Maigen	N/A	N/A	25.0%(6)	25.0%(6)

Notes:

(1) The PRC corporate income tax rate applicable to Fuqing Hong Liong under the New Tax Law was corporate income tax rate of 18.0% under the Implementation Rules of the Corporate Income Tax Law ("Implementation Rules") and Guo Fa [2007] No. 39 Notice on the Implementation of the Preferential Corporate Income Tax Law Policies ("Circular 39").

(2) The PRC corporate income tax rate applicable to Fuqing Hong Liong under the New Tax Law was corporate income tax rate of 20.0% under the Implementation Rules and Circular 39.

(3) For the period from 1 January 2006 to 31 December 2007, Fuqing Ecotex was exempted from PRC corporate income tax under the Old Tax Regime. For the period from 1 January 2008 to 31 December 2008, the PRC corporate income tax rate applicable to Fuqing Ecotex was 9.0% after a 50.0% reduction of the corporate income tax rate of 18.0% under the Implementation Rules and Circular 39.

(4) The PRC corporate income tax rate applicable to Fuqing Ecotex under the New Tax Law was 10.0% after a 50.0% reduction of the corporate income tax rate of 20.0%.

(5) Fuzhou Aike was incorporated on 26 July 2007 and is not entitled to enjoy any tax exemption or reduction since its incorporation. It did not commence operations nor generate any assessable profit until 2008 and has thereafter been subject to the corporate income tax rate of 25.0%.

(6) Shishi Maigen was acquired on 26 May 2008 and is not entitled to enjoy any tax exemption or reduction since its acquisition. The PRC corporate income tax applicable to Shishi Maigen was 25.0%.

See "Factors affecting our financial condition and results of operations — Level of income tax and preferential tax treatment" in this section of the prospectus for additional details regarding taxation applicable to us.

The following table sets a reconciliation between our actual tax credits or expense and our profits before taxation during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Profit before taxation	116,305	195,833	309,206	120,876	243,626
Applicable income tax rates	15%	15%	9%/18%/25%	9%/18%/25%	10%/20%/25%
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned	17,446	29,375	59,204	22,248	52,736
Tax effect of non-deducible expenses(1)	—	—	114	44	73
Withholding tax on undistributed profits of PRC subsidiaries	—	—	12,004	5,138	9,905
Effect of tax concessions(2)	(3,637)	(4,003)	(4,455)	(1,380)	(2,459)
Actual tax expense	13,809	25,372	66,867	26,050	60,255

Notes:

(1) "Tax effect of non-deductible expenses" mainly represents non-deductible entertainment expenses.

(2) "Effect of tax concessions" refers to the difference in income tax expenses currently required to be paid during the tax concession period and income tax expenses if no tax concession had been granted. For further details, please see note 5(iii) in the accountants' report set out in Appendix I to this prospectus.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six Months Ended 30 June 2008 (unaudited) Compared to Six Months Ended 30 June 2009

Turnover

Turnover increased by approximately 56.6% from approximately RMB521.8 million for the six months ended 30 June 2008 to approximately RMB817.3 million for the six months ended 30 June 2009, primarily as a result of the following:

Sales of our fabrics

Turnover from sales of our fabrics increased by approximately 18.6% from approximately RMB431.2 million for the six months ended 30 June 2008 to approximately RMB511.5 million for the six months ended 30 June 2009, primarily as a result of an increase in sales volume which was principally the result of the expansion of our production. The sales volume for the six months ended 30 June 2009 was approximately 8.1 million kilograms, an increase of approximately 6.6% from approximately 7.6 million kilograms and was driven mainly by the increase in sales volume of our weft knitted and warp knitted fabrics in the six months ended 30 June 2008. There was an increase of approximately 11.5% in the average selling price of our fabrics for the six months ended 30 June 2009 when compared to that over the same period last year. It is because when compared to the same period last year, the product mix for the six months ended 30 June 2009 increased the proportion of fabrics with higher selling prices, such as nylex, jersey, nylon and mesh.

Turnover from sales of our fabrics increased by approximately 18.6% in the six months ended 30 June 2009 as compared to the same period in the prior year despite the current global economic downturn. As advised by the Directors, it was mainly due to the following reasons:

(i) The domestic consumption market in China remained unaffected amid the current global economic downturn and continued to demonstrate a rapid growth;

(ii) Our fabrics possess a wide range of functions, excellent quality and cost-effective features, which provide the garments of our Group's customers with a competitive edge to be better appealed to ultimate retail customers;

(iii) The domestic sportswear brand companies in China have experienced strong growth over the last few years. Their performances have been catching up with international brands such as Nike and Adidas. Hence, during the Track Record Period, fabric sales to our Group's second largest customer (Li-Ning) and fourth customer (Anta), both of which are major domestic sportswear brand companies in China, recorded an increase; and

(iv) Among the top five largest customers of our Group, Mizuno is a Japanese sportswear brand whereas Decathlon is a French sportswear brand. Instead of procuring fabrics in Japan and Italy, they switched their fabric suppliers to our Group. It is because given the same quality, the price of our fabrics is approximately 10% to 20% lower than those offered by the fabric suppliers in Japan and Italy; which in turn provide Mizuno and Decathlon with more competitiveness in terms of cost management. In 2007 and 2008, Mizuno and Decathlon have already collaborated with our Group to perform testing on certain purchase orders of fabrics with new styles and functions; and in 2008, the collaboration between our Group and the two international brands became a success. Although the current global economic downturn have an impact on Japan and Europe, the two customers managed to reduce their risk exposure by having planned their productions ahead and switched their fabric procurement from Japan and Italy to our Group in order to lower their costs. They further outsourced the manufacture of garments to OEM companies in China, which were then sold back to their home countries.

Sales of our casual and sportswear OEM products

Turnover from sales of our casual and sportswear OEM products decreased by approximately 17.6% from approximately RMB72.9 million for the six months ended 30 June 2008 to approximately RMB60.1 million for the six months ended 30 June 2009, primarily as a result of our strategic decision to shift our operational focus from our casual and sportswear OEM segment to developing the branded products market. On 26 May 2008, we acquired the MXN brand and allocated more resources to the development of our branded product sales business.

Sales of our branded leisure clothing

Turnover from sales of our branded leisure clothing increased by approximately 1,291.3% from approximately RMB17.7 million for the six months ended 30 June 2008 to approximately RMB245.7 million for the six months ended 30 June 2009, primarily as a result of the fact that only one month of turnover contributed by Shishi Maigen was combined into the turnover of the branded leisure clothing segment for the six months ended 30 June 2008. Our Group began sales of MXN branded leisure clothing on 26 May 2008 and we decided to begin selling branded leisure clothing mainly due to our strategic decision to develop the branded leisure clothing market.

Cost of sales

Cost of sales of our products increased by approximately 39.6% from approximately RMB385.7 million for the six months ended 30 June 2008 to approximately RMB538.6 million for the six months ended 30 June 2009, primarily as a result of an increase in the number of units of our products sold and increased materials purchased costs. Our materials purchased costs increased significantly during this period because the number of pieces of branded leisure apparel sold increased in the six months ended 30 June 2009 when compared to that over the same period last year, when only one month of total MXN branded leisure apparel sold was taken into consideration.

Gross profit and gross profit margin

Gross profit for our products increased by approximately 104.8% from approximately RMB136.1 million for the six months ended 30 June 2008 to approximately RMB278.7 million for the six months ended 30 June 2009, primarily as a result of the substantial increase in sales of our branded leisure clothing. Our overall gross profit margin increased by approximately 30.7% from approximately 26.1% for the six months ended 30 June 2008 to approximately 34.1% for the six months ended 30 June 2009 primarily due to the shift in our product mix to focus on branded leisure clothing which has a higher average gross profit margin than our fabrics and casual and sportswear OEM products. Our percentage of turnover from our branded leisure clothing sales was approximately 30.0% for the six months ended 30 June 2009.

As advised by the Directors, such increase in the overall gross margin was further due to the following reasons:

(i) The increase was mainly due to an increase in gross profit margin of the Company's fabric manufacturing segment for the same period, which contributed approximately 62.6% of the total turnover of the Group for the six months ended 30 June 2009. The increase in the gross profit margin of the Company' fabric manufacturing segment was principally attributable to the increases in fabric sales and its corresponding cost of sales. The reasons for the increase in the turnover from the sale of our fabrics are referred to under "Six Months Ended 30 June 2008 (unaudited) Compared to Six Months Ended 30 June 2009 - Sales of our fabrics" to this Prospectus. The increase in its corresponding cost of sales was due to an increase of approximately 6.6% in the total quantity of fabrics sold in the six months ended 30 June 2009 when compared to the same period last year; and

(ii) The increase was also due to an increase in gross profit margin of the Company's branded leisure clothing segment for the same period, which contributed approximately 30.0% of the total turnover of the Group for the six months ended 30 June 2009. The increase in the gross profit margin of the Company's branded leisure clothing segment was mainly as a result of the increases in MXN branded products sales and its corresponding cost of sales. The reason for the increase in the MXN branded products sales was an increase in the number of retail outlets and in the pieces of MXN branded products sold per retail outlet as at the end of two periods. The increase in its corresponding cost of sales was due to an increase in the total quantity of MXN branded products sold in the six months ended 30 June 2009 when compared to the same period last year. As a conclusion, only one month of turnover contributed by Shishi Maigen was combined into the turnover of the Company's branded leisure clothing segment for the six months ended 30 June 2008. Therefore, an increase in the overall gross profit margin was noted for the same period this year when six months of turnover contributed by Shishi Maigen was combined into the turnover of the Company's branded leisure clothing segment.

Gross profit and gross profit margin for our fabrics

Gross profit for our fabrics increased by approximately 36.4% from approximately RMB118.6 million for the six months ended 30 June 2008 to approximately RMB161.8 million for the six months ended 30 June 2009, primarily as a result of the increase in sales volume of our fabrics and the increase in their average selling prices which increase by approximately 11.5% for the six months ended 30 June 2009 when compared to that over the same period last year, although this increase was offset by an increase in raw materials and labour costs directly attributable to our production. Our gross profit margin for our fabrics increased to approximately 30.0% for the six months ended 30 June 2009 as compared to approximately 25.0% for the six months ended 30 June 2008 as a result of the costs saving achieved from economies of scale due to increasing production in the six months ended 30 June 2009 and expansion of range of apparel product offerings.

Gross profit and gross profit margin for our casual and sportswear OEM products

Gross profit for our casual and sportswear OEM products increased by approximately 85.6% from approximately RMB13.9 million for the six months ended 30 June 2008 to approximately RMB25.8 million for the six months ended 30 June 2009, primarily as a result of an increase in the number of pieces of casual and sportswear apparel manufactured by Fuqing Ecotex from the six months ended 30 June 2008 to the six months ended 30 June 2009. It was due to a decrease in the cost of sales. Since our strategic decision to start manufacturing apparel with more details and different styles was implemented in 2007, the sewing specifications and the required manufacturing accessories for the apparel with such details and different styles had already been in place for a certain period of time, fewer raw materials were scrapped for manufacturing such apparel and a lower rework rate was achieved, which in turn lowered the cost of sales of our casual and sportswear OEM products. Moreover, orders for the same style of casual and sportswear apparel received by Fuqing Ecotex have become large in quantity. Sewing specifications and the required manufacturing accessories do not have to be changed frequently according to a particular style. Higher production efficiency and lower rework rate were achieved, which in turn, lowered the cost of sales of our casual and sportswear OEM products for the six months ended

30 June 2009. Our gross profit margin for our casual and sportswear OEM products increased to approximately 30.2% for the six months ended 30 June 2009 as compared to approximately 17.6% for the six months ended 30 June 2008.

Gross profit and gross profit margin for our branded leisure clothing

Gross profit for our branded leisure clothing increased by approximately 1,846.8% from approximately RMB4.7 million for the six months ended 30 June 2008 to approximately RMB91.5 million for the six months ended 30 June 2009, primarily as a result of the fact that only one month of gross profit contributed by Shishi Maigen was combined into the gross profit of the branded leisure clothing segment for the six months ended 30 June 2008. Our Group began sales of MXN branded leisure clothing on 26 May 2008 and we decided to begin selling branded leisure clothing mainly due to our strategic decision to develop the branded leisure clothing market. Our gross profit margin for our branded leisure clothing increased to approximately 37.2% for the six months ended 30 June 2009 as compared to approximately 26.8% for the six months ended 30 June 2008.

Other revenue

Other revenue increased by approximately 7.8% from approximately RMB1.2 million for the six months ended 30 June 2008 to approximately RMB1.3 million for the six months ended 30 June 2009, primarily as a result of an increase in the government grants which accounted for approximately 3.3% and approximately 25.7% of the total other revenue for the six months ended 30 June 2008 and 2009, respectively.

Selling expenses

Selling expenses increased by approximately 72.9% from approximately RMB9.9 million for the six months ended 30 June 2008 to approximately RMB17.1 million for the six months ended 30 June 2009. This increase was higher than our turnover increase mainly due to advertising and promotional expenses arose from enhancing our MXN brand as well as holding sales fairs for our MXN products. Selling expenses represented approximately 2.1% of our turnover for the six months ended 30 June 2009, as compared to approximately 1.9% of our turnover for the six months ended 30 June 2008, primarily as a result of increased advertising and promotional efforts.

Administrative expenses

Administrative expenses increased by approximately 89.4% from approximately RMB7.2 million for the six months ended 30 June 2008 to approximately RMB13.7 million for the six months ended 30 June 2009. The increase was mainly due to the six-month inclusion of expenses of Fuzhou Aike and Shishi Maigen for the six months ended 30 June 2009.

Profit from operations

Profit from operations increased by approximately 100.4% from approximately RMB121.9 million for the six months ended 30 June 2008 to approximately RMB244.4 million for the six months ended 30 June 2009, primarily due to the factors described above.

Finance costs

Finance costs decreased by approximately 29.7% from approximately RMB1.1 million for the six months ended 30 June 2008 to approximately RMB0.8 million for the six months ended 30 June 2009, primarily due to a decrease in bank borrowings and decreases in interest rates.

Profit before taxation

Profit before taxation increased by approximately 101.6% from approximately RMB120.9 million for the six months ended 30 June 2008 to approximately RMB243.6 million for the six months ended 30 June 2009, primarily due to the factors described above.

Income tax

Income tax expense increased significantly by approximately 131.3% from approximately RMB26.1 million for the six months ended 30 June 2008 to approximately RMB60.3 million for the six months ended 30 June 2009, primarily due to (i) an increase in profit before taxation as a result of increased turnover, (ii) an increase in applicable tax rate of Fuqing Hong Liong, which increased to 20% for the six months ended 30 June 2009 from 18% for the six months ended 30 June 2008, (iii) an increase in applicable tax rate of Fuqing Ecotex, which increased to 10% for the six months ended 30 June 2009 from 9% for the six months ended 30 June 2008 and, (iv) the six-month inclusion of income tax expense of Fuzhou Aike and Shishi Maigen which were subject to an applicable tax rate of 25% for the six months ended 30 June 2009.

For the six months ended 30 June 2009, due to the transitional arrangement of the implementation of new Corporate Income Tax Law, corporate income tax rate of Fuqing Hong Liong increased to 20% while that of Fuqing Ecotex increased to 10%. In addition, there were no preferential tax rates for Fuzhou Aike and Shishi Maigen for the six months ended 30 June 2009 and their tax rates are 25%. As a result, the effective tax rate of the Group increased from 22% in the six months ended 30 June 2008 to 25% in the six months ended 30 June 2009.

Profit attributable to equity shareholders

Profit attributable to equity shareholders increased by approximately 93.4% from approximately RMB94.8 million for the six months ended 30 June 2008 to approximately RMB183.4 million for the six months ended 30 June 2009, primarily due to the factors described above. Our net profit margin increased from approximately 18.2% for the six months ended 30 June 2008 to approximately 22.4% for the six months ended 30 June 2009, primarily due to the foregoing reasons.

Financial Year Ended 31 December 2007 Compared to Financial Year Ended 31 December 2008

Turnover

Turnover increased by approximately 35.8% from approximately RMB932.5 million for the financial year ended 31 December 2007 to approximately RMB1,266.1 million for the financial year ended 31 December 2008, primarily as a result of the following:

Sales of our fabrics

Turnover from sales of our fabrics increased by approximately 15.5% from approximately RMB769.8 million for the financial year ended 31 December 2007 to approximately RMB889.0 million for the financial year ended 31 December 2008, primarily as a result of an increase in sales volume which was principally the result of the expansion of our production. The sales volume for the financial year ended 31 December 2008 was approximately 15.6 million kilograms, an increase of approximately 5.4% from approximately 14.8 million kilograms in the financial year ended 31 December 2007. There was an increase in average selling prices of our fabrics, which increase by approximately 10% annually. For the financial year ended 31 December 2008, turnover was driven mainly by the increase in sales volume of our weft knitted and warp knitted fabrics.

Sales of our casual and sportswear OEM products

Turnover from sales of our casual and sportswear OEM products decreased by approximately 5.1% from approximately RMB162.6 million for the financial year ended 31 December 2007 to approximately RMB154.4 million for the financial year ended 31 December 2008, primarily as a result of our strategic decision to shift our operational focus from our casual and sportswear OEM segment to developing the branded products market. In 2008, we acquired the MXN brand and allocated more resources to the development of our branded product sales business.

Sales of our branded leisure clothing

Our Group began sales of branded leisure clothing in 2008 and turnover from sales of branded leisure clothing in 2008 was approximately RMB222.7 million. We decided to begin selling branded leisure clothing mainly due to our strategic decision to develop the branded leisure clothing market.

Cost of sales

Cost of sales of our products increased by approximately 30.6% from approximately RMB698.0 million for the financial year ended 31 December 2007 to approximately RMB911.6 million for the financial year ended 31 December 2008, primarily as a result of an increase in the number of units of our products sold, increased raw materials costs and labour costs directly attributable to our production. Our raw materials costs increased during this period because the number of pounds of fabrics and pieces of apparel produced and sold increased. Labour costs directly attributable to our production increased primarily as a result of additional employees engaged in our manufacturing business to support the growth of our Group.

Gross profit and gross profit margin

Gross profit for our products increased by approximately 51.1% from approximately RMB234.5 million for the financial year ended 31 December 2007 to approximately RMB354.4 million for the financial year ended 31 December 2008, primarily as a result of the substantial increase in sales of our branded leisure clothing. Our overall gross profit margin increased by approximately 11.6% from approximately 25.1% for the financial year ended 31 December 2007 to approximately 28.0% for the financial year ended 31 December 2008 primarily due to the shift in our product mix to focus on branded leisure clothing which have a higher average gross profit margin than our fabrics and casual and sportswear OEM products. Our percentage of turnover from our branded leisure clothing sales was approximately 17.6% in 2008.

Gross profit and gross profit margin for our fabrics

Gross profit for our fabrics increased by approximately 13.4% from approximately RMB204.3 million for the financial year ended 31 December 2007 to approximately RMB231.6 million for the financial year ended 31 December 2008, primarily as a result of the increase in sales volume of our fabrics and the increase in their average selling prices which increase by approximately 10% annually, although this increase was offset by an increase in labour costs directly attributable to our production. Our gross profit margin for our fabrics slightly decreased to approximately 23.7% in 2008 as compared to 2007.

Gross profit and gross profit margin for our casual and sportswear OEM products

Gross profit for our casual and sportswear OEM products increased by approximately 84.6% from approximately RMB31.1 million for the financial year ended 31 December 2007 to approximately RMB57.4 million for the financial year ended 31 December 2008, primarily as a result of a significant increase in the turnover of Fuqing Ecotex from 2007 to 2008 primarily due to the continuing expansion of our production. It was due to a decrease in the cost of sales. Since our strategic decision to start manufacturing apparel with more details and different styles was implemented in 2007, the sewing specifications and the required manufacturing accessories for the apparel with such details and different styles had already been in place for a certain period of time, fewer raw materials were scrapped for manufacturing such apparel and a lower rework rate was achieved, which in turn lowered the cost of sales of our casual and sportswear OEM products. Our gross profit margin for our casual and sportswear OEM products increased to approximately 27.1% in 2008 as compared to approximately 19.1% in 2007.

Gross profit and gross profit margin for our branded leisure clothing

Our Group began sales of branded leisure clothing in 2008 and gross profit and gross profit margin for our branded leisure clothing in 2008 were approximately RMB63.7 million and 28.6%, respectively. We decided to begin selling branded apparel products mainly due to our strategic decision to develop the branded market.

Other revenue

Other revenue decreased by approximately 31.3% from approximately RMB3.4 million for the financial year ended 31 December 2007 to approximately RMB2.4 million for the financial year ended 31 December 2008, primarily as a result of a decrease in the processing income which accounted for approximately 56.8% and approximately 6.4% of the total other revenue for the financial years ended 31 December 2007 and 2008, respectively.

Selling expenses

Selling expenses increased by approximately 19.9% from approximately RMB20.8 million for the financial year ended 31 December 2007 to approximately RMB25.0 million for the financial year ended 31 December 2008. This increase was lower than our turnover increase mainly due to improvements in production scheduling and logistics management. Selling expenses represented approximately 2.0% of our turnover for the financial year ended 31 December 2008, as compared to approximately 2.2% of our turnover for the financial year ended 31 December 2007, primarily as a result of the economies of scale in our production scheduling and logistics management.

Administrative expenses

Administrative expenses increased by approximately 2.9% from approximately RMB16.9 million for the financial year ended 31 December 2007 to approximately RMB17.4 million for the financial year ended 31 December 2008. The increase was mainly due to the inclusion of expenses of Fuzhou Aike and Shishi Maigen of approximately RMB1.4 million for the financial year ended 31 December 2008.

Profit from operations

Profit from operations increased by approximately 56.9% from approximately RMB198.3 million for the financial year ended 31 December 2007 to approximately RMB311.1 million for the financial year ended 31 December 2008, primarily due to the factors described above.

Finance costs

Finance costs decreased by approximately 22.6% from approximately RMB2.5 million for the financial year ended 31 December 2007 to approximately RMB1.9 million for the financial year ended 31 December 2008, primarily due to a decrease in bank borrowings and decreases in interest rates.

Profit before taxation

Profit before taxation increased by approximately 57.9% from approximately RMB195.8 million for the financial year ended 31 December 2007 to approximately RMB309.2 million for the financial year ended 31 December 2008, primarily due to the factors described above.

Income tax

Income tax expense increased significantly by approximately 163.5% from approximately RMB25.4 million for the financial year ended 31 December 2007 to approximately RMB66.9 million for the financial year ended 31 December 2008, primarily due to (i) an increase in profit before taxation as a result of increased turnover, (ii) an increase in applicable tax rate of Fuqing Hong Liong, which increased to 18% for the financial year ended 31 December 2008 from 15% for the financial year ended 31 December 2007, (iii) an increase in applicable tax rate of Fuqing Ecotex, which increased to 9% for the financial year ended 31 December 2008 from 0% for the financial year ended 31 December 2007 and, (iv) the inclusion of income tax expense of Fuzhou Aike and Shishi Maigen which were subject to an applicable tax rate of 25% for the financial year ended 31 December 2008.

In 2008, due to the implementation of new Corporate Income Tax Law, corporate income tax rate of Fuqing Hong Liong increased to 18% while the tax holiday of Fuqing Ecotex has completed in 2007 and its tax rate increased to 9%. In addition, there were no preferential tax rates for Fuzhou Aike and Shishi Maigen in 2008 and their tax rates are 25%. As a result, the effective tax rate of the Group increased to 22% in 2008.

Profit attributable to equity shareholders

Profit attributable to equity shareholders increased by approximately 42.2% from approximately RMB170.5 million for the financial year ended 31 December 2007 to approximately RMB242.3 million for the financial year ended 31 December 2008, primarily due to the factors described above. Our net profit margin increased from approximately 18.3% for the financial year ended 31 December 2007 to approximately 19.1% for the financial year ended 31 December 2008, primarily due to the foregoing reasons.

Financial Year Ended 31 December 2006 Compared to Financial Year Ended 31 December 2007

Turnover

For the financial years ended 31 December 2006 and 2007, fabric sales comprised a majority of our total turnover. Turnover increased by approximately RMB279.1 million, or approximately 42.7%, from approximately RMB653.4 million for the financial year ended 31 December 2006 to approximately RMB932.5 million for the financial year ended 31 December 2007 as a result of the following:

Sales of our fabrics

Turnover from sales of our fabrics increased by approximately 40.4% from approximately RMB548.5 million for the financial year ended 31 December 2006 to approximately RMB769.8 million for the financial year ended 31 December 2007, primarily as a result of an increase in sales volume which was principally the result of the expansion of our production. The sales volume for the financial year ended 31 December 2007 was approximately 14.8 million kilograms, an increase of approximately 15.6% from approximately 12.8 million kilograms in the financial year ended 31 December 2006. In 2007, there was an increase in average selling prices of our fabrics, which increase by approximately 10% annually. For the financial year ended 31 December 2007, turnover was driven mainly by the increase in sales volume of our weft knitted and warp knitted fabrics.

Sales of our casual and sportswear OEM products

Turnover from sales of our casual and sportswear OEM products increased by approximately 55.0% from approximately RMB104.9 million for the financial year ended 31 December 2006 to approximately RMB162.6 million for the financial year ended 31 December 2007, primarily as a result of an increase in sales volume which was principally the result of the expansion of our production.

Cost of sales

Cost of sales of our products increased by approximately 39.0% from approximately RMB502.3 million for the financial year ended 31 December 2006 to approximately RMB698.0 million for the financial year ended 31 December 2007. Cost of sales accounted for approximately 74.9% of our total turnover for the financial year ended 31 December 2007, compared to approximately 76.9% for the financial year ended 31 December 2006, primarily as a result of improvements in operating efficiency, although this decrease was offset by an increase in the number of units of our products sold, increased raw materials costs and labour costs directly attributable to our production. Our raw materials costs increased during this period because the number of pounds of fabrics and pieces of apparel produced and sold increased. Labour costs directly attributable to our production increased primarily as a result of additional employees engaged in our manufacturing business to support the growth of our Group.

Gross profit and gross profit margin

Gross profit for our products increased by approximately 55.2% from approximately RMB151.1 million for the financial year ended 31 December 2006 to approximately RMB234.5 million for the financial year ended 31 December 2007. Our overall gross profit margin increased from approximately 23.1% for the financial year ended 31 December 2006 to approximately 25.1% for the financial year ended 31 December 2007. Both increases were primarily as a result of increased economies of scale resulting from the increase in sales of our products and our ability to negotiate and purchase at more competitive prices for our raw materials due to large quantities we purchased in this period.

Gross profit and gross profit margin for our fabrics

Gross profit for our fabrics increased by approximately 65.8% from approximately RMB123.2 million for the financial year ended 31 December 2006 to approximately RMB204.3 million for the financial year ended 31 December 2007, primarily as a result of increased sales during the period together with cost savings achieved from economies of scale due to increased production and volume discounts we received from our suppliers. Our gross profit margin for our fabrics increased to approximately 23.8% in 2007 as compared to approximately 20.8% in 2006 also as a result of the costs saving achieved from economies of scale due to increasing production in 2007 and expansion of range of apparel product offerings.

Gross profit and gross profit margin for our casual and sportswear OEM products

Gross profit for our casual and sportswear OEM products increased by approximately 7.6% from approximately RMB28.9 million for the financial year ended 31 December 2006 to approximately RMB31.1 million for the financial year ended 31 December 2007, primarily as a result of the increase in sales volume of our casual and sportswear OEM products, although this increase was offset by an increase in labour costs directly attributable to our production. Our gross profit margin for our casual and sportswear OEM products decreased to approximately 19.1% in 2007 as compared to approximately 27.5% in 2006.

Other revenue

Other revenue increased by approximately 25.0% from approximately RMB2.8 million for the financial year ended 31 December 2006 to approximately RMB3.4 million for the financial year ended 31 December 2007, primarily as a result of an increase in the processing income which accounted for approximately 56.9% and approximately 56.8% of the total other revenue for the financial years ended 31 December 2006 and 2007, respectively.

Selling expenses

Selling expenses increased by approximately 0.6% from approximately RMB20.7 million for the financial year ended 31 December 2006 to approximately RMB20.8 million for the financial year ended 31 December 2007. This increase was significantly lower than our turnover increase mainly due to improvements in production scheduling and logistics management. Selling expenses represented approximately 2.2% of our turnover for the financial year ended 31 December 2007, as compared to approximately 3.2% of our turnover for the financial year ended 31 December 2006, primarily as a result of the economies of scale in our production scheduling and logistics management.

Administrative expenses

Administrative expenses increased by approximately 51.7% from approximately RMB11.1 million for the financial year ended 31 December 2006 to approximately RMB16.9 million for the financial year ended 31 December 2007. The increase was mainly due to the provision for bad and doubtful debts of approximately RMB4.8 million which represented trade receivables of our Group individually determined to be impaired for the financial year ended 31 December 2007.

Profit from operations

Profit from operations increased by approximately 64.2% from approximately RMB120.8 million for the financial year ended 31 December 2006 to approximately RMB198.3 million for the financial year ended 31 December 2007, primarily due to the factors described above.

Finance costs

Finance costs decreased by approximately 44.2% from approximately RMB4.5 million for the financial year ended 31 December 2006 to approximately RMB2.5 million for the financial year ended 31 December 2007, primarily due to decreases in interest rates.

Profit before taxation

Profit before taxation increased by approximately 68.4% from approximately RMB116.3 million for the financial year ended 31 December 2006 to approximately RMB195.8 million for the financial year ended 31 December 2007, primarily due to the factors described above.

Income tax

Income tax expense increased significantly by approximately 83.7% from approximately RMB13.8 million for the financial year ended 31 December 2006 to approximately RMB25.4 million for the financial year ended 31 December 2007, primarily due to an increase in profit before taxation as a result of increased turnover and an increase in the proportion of profit generated by Fuqing Hong Liong for the financial year ended 31 December 2007. Fuqing Hong Liong was subject to an applicable tax rate of 15% in 2006 and 2007 whereas Fuqing Ecotex was subject to an applicable tax rate of 0% in 2006 and 2007. The effective tax rate of our Group increased slightly from 12% in 2006 to 13% in 2007 and it was mainly caused by the increase in taxable profit from Fuqing Hong Liong during the year ended 31 December 2007.

Profit attributable to equity shareholders

Profit attributable to equity shareholders increased by approximately 66.3% from approximately RMB102.5 million for the financial year ended 31 December 2006 to approximately RMB170.5 million for the financial year ended 31 December 2007, primarily due to the factors described above. Our net profit margin increased from approximately 15.7% for the financial year ended 31 December 2006 to approximately 18.3% for the financial year ended 31 December 2007, primarily due to the foregoing reasons.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are for payment for purchases from suppliers and contract manufacturers, our various operating expenses and working capital and capital expenditure requirements. Historically, we have financed our working capital and liquidity needs mainly through bank loans, shareholders' capital contributions and shareholder loans. During the Track Record Period, there were no major changes in our fundamental drivers of the sources and uses of cash.

Looking ahead, we believe that a combination of the proceeds from the Global Offering, cash generated from operating activities and bank loans will be able to meet our liquidity needs. We will use part of the proceeds from the Global Offering to satisfy our capital commitments for future expansion and, based on our current and anticipated levels of operations and conditions in the markets and industry conditions, we believe that we can generate sufficient cash from our operations to provide funds for our continuing operating cash requirements and the continuing expansion of our business. We may use short-term bank borrowings to provide funds for operations and repay bank borrowings once we have a surplus of funds. It is our policy to regularly monitor our liquidity needs and compliance with debt covenants (if any) to ensure that we can maintain a sufficient resources of cash and adequate debt or equity financing. We have never experienced and do not expect to experience any difficulties meeting our obligations as our bank borrowings become due. However, our ability to fund our working capital needs, repay our debt and finance other obligations depends on our future operating performance and cash flow, which in turn depends on the current state of the economic conditions, the spending level of our customers and other factors, many of which are beyond our control. Any future significant acquisitions or expansion will require additional funds, but we cannot assure you that we will be able to obtain acceptable financing terms, if at all.

The following table is a condensed summary of our combined cash flow statements for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Net cash generated from operating activities	38,085	60,144	308,610	149,427	365,238
Net cash (used in)/generated from investing activities	(15,807)	(7,503)	59,288	59,898	2,757
Net cash (used in)/generated from financing activities	(8,932)	1,526	(281,178)	(10,572)	(305,966)
Net increase in cash and cash equivalents	13,346	54,167	86,720	198,753	62,029
Cash and cash equivalents at end of the year/period	35,008	89,175	175,895	287,928	237,924

Cash Flows from Operating Activities

Our cash inflow from operations is mainly derived from the payments received from the sale of our products. Our cash outflow from operations is mainly for purchases of raw materials, materials purchased, production outsourcing and salary payments.

Net cash generated from operating activities for the six months ended 30 June 2009 was approximately RMB365.2 million, while operating cash flows before changes in working capital were approximately RMB256.5 million. The difference of approximately RMB108.7 million was primarily due to a decrease of approximately RMB113.9 million in trade and other receivables due to our Group strengthening its risk management and the safety threshold of its cash flow, an increase of approximately 49.0 million in trade creditors and other payables due to the increase in purchase of work in progress and finished goods driven by our fast-growing branded leisure clothing segment, which were partially offset by a payment of PRC enterprise income tax of approximately RMB407.1 million, and an increase of approximately RMB12.3 million in inventories as a result of increased purchases of materials purchased from our suppliers in anticipation of projected future sales of our branded leisure clothing in the six months ended 31 December 2009.

Net cash generated from operating activities for the six months ended 30 June 2008 was approximately RMB149.4 million, while operating cash flows before changes in working capital were approximately RMB125.3 million. The difference of approximately RMB24.1 million was primarily due to an increase of approximately RMB28.3 million in trade creditors and other payables primarily due to the increase in purchase of work in progress and finished goods in anticipation of projected demand of our branded leisure clothing in the six months ended 31 December 2008, a decrease of approximately RMB20.1 million in trade and other receivables primarily due to our Group strengthening its risk management and the safety threshold of its cash flow, and a decrease of approximately RMB0.8 million in amount due from shareholder as a result of a decrease in prepayments for raw materials made to one of our shareholders, offset by payment of PRC enterprise income tax of approximately RMB18.9 million.

Net cash generated from operating activities for the financial year ended 31 December 2008 was approximately RMB308.6 million, while operating cash flows before changes in working capital were approximately RMB324.4 million. The difference of approximately RMB15.8 million was primarily due to payment of PRC enterprise income tax of approximately RMB51.4 million, an increase of approximately RMB25.2 million in trade and other receivables due to increased sales, which were partially offset by a decrease of approximately RMB62.0 million in inventories as a result of our strategic decision to shift our operational focus from our casual and sportswear OEM segment to developing the branded products market and such shift decreased the purchase of raw materials required for our casual and sportswear OEM segment, and a decrease of approximately RMB0.8 million in amount due from shareholder as a result of a decrease in prepayments for raw materials made to one of our shareholders.

Net cash generated from operating activities for the financial year ended 31 December 2007 was approximately RMB60.1 million, while operating cash flows before changes in working capital were approximately RMB210.4 million. The difference of approximately RMB150.3 million was primarily due to an increase of approximately RMB132.6 million in trade and other receivables primarily due to increased sales, an increase of approximately RMB43.6 million in inventories primarily due to increased purchases of raw materials and materials purchased from our suppliers in anticipation of projected future sales in 2008, when the increasingly strong sentiment towards the overall economic conditions in China was expected to be brought by the Beijing 2008 Olympic Games, and payment of PRC enterprise income tax of approximately RMB20.8 million, offset by an increase of approximately RMB46.3 million in trade creditors and other payables as a result of the increase in purchase of raw materials in the fourth quarter of 2007 due to projected production demand in 2008.

Net cash generated from operating activities for the financial year ended 31 December 2006 was approximately RMB38.1 million, while operating cash flows before changes in working capital were approximately RMB128.3 million. The difference of approximately RMB90.2 million was primarily due to an increase of approximately RMB42.6 million in inventories primarily due to increased purchase of raw materials in anticipation of projected future sales in early 2007 and to meet significant growth in demand for our products, an increase of approximately RMB43.5 million in trade and other receivables primarily due to increase in sales, which were partially offset by an increase of approximately RMB10.7 million in trade creditors and other payables primarily due to the increase in purchase of raw materials in the fourth quarter of 2006 due to the projected production demand in early 2007.

Cash Flows from Investing Activities

Our cash inflow from investing activities is mainly derived from proceeds on disposals of property, plant and equipment. Our cash outflow from investing activities is mainly for purchases of property, plant and equipment, payments for construction in progress and intangible assets.

Net cash generated from investing activities for the six months ended 30 June 2009 was approximately RMB2.8 million. The cash inflows related primarily to proceeds from disposal of plant and machinery, motor vehicles, computer equipment and other equipment of approximately RMB5.1 million, partially offset by the payment for plant and machinery, computer equipment and other equipment of approximately RMB2.6 million.

Net cash generated from investing activities for the six months ended 30 June 2008 was approximately RMB59.9 million. The cash inflows related primarily to the cash acquired upon acquisition of Shishi Maigen in the amount of approximately RMB63.1 million, partially offset by the payment for construction in progress of approximately RMB2.6 million.

Net cash generated from investing activities for the financial year ended 31 December 2008 was approximately RMB59.3 million. The cash inflows related primarily to the cash acquired upon acquisition of Shishi Maigen in the amount of approximately RMB63.1 million, partially offset by the payment for construction in progress of approximately RMB2.6 million.

Net cash used in investing activities for the financial year ended 31 December 2007 was approximately RMB7.5 million. The cash outflows related primarily to the purchases of property, plant and equipment in the amount of approximately RMB8.0 million, which included the purchase of plant and machinery, and buildings.

Net cash used in investing activities for the financial year ended 31 December 2006 was approximately RMB15.8 million. The cash outflows related primarily to the purchase of property, plant and equipment in the amount of approximately RMB16.5 million, which included the purchase of buildings, plant and machinery, computer equipment, motor vehicles and other equipment, and the payment for construction in progress of approximately RMB1.2 million, which were partly offset by proceeds from disposal of plant and machinery, motor vehicles, computer equipment and other equipment of approximately RMB1.6 million.

Cash Flows from Financing Activities

Our cash inflow from financing activities is mainly derived from new bank loans.

Net cash used in financing activities for the six months ended 30 June 2009 was approximately RMB306.0 million. The cash used was primarily for a payment of dividends in the amount of approximately RMB308.2 million and the repayment of bank loans in the amount of approximately RMB13.5 million, which was partly offset by new bank loans in the amount of approximately RMB16.5 million.

Net cash used in financing activities for the six months ended 30 June 2008 was approximately RMB10.6 million. The cash used was primarily from the repayment of bank loans in the amount of approximately RMB14.5 million and a payment of interest in the amount of approximately RMB1.1 million, which was offset by new bank loans in the amount of approximately RMB5.0 million.

Net cash used in financing activities for the financial year ended 31 December 2008 was approximately RMB281.2 million. The cash used was primarily for a payment of dividends in the amount of approximately RMB221.0 million and the repayment of amount due to shareholder in the amount of approximately RMB46.4 million, which was partly offset by new bank loans in the amount of approximately RMB30.1 million.

Net cash generated from financing activities for the financial year ended 31 December 2007 was approximately RMB1.5 million. The cash generated was primarily from new bank loans in the amount of approximately RMB62.2 million, which was offset by the repayment of bank loans in the amount of approximately RMB58.1 million and the interest paid in the amount of approximately RMB2.5 million.

Net cash used in financing activities for the financial year ended 31 December 2006 was approximately RMB8.9 million. The cash used was primarily for the repayment of bank loans in the amount of approximately RMB61.1 million and the interest paid of approximately RMB4.5 million, which was offset by new bank loans of approximately RMB56.6 million.

CAPITAL EXPENDITURE

We have historically had proceeds from bank loans, shareholder loans and capital contributions by our Shareholders for funding our capital expenditure. Our capital expenditure has principally included property, plant and equipment. We expect that for the financial year ending 31 December 2009, we will continue to make significant capital expenditure for the acquisition of land use rights and construction for a corporate headquarters. The table below shows a breakdown of our capital expenditure during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	16,502	7,986	2,721	2,580
Construction in progress	1,229	—	2,624	313
Total	17,731	7,986	5,345	2,893

For the financial years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009, our Group's capital expenditure principally included capital expenditure on construction in progress for buildings, plants and machinery, and purchases of property, plant and machinery for our Fuqing production facilities.

Off-balance sheet commitments and arrangements

As of the Latest Practicable Date, we have not entered into any off-balance sheet transaction.

SELECTED COMBINED BALANCE SHEET DATA

	As of 31 December			As of 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	81,198	81,060	147,635	136,179
Current assets	317,606	542,715	638,096	595,249
Current liabilities	156,333	210,843	360,899	382,908
Net current assets	161,273	331,872	277,197	212,341
Total assets less current liabilities	242,471	412,932	424,832	348,520
Non-current liabilities	—	—	30,731	39,150
Net assets	242,471	412,932	394,101	309,370

NET CURRENT ASSETS

Details of our current assets and liabilities as of each of the balance sheet dates are as follows:

	As of 31 December			As of 30 June	As of 31 October
	2006	2007	2008	2009	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Current assets					
Inventories	92,065	135,650	111,435	123,708	150,505
Trade and other receivables	180,640	308,439	342,107	224,973	291,824
Amount due from shareholder	9,893	9,451	8,659	8,644	8,644
Cash and cash equivalents	35,008	89,175	175,895	237,924	297,695
	317,606	542,715	638,096	595,249	748,668
Current liabilities					
Bank loans	33,579	36,907	25,119	28,130	27,900
Trade and other payables	119,905	166,245	223,882	232,799	239,402
Amounts due to shareholder	—	19	93,576	93,576	93,576
Current tax payable	2,849	7,672	18,322	28,403	12,131
	156,333	210,843	360,899	382,908	373,009
Net current assets	161,273	331,872	277,197	212,341	375,659

During the financial year from 31 December 2006 to 31 December 2007, there was an increase in our net current assets. As at 31 December 2007, we recorded a net current assets position of approximately RMB331.9 million, compared to a net current assets position of approximately RMB161.3 million as at 31 December 2006. The increase was mainly due to an increase in our working capital resources resulting from improvement in our business performance in 2007 and an increase in the injected capital of subsidiaries contributed by equity shareholders, which was partly offset by our capital expenditure in 2007.

During the financial year from 31 December 2007 to 31 December 2008, there was a decrease in our net current assets. As at 31 December 2008, we recorded a net current assets position of approximately RMB277.2 million, compared to a net current assets position of approximately RMB331.9 million as at 31 December 2007. The decrease was mainly due to a decrease in our inventories and amount due from shareholder, and an increase in our trade and other payables, amount due to shareholder and current tax payable.

During the six months from 31 December 2008 to 30 June 2009, there was a decrease in our net current assets. As at 30 June 2009, we recorded a net current assets position of approximately RMB212.3 million, compared to a net current assets position of approximately RMB277.2 million as at 31 December 2008. The decrease was mainly due to a decrease in our trade and other receivables resulting from our Group strengthening its risk management and the safety threshold of its cash flow during the current global economic downturn, which was partly offset by an increase in bank loans, our trade and other payables and current tax payable.

As at 30 June 2009, we had net current assets of approximately RMB212.3 million. Our current assets as of 30 June 2009 included inventories of approximately RMB123.7 million, trade and other receivables of approximately RMB225.0 million, amount due from shareholder of approximately RMB8.6 million, and cash and cash equivalents of approximately RMB237.9 million. Our current liabilities as of 30 June 2009 included bank loans of approximately RMB28.1 million, trade and other payables of approximately RMB232.8 million, amount due to shareholder of approximately RMB93.6 million and current tax payable of approximately RMB28.4 million.

During the ten months from 31 December 2008 to 31 October 2009, there was an increase in our net current assets. As of 31 October 2009, we recorded a net current assets position of approximately RMB375.7 million. The increase was mainly due to an increase in our inventories, trade and other receivables and cash and cash equivalents.

INVENTORY ANALYSIS

During the Track Record Period, inventory was one of the main components of our current assets. As of 31 December 2006, 2007 and 2008 and 30 June 2009, the value of our inventories accounted for approximately 29.0%, 25.0%, 17.5%, and 20.8% of current assets, respectively. In accordance with our existing business model, we do not have a general inventory provision policy. We normally confirm purchase orders with our customers before we purchase raw materials and begin production. We did not receive any cancelled purchase orders during the Track Record Period. We have a policy to regularly review the obsolescence of inventories based on the expected future sales and the age of the inventories in order to further reduce the risk of accumulation of obsolete inventories. We also conduct physical stock counts from time to time in order to identify obsolete or damaged products. If the market conditions are less favourable than those forecast by the management and our unsold inventories remain for a period longer than we expected, we will make specific provision on an item-by-item basis and if the costs are higher than the corresponding estimated net realisable value of certain inventories, we make a provision against such inventories. During the Track Record Period, we did not make any specific provisions for inventories, and the reason is that all of the ending inventories as at 31 December 2006, 2007 and 2008 were subsequently consumed or sold higher than costs.

The following table shows a summary of our balance of inventories, which was stated at cost, as of each of the balance sheet dates during the Track Record Period:

	As at 31 December			As of 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	29,956	49,880	22,842	23,726
Work in progress	30,187	47,751	50,692	58,267
Finished goods	31,922	38,019	37,901	41,715
	92,065	135,650	111,435	123,708

Our inventories increased from approximately RMB92.1 million as at 31 December 2006 to approximately RMB135.7 million as at 31 December 2007, decreased to approximately RMB111.4 million as at 31 December 2008 and increased to approximately RMB123.7 million as at 30 June 2009. Our inventories as at 31 December 2007 were higher than the inventories as at 31 December 2006 primarily due to an increase of approximately RMB19.9 million in our raw materials, approximately RMB17.6 million in our work in progress and approximately RMB6.1 million in our finished goods, as a result of the overall increase in sales volume.

The decrease in the inventories for the financial year ended 31 December 2008 was due primarily to a decrease of approximately RMB27.0 million in our raw materials and approximately RMB0.1 million in our finished goods, because of our strategic decision to shift our operational focus from our casual and sportswear OEM segment to developing the branded products market and such shift decreased the purchase of raw materials, which was the principal component of our inventories, required for our casual and sportswear OEM segment.

The increase in the inventories for the six months ended 30 June 2009 was due primarily to increased purchases of materials purchased (work in progress and finished goods) from our suppliers in anticipation of projected future sales of our branded leisure clothing in the six months ended 31 December 2009.

The following table sets out our inventory turnover days for the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June
	2006(1)	**2007(1)**	**2008(1)**	**2009(2)**
Inventory turnover days	67	71	45	42

Notes:

(1) Inventory turnover days is equal to the ending inventory balance of the period divided by cost of sales and multiplied by 365 days.

(2) Inventory turnover days for the six months ended 30 June 2009 is equal to the ending inventory balance of the period divided by cost of sales and multiplied by 182 days.

The decrease of inventory days from approximately 71 days in the financial year 31 December 2007 to approximately 45 days in the financial year ended 31 December 2008 was due to improved inventory and procurement controls, such as strengthening the monitoring of supply inventory and timely delivery to customers resulting from improvements in production scheduling and logistics management. In addition, our use of contract manufacturers for our branded leisure apparel products, which carried the raw materials as their inventories, reduced the level of raw material inventories kept by us. The decrease of inventory days to approximately 42 days in the six months ended 30 June 2009 was also due to the improved inventory and procurement controls as well as our increasing use of contract manufacturers for our branded leisure apparel products. Up to 31 October 2009, approximately 97.9% of inventories as at 30 June 2009 was sold or consumed, and accordingly we have not made any provision for inventories during the Track Record Period.

TRADE AND OTHER RECEIVABLES ANALYSIS

The following table sets out the aging analysis of our trade receivables (net of allowance for doubtful debts) for the Track Record Period:

	As of 31 December			As of 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables (net of allowance for doubtful debts)				
Current	95,338	190,904	246,704	188,357
Less than one month past due	7,328	24,199	697	6,919
One to three months past due	7,583	151	1,094	189
More than three months but less than 12 months past due	9,855	4,125	296	1,022
More than 12 months past due	5,356	6,929	4,562	469
Subtotal	125,460	226,308	253,353	196,956
Prepayments, deposits and other receivables	55,180	82,131	88,754	28,017
Total	180,640	308,439	342,107	224,973

Our customers are invoiced at the time when such products are delivered by us. Generally speaking, we provide the majority of our customers with trade credit of 30 to 60 days period depending on the customer's financial strength, business size, credit history and historical sales performance. All credit terms are subject to our senior management's approval. However, when we grant payment extensions to certain of our franchise distributors or franchise stores, it may result in payments being made to us more than 60 days after the date of delivery of our products. Our management and responsible sales staff conduct regular reviews of customers with overdue payments or who have exceeded their credit limit. As deemed required, we pursue collection of delinquent payments through telephone calls, e-mails, in person meetings and demand letters. Payments are generally received in RMB and payment methods include payments by cheque, wire transfers and settlements through letter of credit. Up to 31 October 2009, approximately 99.5% of trade receivables as at 30 June 2009 was settled.

Our trade and other receivables increased from approximately RMB180.6 million as at 31 December 2006 to approximately RMB308.4 million as at 31 December 2007, increased to approximately RMB342.1 million as at 31 December 2008 and decreased to approximately RMB225.0 million as at 30 June 2009. Such increases were mainly due to increases in sales volume and higher average selling prices as a result of changes in our product mix. The decrease in 2009 was mainly due to the following reasons:

(i) During the current global economic downturn, the Company has strengthened its risk management and the safety threshold of its cash flow. In addition to the Company's management calling for the strengthening of receivables control, a decrease in the trade receivables was effected; and

(ii) In the Company's fabric manufacturing segment, because of the continuing collaboration between the Company and the customers, the Company has stronger bargaining power in the sales of high tech and multi-functional fabrics. More of these customers were asked to make an advance payment in 2009 before the Company commences its production and eventually arranges the shipments. Therefore, a relatively small amount of the sales remained in the trade receivables.

The following table sets out the breakdown of the significant balances of prepayments, deposits and other receivables for the Track Record Period:

	As at 31 December			As of 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due from related parties	37,898	55,673	70,675	4,813
Prepayments and deposits	15,475	23,649	15,503	20,098
Other receivables	1,613	2,310	2,576	3,106
VAT recoverable	194	499	—	—
	55,180	82,131	88,754	28,017

Other receivables mainly represent expenses paid on behalf of certain staff and some suppliers and customers.

There was a significant increase in prepayments, deposits and other receivables in 2007 and it was mainly due to significant amount of prepayments made to Poly Luck Enterprise Limited, Far Eastern Industries (Shanghai) Ltd., and ZhongShan Hong Liong amounting to RMB6.8 million, RMB1.5 million and RMB17.8 million respectively.

The increase in prepayments made to Poly Luck Enterprise Limited in 2007 was mainly due to the management's intention to retain more surplus cash in 2006 such that no prepayment was made to Poly Luck Enterprise Limited in December 2006. In 2007, the Group had more surplus cash and it allowed the Group to make prepayment to secure purchases in subsequent periods. In 2008, the Group considered to reduce the purchases from related parties. As a result, the prepayments made in 2007 were utilised to settle the outstanding payables during the Track Record Period.

The increase in prepayments made to ZhongShan Hong Liong was mainly due to the prepayment for the research and development activities to be centrally organised by ZhongShan Hong Liong. Such amount was refunded during the six months ended 30 June 2009.

There was a significant decrease in prepayments, deposits and other receivables as of 30 June 2009 compared to that as of 31 December 2008 and it was mainly due to the prepayment refunded by ZhongShan Hong Liong during the six months ended 30 June 2009 and the prepayments made to other related parties which were utilised to settle the outstanding payables for raw materials during the same period.

The table below shows our average trade receivables turnover days for the Track Record Period:

	For the financial year ended 31 December			For the six months ended 30 June
	2006[(1)]	**2007[(1)]**	**2008[(1)]**	**2009[(2)]**
Trade receivables turnover days	70	89	73	44

Notes:

(1) Trade receivables turnover days is equal to the ending trade receivables balance of the period divided by turnover and multiplied by 365 days.

(2) Trade receivables turnover days is equal to the ending trade receivables balance of the period divided by turnover and multiplied by 182 days.

The average trade receivables days increased from approximately 70 days in the financial year ended 31 December 2006 to approximately 89 days in the financial year ended 31 December 2007, decreased to approximately 73 days in the financial year ended 31 December 2008 and further decreased to approximately 44 days in the six months ended 30 June 2009. These decreases were seen mainly as a result of the strengthening of our bargaining position which enables us tightening our credit controls of trade receivables, so that collections of the amount of receivables due from our customers were improved.

Impairment of trade receivables

We review trade receivables that are stated at cost or amortised cost as of each balance sheet date to determine whether objective evidence of impairment exists as of such date. If objective evidence of impairment exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset if the receivable is stated at cost or the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets) if the receivable is stated at amortised cost, where the effect of discounting is material. Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account.

The movement in the allowance for doubtful debts during the Track Record Period, including both specific and collective loss components, is as follows:

	As at 31 December			As of 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	—	—	4,848	4,848
Impairment loss recognised	—	4,848	—	3,276
At 31 December	—	4,848	4,848	8,124

As of 31 December 2007 and 2008 and 30 June 2009, our trade receivables totalling approximately RMB4.8 million and approximately RMB8.1 million were individually determined to be impaired respectively. The individually impaired receivables related to customers that were in financial difficulties, and we assessed that the receivables were not recoverable. Consequently, allowances for doubtful debts were recognised as of 31 December 2007 and 2008 and as of 30 June 2009. We do not hold any collateral over these balances.

TRADE AND OTHER PAYABLES ANALYSIS

The table below shows the aging analysis of our trade payables and bills payables and the analysis of other payables, accruals and receipts in advance for the Track Record Period:

	As of 31 December			As of 30 June
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables and bills payable				
Due within one month or on demand	45,486	61,026	61,242	95,428
Due after one month but within three months	14,006	33,361	54,204	69,961
Due after three months but within six months	10,991	4,036	678	2,228
Due after six months but within 12 months	4,543	9,048	6,484	7,614
More than 12 months	14,029	14,017	14,863	19,063
Subtotal	89,055	121,488	137,471	194,294
Other payables, accruals and receipts in advance				
Receipts in advance	22,956	29,639	21,210	20,205
Deposits from customers	—	—	2,490	2,950
Accrued staff costs	4,975	4,828	6,306	3,702
Dividend payable	—	—	40,126	—
VAT and other taxes payable	713	5,635	11,546	8,619
Other payables and accruals	2,206	4,655	4,733	3,029
Subtotal	30,850	44,757	86,411	38,505
Trade and other payables	119,905	166,245	223,882	232,799

Our trade and other payables mainly relate to the purchase of raw materials from our suppliers, and are non-interest-bearing with credit period of 30 to 60 days. Our trade and bills payables due more than 12 months represent approximately 15.8%, 11.5%, 10.8% and 9.8% for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 respectively. It is because our trade and bills payables due more than 12 months mainly represent the amount due to a related party, Vicko Enterprises Ltd. for the purchases of machinery. Trial runs have to be performed upon receipt of the machinery and before the corresponding payables can be settled, and the trial runs usually require a considerable amount of time. Therefore, these trade and bills payables do not fall within our credit period of 30 to 60 days. Our other payables, accruals and receipts in advance mainly relate to receipts in advance and deposits from customers. Receipts in advance are utilised to settle outstanding trade receivables after balance sheet date and no refund is required. In respect of the deposits from customers, they are paid by Shishi Maigen's customers in order to guarantee that they are able to meet the requirements on the decoration of the stores.

Our trade and other payables increased from approximately RMB119.9 million as at 31 December 2006 to approximately RMB166.2 million as at 31 December 2007, increased to approximately RMB223.9 million as at 31 December 2008 and then increased to approximately RMB232.8 million as at 30 June 2009. These increases were primarily due to increases in purchases of raw materials, work in progress and finished goods driven by increased and projected future sales volumes.

The table below shows our trade payables and bills payable turnover days for the Track Record Period:

	For the financial year ended 31 December			**For the six months ended 30 June**
	2006(1)	**2007(1)**	**2008(1)**	**2009(2)**
Trade and bills payable turnover days	65	64	55	66

Notes:

(1) Trade and bills payable turnover days is equal to the ending trade and bills payables balance of the period divided by cost of sales and multiplied by 365 days.

(2) Trade and bills payable turnover days is equal to the ending trade and bills payables balance of the period divided by cost of sales and multiplied by 182 days.

The average trade and bills payables days decreased from approximately 65 days in the financial year ended 31 December 2006 to approximately 64 days in the financial year ended 31 December 2007, decreased to approximately 55 days in the financial year ended 31 December 2008 and increased to approximately 66 days in the six months ended 30 June 2009. The significant decrease from 2007 to 2008 was primarily due to our ability to finance our trade and bills payables with cash from lower average collection time of our trade receivables in the financial year ended 31 December 2008.

Approximately 0.5% of our purchases have credit period of more than 60 days. Our Group has no current disputes with any of our suppliers.

INDEBTEDNESS

Borrowings

The table below shows our indebtedness as of each balance sheet date during the Track Record Period:

	As of 31 December			As of 30 June
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current				
Bank loans — secured	33,579	36,907	25,119	28,130

The table below shows the maturity profile of our bank loans as of each balance sheet date during the Track Record Period:

	As of 31 December			As of 30 June
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Analysed into:				
Bank loans repayable within one year	33,579	36,907	25,119	28,130

As of 31 October 2009, our total indebtedness amounted to RMB37.9 million, consisting of short-term secured bank loans of RMB27.9 million and short-term bills payable of RMB10 million. We confirm that since 31 October 2009, there has not been any material change in our indebtedness.

As of 31 October 2009, our Group had banking facilities of RMB40 million, of which RMB37.9 million were utilised (which amount includes bank loans and bills payables). The above bank loans are all denominated in RMB. The bank loans bear interest rates ranging from 5.83% to 6.55% per annum as at 31 December 2006, ranging from 6.17% to 7.24% per annum as at 31 December 2007, ranging from 6.83% to 7.47% per annum as at 31 December 2008, and ranging from 4.37% to 6.04% per annum as at 30 June 2009. Due to their short maturity, the carrying amounts of current bank loans are approximately equal to their fair values.

The bank loans of RMB28.1 million as of 30 June 2009 were secured by property, plant and equipment with carrying value of RMB33.1 million and lease prepayments with a carrying value of approximately RMB1.7 million.

The bank loans of RMB25.1 million as of 31 December 2008 were secured by property, plant and equipment with a carrying value of RMB40.0 million and lease prepayments with a carrying value of approximately RMB1.7 million.

The bank loans of RMB36.9 million as of 31 December 2007 were secured by property, plant and equipment with a carrying value of RMB45.6 million and lease prepayments with a carrying value of approximately RMB1.7 million.

The bank loans of RMB33.6 million as of 31 December 2006 were secured by property, plant and equipment with a carrying value of RMB29.0 million and lease prepayments with a carrying value of approximately RMB1.8 million.

The amount of approximately RMB93.6 million due to controlling shareholder of the Company as of 31 December 2008 and 30 June 2009 was the outstanding consideration for the acquisition of Shishi Maigen paid on behalf of the Group by the controlling shareholder. The total loan amount was approximately RMB93.6 million, interest-free and unsecured. All outstanding amount owed by our Company to the controlling shareholder has been settled by way of shares issued by the Company prior to the listing of the Company's shares on the Stock Exchange as disclosed in the section headed "Corporate Reorganisation and Group Structure" in this prospectus.

Gearing ratios

Our gearing ratio was approximately 8.4%, 5.9%, 3.2% and 3.8% as of 31 December 2006, 2007 and 2008 and 30 June 2009, respectively. Gearing ratio is derived by dividing interest-bearing debt incurred in the ordinary course of business by total assets.

Our gearing ratio decreased from approximately 8.4% as of 31 December 2006 to approximately 5.9% as of 31 December 2007, and to approximately 3.2% as of 31 December 2008 primarily due to an increase in inventories and trade and other receivables which resulted in an increase in total assets. Our gearing ratio increased from approximately 3.2% as at 31 December 2008 to approximately 3.8% as at 30 June 2009, primarily due to an increase in bank loans and a decrease in trade and other receivables.

Contingent liabilities

As of the Latest Practicable Date, we had no material contingent liabilities. We currently are not involved in major legal proceedings, nor are we aware of any pending or potential major legal proceedings involving us. If we are involved in such major legal proceedings, we would record any contingent losses when, according to the information then obtained, it is likely that a loss had been incurred and there is a reasonable estimate of the amount of the loss.

Disclaimers

Save as disclosed in "Financial Information — Indebtedness" above, and apart from intra-group liabilities, we did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding as at 31 October 2009.

Our Directors confirm that, until the Latest Practicable Date, there have been no material changes in our indebtedness and contingent liabilities since 31 October 2009.

PROFIT FORECAST

We believe that, in the absence of unforeseen circumstances and on the base and assumption as set out in "Appendix IV — Profit Forecast", our Company's combined profit attributable to equity shareholders for the financial year ending 31 December 2009 is unlikely to be less than RMB421 million (HK$478 million).

On a pro forma basis and on the assumption that our Company had been listed since 1 January 2009 and a total of 2,000,000,000 Shares were issued and outstanding during the entire year (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme), the unaudited pro forma forecast basic earnings per Share for the financial year ending 31 December 2009 is unlikely to be less than RMB0.211 (HK$0.239).

The full texts of letters from the reporting accountants of our Company, and from the Sole Sponsor in respect of the profit forecast are set out in "Appendix IV — Profit Forecast".

OWNED PROPERTIES AND PROPERTY VALUATION

Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has valued our Group's property interests, comprising our operations, as at 31 October 2009. Texts of its letters, summary of valuation and valuation certificates issued by Jones Lang LaSalle Sallmanns Limited are contained in "Appendix V — Property Valuation" in this prospectus.

The total valuation of our Group's property interests as at 31 October 2009 as stated in "Appendix V — Property Valuation" in this prospectus is RMB83.7 million (approximately HK$95.0 million).

The table below shows the reconciliation of the valuation figures of our Group's properties:

	RMB'000	**RMB'000**
Valuation at 31 October per Appendix V		83,697
Net book value of property interests of our Group as at 30 June 2009	28,926	
Movements for the 4 months ended 31 October 2009	(693)	
Net book value as at 31 October 2009		(28,233)
Valuation surplus		55,464

DIVIDEND AND DIVIDEND POLICY

Our Company declared a dividend of approximately RMB18.0 million in 2007 and a dividend of approximately RMB261.2 million in 31 December 2008. All of these declared dividends have been paid out prior to the Listing. Save as above, we or any of our subsidiaries did not pay any other dividends to their then shareholders during the Track Record Period.

No dividends may be declared or paid apart from out of profit and reserves of our Company lawfully available for distribution, including share premium. We may declare dividends through a general meeting of Shareholders but the amount should not exceed the amount proposed by our Directors. We may also pay from time to time interim dividends as determined by our Directors to be justified by our profit and may also pay every six months or at other time intervals at a fixed rate if the Directors are of the opinion that the profit available for distribution justifies the dividend payment.

Our Company will declare dividends (if any) in Hong Kong dollars on a per Share basis and will pay such dividends in Hong Kong dollars. The amount of any dividends to be declared or paid in the future will depend on, among other things, our results of operations, cash flows and financial position, operating and capital needs, the amount of distributable profit, the Articles of Association of our Company, the Companies Law, applicable laws and regulations as well as other factors which our Directors may consider relevant. Shareholders will be entitled to receive such dividends pro rata according to the amounts fully paid or credited as fully paid on the Shares. The declaration, payment, and amount of dividends will be subject to the recommendation of our Board of Directors at its sole discretion. Our future declaration of dividends does or does not necessarily reflect on its past declarations of dividend. There is no guarantee as to whether the dividend distribution will occur as planned, the amount of dividend payment or the timing of such payment.

Subject to the above-mentioned factors, our Board of Directors currently intends to propose at the relevant general meetings of Shareholders of the Company an annual dividend of no less than 25% of the net profit available for distribution to our Shareholders in the foreseeable future.

RELATED PARTY TRANSACTIONS

With respect to the related parties transactions set out in our combined financial statements included in the Accountants' Report set out in Appendix I to this prospectus, our Directors confirm that such transactions were conducted in accordance with normal commercial terms and conditions and/or such terms were no less favorable to our Group than terms provided to Independent Third Parties and were fair and reasonable and in line with the overall interests of our Shareholders as a whole.

For a discussion of related party transactions, please refer to Appendix I to this prospectus.

DISTRIBUTABLE RESERVES

As of 30 June 2009, the aggregate amount of distributable reserves of the companies comprising the Group, which is available for distribution to the Shareholders of our Company, was RMB121,717,000.

WORKING CAPITAL

Our Directors believe that, taking into account of the currently available financial resources of our Group, including bank facilities, cash generated from operations, and the estimated net proceeds of the Global Offering, our Group has sufficient working capital to meet its working capital needs at least in the next 12 months since the date of this prospectus.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that there are no circumstances which, if we were required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have led us to make the required disclosures in accordance with the Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in our financial or trading position or prospects since 30 June 2009 and there is no event since 30 June 2009 which would materially affect the information shown in our combined financial statements contained in the accountants' report set out in Appendix I to this prospectus.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustration purposes only and it may not give a true picture of our net tangible assets following the Global Offering. The following unaudited pro forma adjusted net tangible assets of our Group is set out here to illustrate the effect of the Global Offering on our combined net tangible assets as of 30 June 2009 as shown in the combined financial statements in the Accountants' Report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma adjusted net tangible assets statement does not form part of the Accountants' Report.

	Net tangible assets of the Group attributable to the equity shareholders of the Company	**Estimated net proceeds from the Offering**	**Unaudited pro forma adjusted net tangible assets**	**Unaudited pro forma adjusted net tangible assets per Share**	**Unaudited pro forma adjusted net tangible assets per Share**
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
	(note (1))	*(note (2))*		*(note (3))*	
Based on the Offer Price of HK$2.08 per share (being the lowest)	244,355	746,523	990,878	0.50	0.57
Based on the Offer Price of HK$2.78 per share (being the highest)	244,355	1,017,994	1,262,349	0.63	0.71

Notes:

1. The net tangible assets of the Group attributable to the equity shareholders of the Company as at 30 June 2009 is based on the combined net assets as at 30 June 2009 excluding intangible assets and goodwill as at 30 June 2009 extracted from the Accountants' Report as set out in Appendix I to this prospectus.

2. The estimated net proceeds of the Offering are based on the Offer Price of HK$2.08 and HK$2.78 per Share, after deduction of underwriting fees and other related expenses payable by the Company. No account has been taken of any shares which may be allotted and issued upon exercise of the Share Option Scheme or the Over-allotment Option.

3. The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraph and on the basis of a total of 2,000,000,000 shares that are expected to be in issue immediately following the completion of the Offering, but takes no account of any shares which may be allotted and issued upon the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme or any shares that may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of the shares referred to under "Repurchase by the Company of Shares" in Appendix VII to this prospectus.

4 Details of valuation of our Group's properties interest as at 31 October 2009 are set out in Appendix V to this prospectus. Our Group will not incorporate the revaluation surplus or deficit in the financial statements for the year ending 31 December 2009. It is our Group's accounting policy to state the interests in leasehold land held for own use under operating leases and property, plant and equipment at cost less accumulated depreciation/amortisation and any impairment loss in accordance with HKAS 16 "Property, plant and equipment" and HKAS 36 "Impairment of assets", rather than at revalued amounts. The impairment reviews performed by our Company as at 31 October 2009 did not indicate the need to recognise any impairment loss for the interests in leasehold land held for own use under operating leases and property, plant and equipment. With reference to the valuation of our Group's property interests as set out in Appendix V to this prospectus, there was a revaluation surplus of our Group's properties of approximately RMB55.46 million. If the revaluation surplus was incorporated in our Group's financial statements for the year ending 31 December 2009, additional depreciation of approximately RMB3.64 million per annum would have been incurred.

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISKS

Interest rate risk

Our interest rate risk arises primarily from long-term bank borrowings issued at a fixed rate that expose the Group to fair value interest rate risk. We also have short-term bank borrowings that issued at variable rates that expose the Group to cash flow interest risk. The interest rate and terms of repayment of our interest-bearing borrowings are disclosed in notes 19 and 25 to the Accountants' Report set out in Appendix I to this prospectus.

We do not account for any fixed rate financial liabilities at fair value through income statement and we do not have any derivatives relating to interest rate during the Track Record Period.

Foreign currency risk

We are exposed to foreign currency risk primarily through sales, purchases and bank borrowings that are denominated in United States dollars. To ensure that the net exposure on recognised assets and liabilities arising from sales, purchases and bank borrowings denominated in United States dollars is kept to an acceptable level, we have bought or sold foreign currencies at spot rates where necessary to address short term imbalances.

Credit risk

According to our policy, all customers who intend to trade on credit terms are subject to individual credit verification procedures which focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer pertaining to the economic environment in which the customer operates. In addition, we monitor the receivable balances on an ongoing basis and we generally do not obtain collateral from our customers to secure their payment obligations.

The credit risk of our financial assets which include cash and cash balances, and other receivables, arises from default of the counterparty, with a maximum exposure equivalent to the carrying amounts of these instruments.

Amounts due from a related party and shareholder are regularly reviewed and settled unless the amounts are specifically intended to be long-term in nature.

As of 31 December 2006, 2007 and 2008 and 30 June 2009, approximately 9%, 8%, 6% and 4% of our total trade receivables were due from our largest single customer, respectively, and approximately 32%, 28%, 18% and 17% of the total trade receivables were due from our five largest customers, respectively.

Commodity price risk

The principal raw materials used in the production of our fabrics, sportswear and leisure apparel and accessory products are raw yarns, greige fabrics, dyes and dye auxiliaries. We are exposed to fluctuations in the prices of these raw materials which are influenced by global as well as regional supply and demand conditions. Fluctuations in raw materials prices could have a negative impact on our financial performance. We historically have not entered into any commodity derivative instruments to hedge the potential commodity price changes.

Liquidity risk

Liquidity risk refers to the risk of lack of access to funds to meet all contractual financial commitments as they fall due. We do not have any significant liquidity risk as we were in a net current asset position as of 31 December 2006, 2007 and 2008 and 30 June 2009.

Effects of inflation

According to the China Statistical Bureau, in the years ended 31 December 2005, 2006, 2007 and 2008, China's overall national inflation rate (as represented by changes in the general consumer price index) was approximately 1.8%, 1.5%, 4.8% and 5.9%, respectively. China's inflation rate has been subject to an upward trend since 2007. Although there can be no guarantee as to the impact in future periods, inflation had not significantly affected our business during the Track Record Period. As of the Latest Practicable Date, our business has not been significantly affected by any inflation or deflation.

For an additional discussion of quantitative and qualitative analysis related to market risks, please refer to note 25 to our combined financial statements contained in the accountants' report set out in Appendix I to this prospectus.